KPMG

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

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2018 and 2017, and their changes in net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic 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 basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic consolidated financial statements or to the basic 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 basic consolidated financial statements as a whole.

KPMG LLP

Baton Rouge, Louisiana
October 19, 2018

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

Consolidated Balance Sheets

June 30, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	235,123	196,370
Short-term investments		4,391	2,389
Patient receivables, net of allowance for uncollectible accounts of $222,230 and $255,399 in 2018 and 2017, respectively		140,167	187,367
Other current assets		112,253	117,321
Total current assets		491,934	503,447
Assets limited as to use, net of current portion		1,090,983	1,103,038
Property and equipment, net		1,191,485	1,136,039
Other assets		251,119	229,972
Total assets	$	3,025,521	2,972,496
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	5,000	—
Current installments of long-term debt		16,666	13,762
Current portion of capital lease obligations		2,567	4,767
Accounts payable		98,686	139,644
Other current liabilities		176,969	184,559
Total current liabilities		299,888	342,732
Professional and general liabilities, excluding current portion		27,118	27,025
Long-term debt, excluding current installments		740,776	733,754
Capital lease obligations, excluding current portion		13,149	15,208
Accrued pension cost		446,368	465,678
Other long-term liabilities		74,878	71,743
Total liabilities		1,602,177	1,656,140
Net assets:			
Unrestricted		1,316,661	1,222,018
Temporarily restricted		65,576	53,707
Permanently restricted		5,450	5,482
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.		1,387,687	1,281,207
Noncontrolling interests		35,657	35,149
Total net assets		1,423,344	1,316,356
Total liabilities and net assets	$	3,025,521	2,972,496

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Changes in unrestricted net assets:			
Unrestricted revenues:			
Net patient service revenue, net of contractual allowances and discounts	$	2,018,919	1,868,896
Provision for uncollectible accounts		(123,487)	(91,838)
Net patient service revenue		1,895,432	1,777,058
Other revenue		110,717	116,160
Equity in income from equity investees, net		18,042	13,419
Total unrestricted revenues		2,024,191	1,906,637
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		5,505	4,536
Expiration of time restrictions		194	182
Total net assets released from restrictions used for operations		5,699	4,718
Total unrestricted revenues and other support		2,029,890	1,911,355
Operating expenses:			
Salaries and wages		779,993	743,819
Employee benefits		177,888	179,225
Total salaries, wages, and employee benefits		957,881	923,044
Physician fees		78,701	68,798
Professional services		31,188	31,146
Other services		332,469	335,782
Leases, insurance, and utilities		72,227	69,498
Supplies		382,084	372,887
Depreciation and amortization		120,873	110,058
Interest		30,190	24,222
Other		9,868	7,733
Total operating expenses		2,015,481	1,943,168
Operating income (loss) before impairment		14,409	(31,813)
Impairment		(3,659)	(2,498)
Operating income (loss)		10,750	(34,311)

(Continued)

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

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Nonoperating gains:			
Investment return		57,622	85,345
Other		—	4,661
Change in fair value of interest rate swap agreements		3,435	5,998
Total nonoperating gains, net		61,057	96,004
Unrestricted revenues, gains, and other support in excess of expenses and losses before noncontrolling interest		71,807	61,693
Noncontrolling interests		(4,227)	(2,249)
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.		67,580	59,444
Pension-related changes other than net periodic pension cost		27,776	52,262
Other		(713)	(5,820)
Increase in unrestricted net assets	$	94,643	105,886

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Changes in unrestricted net assets:			
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.	$	67,580	59,444
Pension-related changes other than net periodic pension cost		27,776	52,262
Other		(713)	(5,820)
Increase in unrestricted net assets		94,643	105,886
Changes in temporarily restricted net assets:			
Contributions		15,344	12,352
Income from long-term investments, net		2,224	748
Net assets released from restrictions		(5,699)	(4,718)
Increase in temporarily restricted net assets		11,869	8,382
Changes in permanently restricted net assets:			
Contributions		(32)	82
(Decrease) increase in permanently restricted net assets		(32)	82
Changes in noncontrolling interests:			
Unrestricted revenues, gains, and other support in excess of expenses and losses		4,227	2,249
Distributions		(4,793)	(4,229)
Acquired controlling interest		624	439
Other		450	(399)
Increase (decrease) in noncontrolling interests		508	(1,940)
Increase in net assets		106,988	112,410
Net assets, beginning of year		1,316,356	1,203,946
Net assets, end of year	$	1,423,344	1,316,356

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	106,988	112,410
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		120,873	110,058
Impairment		3,659	2,498
Provision for uncollectible accounts		123,487	91,838
Loss (gain) on sale or disposal of assets, net		206	(1,418)
Net realized and unrealized losses (gains) on assets limited as to use and investment securities		(45,018)	(79,240)
Income from equity investees		(18,042)	(13,419)
Change in value of interest rate swap agreements		(3,435)	(5,998)
Amortization of net premium and costs on bond issues		(1,161)	(692)
Pension-related changes other than net periodic pension cost		(27,776)	(52,262)
Sale of noncontrolling interest		(1,074)	(40)
Distributions to noncontrolling interest		4,793	4,229
Return of income from equity investees		13,463	11,938
Changes in operating assets and liabilities:			
Receivables		(74,734)	(46,208)
Inventories		470	(1,480)
Prepaid expenses and other assets		5,557	(10,608)
Accounts payable, accrued expenses, and other liabilities		(27,339)	70,889
Professional and general liabilities		93	(1,627)
Net cash provided by operating activities		181,010	190,868

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

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Cash flows from investing activities:		
Capital expenditures	(174,124)	(163,148)
Purchases of assets limited as to use	(317,881)	(250,435)
Sales of assets limited as to use	366,920	117,344
Cash paid for equity investees and other acquisitions, net of cash acquired	—	(100)
Net cash used in investing activities	(125,085)	(296,339)
Cash flows from financing activities:		
Repayment of long-term debt	(14,092)	(13,819)
Repayment of capital lease obligations, net	(5,497)	(4,648)
Proceeds from issuance of long-term debt	1,136	166,960
Proceeds from line of credit	10,000	10,000
Payments on line of credit	(5,000)	(28,050)
Payment of bond issuance costs	—	(2,176)
Acquired controlling interest	1,074	439
Distributions to noncontrolling interest	(4,793)	(4,229)
Net cash (used in) provided by financing activities	(17,172)	124,477
Increase in cash and cash equivalents	38,753	19,006
Cash and cash equivalents, beginning of year	196,370	177,365
Cash and cash equivalents, end of year	$ 235,123	196,371
Supplemental noncash disclosures:		
Accounts payable for construction projects	$ 4,857	443
Capital lease obligations	1,238	3,863
Long-term debt for PPE	24,298	—

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

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

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 19). FMOLHS also has ownership interest in other entities providing services to meet its mission.

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

(a) Principles of Consolidation

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

(b) Use of Estimates

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

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

(c) Cash Equivalents

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

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

(d) Investments and Investment Return

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

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

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

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

(e) Inventories

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

(f) Assets Limited as to Use

Assets limited as to use include the following:

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

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

(g) Components of Net Assets

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

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

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

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Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that do not permit contributions by FMOLHS. Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investments for specific or general purposes.

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

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

(h) Property and Equipment

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

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

FMOLHS capitalizes costs associated with the acquisition or development of major software for internal use in other assets in the consolidated balance sheets and amortizes the assets over the expected life of the software, generally between three and seven years. FMOLHS only capitalizes subsequent additions, modifications, or upgrades to internal-use software to the extent that such changes allow the software to perform a task it previously did not perform. FMOLHS expenses software maintenance and training costs as incurred.

FMOLHS evaluates cloud computing arrangements to determine whether the arrangement includes a software license or is a service contract. If determined to be a software license, then FMOLHS capitalizes the arrangement as an other asset and amortizes it over the expected life of the software license, generally between three and five years. If determined to be a service contract, then FMOLHS expenses the cost of the arrangement as the services are provided.

(i) Business Combination

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

(j) Cost in Excess of Net Assets Acquired

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

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

(Continued)

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests. In 2018 and 2017, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined no impairment exists.

Accumulated amortization for all costs in excess of net assets acquired was $15,846 at June 30, 2018 and 2017.

(k) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. Net interest expense capitalized was $2,107 and $250 for the years ended June 30, 2018 and 2017, respectively.

(l) Impairment of Long-lived Assets

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

FMOLHS recorded an impairment loss of $3,659 and $2,498 in 2018 and 2017, respectively.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. There are no assets reported to be disposed of at June 30, 2018 or 2017.

(m) Cost of Issuances

Bond issuance costs are presented as a direct deduction from the carrying value of debt in the accompanying consolidated financial statements. Premiums, discounts, costs of letters of credit, and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective-interest method. Accumulated amortization was approximately $7,631 and $7,204 at June 30, 2018 and 2017, respectively.

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

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

(o) *Consolidated Statements of Operations and Changes in Unrestricted Net Assets*

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

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

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

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

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

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

(q) *Income Taxes*

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

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

(r) *Asset Retirement Obligation*

FMOLHS recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, FMOLHS capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations. The liability is included in other long-term liabilities in the accompanying consolidated balance sheets.

(s) *Fair Value Measurements*

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

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

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

(t) Fair Value Option

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

(u) Recently Issued Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) No. 2014-09*, Revenue from Contracts with Customers (ASU 2014-09)*, in May 2014, which was amended by ASU No. 2015-14, *Revenue from Contracts with Customers (ASU 2015-14)*, in August 2015. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2014-09 and ASU 2015-14 as of July 1, 2018 using the retrospective transition method. Adoption of the new standard will result in changes to the presentation of net operating revenues and bad debt expense in the consolidated statements of operations and changes in unrestricted net assets, but the presentation of the amount of income from operations and net income is not expected to materially change upon adoption of the new standards.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)*, which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The provisions of ASU 2016-01 are effective for annual periods in fiscal years beginning after December 15, 2018. FMOLHS is currently evaluating the effect that ASU 2016-01 will have on its consolidated financial statements. In addition, in February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities*, to clarify certain aspects of ASU 2016-01; FMOLHS will adopt ASU 2018-03 and ASU 2016-01 concurrently.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which introduces a right-of-use model that requires lessees to recognize all leases, other than short-term leases with a maximum possible term of one year or less, on their balance sheet. Also, the amortization of these leases will be dependent of the portion of the underlying asset being utilized during the lease term. Additionally, in January and July 2018, the FASB issued ASUs 2018-01, *Land Easement Practical Expedient for Transition to Topic 842, 2018-10, Codification Improvements to Topic 842, Leases, and 2018-11, Leases* (Topic 842): Targeted Improvements. ASU 2018-01 clarified the applicability of ASC 842 to land easements and provided an optional transition practical expedient for existing land easements. ASU 2018-10 made certain technical corrections to ASC 842. ASU 2018-11 allows companies to adopt ASC 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and nonlease components of a contract if certain criteria are met. ASU 2016-02 is effective for FMOLHS beginning July 1, 2019, with early adoption permitted. The three ASUs issued in 2018 are effective for FMOLHS at the same time as it adopts ASU 2016-02. FMOLHS is currently evaluating the impact of the ASU, but is currently unable to estimate the effect, if any.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-02)*, in August 2016. ASU 2016-14 changes how not-for-profit entities, including health entities, report net asset classes, expenses and liquidity in their financial statements. The new standard permits early adoption and is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2016-14 as of July 1, 2018. FMOL is currently evaluating the effects of ASU 2016-14 and expects the adoption to have a significant impact on the financial statement presentation, however, does not expect there to be a material impact to the amounts reported.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates step 2 of the goodwill impairment test and replaces the qualitative assessment. Under the standard, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and recognize an impairment loss for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss not exceeding the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for FMOLHS for the annual period beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017. FMOL is currently evaluating the effect that ASU 2017-04 will have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07)*, which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective for FMOLHS in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. FMOLHS is evaluating the effect that ASU 2017-07 will have on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). The new guidance applies to all entities that receive or make contributions, including not-for-profit entities. FMOLHS is required to apply ASU No. 2018-08 to contributions received during annual periods beginning after June 15, 2018, including interim periods within those annual periods. FMOLHS is required to apply ASU No. 2018-08 to contributions provided during annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. FMOLHS does not expect the adoption of ASU 2018-08 to have a material impact on the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820) (ASU 2018-13), which modifies the disclosure requirements on fair value measurements. This ASU modifies the disclosure requirements on fair value measurements. The ASU removes the requirement to disclose: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The ASU requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The new guidance is effective for annual periods in fiscal years beginning after December 15, 2019, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (*Topic 715*)* (ASU 2018-14), which modified the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The new guidance is effective for annual periods in fiscal years beginning after December 15, 2021, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

(In thousands)

(v) Recently Adopted Accounting Pronouncements

The FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07)*, in May 2015. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient, limiting the disclosures to investments, which the entity has elected to measure the fair value using the practical expedient. Adoption of this standard should be applied on a retrospective basis. The new standard is effective for annual reporting periods beginning after December 15, 2016. FMOLHS adopted this standard effective July 1, 2017, and the standard did not have a significant impact on FMOLHS's consolidated financial statements. In accordance with the transition requirements of ASU 2015-07, FMOLHS removed $271,228 of level 3 investments that are measured using NAV as a practical expedient and $66,360 of level 2 investments that are measured using NAV as a practical expedient from the 2017 fair value hierarchy within footnote 16. Additionally, FMOLHS removed $48,924 of level 2 investments that are measured using NAV as a practical expedient from the 2017 fair value hierarchy within footnote 18. As the ASU was adopted retrospectively, the prior-period investments have been restated accordingly.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value for entities that measure inventory using first-in, first-out (FIFO) or average cost. The standard is effective for FMOLHS for the annual period beginning after December 15, 2016 and requires prospective application. FMOLHS adopted ASU 2015-11 effective July 1, 2017. Adopting the standard did not have a material effect on FMOLHS's consolidated financial statements.

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

Short-term investments at June 30, 2018 and 2017 consist of the following:

		2018	2017
Cash	$	11	3
Equity securities:			
U.S. companies		2,383	2,386
Fixed Income		1,997	—
Total	$	4,391	2,389

(In thousands)

The composition of assets limited as to use at June 30, 2018 and 2017 is as follows:

	2018				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 88,046	105,873	—	2,851	196,770
Equity securities:					
Global equity	—	—	—	—	—
U.S. equity	205,251		4,281	8,102	217,634
Non-U.S. equity	180,788	—	—	—	180,788
Private investments:					
Private equity/venture capital	58,049	—	—	—	58,049
Private real assets	10,296	—	—	—	10,296
Hedge funds	224,121	—	—	151	224,272
Real assets	92,777	—	—	—	92,777
Fixed income	109,352		28,417	3,546	141,315
	968,680	105,873	32,698	14,650	1,121,901
Less amounts classified as current assets, included in other current assets	—	29,354	—	1,564	30,918
Noncurrent portion	$ 968,680	76,519	32,698	13,086	1,090,983

(In thousands)

	2017				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 38,523	159,204	—	3,223	200,950
Equity securities:					
Global equity	46,837	—	—	—	46,837
U.S. equity	145,106	—	4,353	7,694	157,153
Non-U.S. equity	157,231	—	—	—	157,231
Private investments:					
Private equity/venture capital	64,712	—	—	—	64,712
Private real assets	12,096	—	—	—	12,096
Hedge funds	249,823	—	—	142	249,965
Real assets	83,387	—	—	—	83,387
Fixed income	124,439	—	27,793	3,360	155,592
	922,154	159,204	32,146	14,419	1,127,923
Less amounts classified as current assets, included in other current assets	—	23,854	—	1,031	24,885
Noncurrent portion	$ 922,154	135,350	32,146	13,388	1,103,038

(a) Board-Designated for Capital

In accordance with board of directors' approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements.

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

(Continued)

(In thousands)

(b) *Alternative Assets*

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

		2018	2017
Alternative assets:			
Global equity	$	—	46,837
U.S. equity		109,450	95,920
Non-U.S. equity		120,973	63,347
Private equity/venture capital		45,229	50,405
Private real assets		10,296	12,096
Hedge funds		224,272	249,965
Real assets		52,725	48,743
Fixed income		12,820	29,369
Total alternative assets	$	575,765	596,682

At June 30, 2018, FMOLHS's remaining outstanding commitments to private equity interests totaled $14,050. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2019	$	7,246
2020		4,411
2021		2,393
2022		—
2023		—
Thereafter		—
	$	14,050

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2018, the average remaining life of the private equity interests is approximately 1.2 years.

(In thousands)

At June 30, 2018 and 2017, FMOLHS had investments with restrictions of $329,272 and $335,245, respectively, which were restricted from redemption for lock-up periods. Some of the investments with restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2018, FMOLHS's investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal years:		
2019	$	310,675
2020		17,447
2021		—
2022		—
2023		—
2024–2027		—
Thereafter		1,150
Total	$	329,272

(c) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations. The consolidated trusteed bond funds as of June 30, 2018 and 2017 consist of the following categories:

		2018	2017
Principal and interest funds	$	26,429	20,863
Construction fund		79,444	138,341
Less amounts classified as other current assets		29,354	23,854
Noncurrent portion	$	76,519	135,350

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

(In thousands)

(d) Self-Insurance Trust Funds

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

(e) Other

Other assets limited as to use as of June 30, 2018 and 2017 consist of the following:

		2018	2017
Scholarships – by donor	$	209	33
Healthcare services – by donor		13,549	13,541
Resident deposits		43	44
Escrow, security deposits, and surplus cash		172	171
Capital improvement – by grantor agency		677	630
		14,650	14,419
Less amounts classified as current		1,564	1,031
	$	13,086	13,388

All investments are considered “trading” for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of revenues, gains, and other support in excess of expenses and losses in the consolidated statements of operations and changes in unrestricted net assets. The following schedule for the years ended

(In thousands)

June 30, 2018 and 2017 summarizes the investment return and its classification in the consolidated financial statements.

		Unrestricted	Temporarily restricted	Total
2018:				
Dividends and interest, net of expenses of $2,080	$	12,604	2,224	14,828
Realized and unrealized gains, net		45,018	—	45,018
Investment return	$	57,622	2,224	59,846
2017:				
Dividends and interest, net of expenses of $2,554	$	6,105	748	6,853
Realized and unrealized gains, net		79,240	—	79,240
Investment return	$	85,345	748	86,093

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

(3) Patient Receivables

The composition of net patient receivables at June 30, 2018 and 2017 is as follows:

		2018	2017
Patient accounts receivable	$	362,397	442,766
Less allowance for uncollectible accounts		222,230	255,399
	$	140,167	187,367

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

(In thousands)

(4) Other Current Assets

The composition of other current assets at June 30, 2018 and 2017 is as follows:

		2018	2017
Other receivables	$	20,134	21,687
Inventories		38,492	38,962
Prepaid expenses and other current assets		22,709	31,787
Assets limited as to use required for current liabilities		30,918	24,885
	$	112,253	117,321

(5) Property and Equipment

A summary of property and equipment as of June 30, 2018 and 2017 is as follows:

		2018	2017	Estimated useful lives
Land	$	132,149	126,298	—
Land improvements		25,327	25,343	2–40 Years
Buildings and building improvements		1,212,407	1,210,457	5–50 Years
Fixed equipment		96,213	119,739	3–50 Years
Movable equipment		702,593	774,581	3–25 Years
Leasehold improvements		18,383	19,379	5–15 Years
Construction in progress		140,311	35,345	—
		2,327,383	2,311,142	
Less accumulated depreciation		1,135,898	1,175,103	
	$	1,191,485	1,136,039	

At June 30, 2018, the FMOLHS Affiliates were obligated under purchase commitments of $60,872 relating to the completion of various construction projects and purchases of equipment. Approximately $5,300 and $3,382 related to such projects and other property additions are included in accounts payable at June 30, 2018 and 2017, respectively.

(In thousands)

(6) Other Assets

The composition of other assets at June 30, 2018 and 2017 is as follows:

	2018	2017
Investments in equity investees	$ 62,520	61,438
Cost in excess of net assets acquired	111,011	106,595
Fair value of interest rate swap agreements	—	724
EPIC License and Build, net of accumulated amortization	49,932	40,559
Other	27,656	20,656
	$ 251,119	229,972

(In thousands)

(7) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2018 and 2017 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2018 and 2017 are as follows:

	Ownership interest	Investment in investees	Equity income (loss) of investees
2018:			
Convenient Care, LLC	50%	$ 2,664	1,276
Surgical Specialty Center of Baton Rouge, LLC	49	7,004	6,828
Regional Eye Surgery Center LLC	13	325	318
Baton Rouge Physical Therapy – Lake	29	749	81
Lake Urgent Care Ascension – Lake	40	66	382
Premier Health Holdings, LLC	50	3,342	94
LHC Group Hospice	33	43	(4)
Innovation Institute	16	14,673	764
Baton Rouge Physical Therapy – St. Elizabeth	4	93	10
P&S Surgery Center, LLC	50	7,132	(90)
Northeast Louisiana Cancer Institute, LLC	50	3,421	725
Northeast Louisiana Physician Hospital Organization	25	130	(9)
Louisiana Home Care of Monroe, LLC	33	115	94
St. Francis Urgent Care	50	367	150
Lourdes After Hours, LLC	50	802	675
LHCG VIII	33	505	130
Park Place Surgery Center	45	5,861	4,213
H & S Land Company, LLC	50	228	—
Resource Optimization and Innovation, LLC	10	10,699	1,443
Lake Urgent Care Ascension – St. Elizabeth	27	44	255
Mary Bird Perkins Cancer Center – St. Elizabeth	35	3,116	328
InHealth	23	1,141	379
		$ 62,520	18,042

(In thousands)

	Ownership interest	Investment in investees	Equity income (loss) of investees
2017:			
Convenient Care, LLC	50%	$ 2,862	1,439
Surgical Specialty Center of Baton Rouge, LLC	49	6,544	6,921
Regional Eye Surgery Center LLC	13	275	221
Baton Rouge Physical Therapy – Lake	29	727	40
Lake Urgent Care Ascension – Lake	30	318	249
Premier Health Holdings, LLC	50	3,248	(119)
LHC Group Hospice	33	14	(17)
Innovation Institute	16	14,009	(734)
Baton Rouge Physical Therapy – St. Elizabeth	4	90	5
P&S Surgery Center, LLC	50	11,018	407
Northeast Louisiana Cancer Institute, LLC	50	2,997	431
Northeast Louisiana Physician Hospital Organization	25	139	4
Louisiana Home Care of Monroe, LLC	33	81	98
St. Francis Urgent Care	50	216	56
Lourdes After Hours, LLC	50	526	490
LHCG VIII	33	466	103
Park Place Surgery Center	45	4,887	3,330
H & S Land Company, LLC	50	230	—
Resource Optimization and Innovation, LLC	10	9,256	(19)
Lake Urgent Care Ascension – St. Elizabeth	20	292	166
Mary Bird Perkins Cancer Center – St. Elizabeth	35	3,243	348
		$ 61,438	13,419

(8) Lines of Credit

At June 30, 2018, the FMOLHS Affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $94,000, bearing interest at variable rates expiring at various dates through June 2019. The amount outstanding at June 30, 2018 was $5,000. No amount was outstanding at June 30, 2017. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

(In thousands)

(9) Other Current Liabilities

The composition of other current liabilities at June 30, 2018 and 2017 is as follows:

		2018	2017
Accrued salaries and related expenses	$	80,694	73,794
Accrued interest		12,279	8,786
Due to third-party payors		35,637	28,478
Accrued expenses and other current liabilities		48,359	73,501
	$	176,969	184,559

(10) Long-term Debt

A summary of long-term debt at June 30, 2018 and 2017 is as follows:

		2018	2017
Obligated group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds; due in varying installments through fiscal year 2026 with interest fixed at rates ranging from 5.50% to 5.75%	$	21,665	26,015
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005B, $50,000 tax-exempt bonds; due in varying installments from 2014 through fiscal year 2031, which bear interest at a variable rate (2.22% at June 30, 2018)		45,375	48,450
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005D, $89,350 bonds due in varying installments through fiscal year 2029, which bear interest at a variable rate (2.20% at June 30, 2018)		60,375	64,000
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2008A, $47,185 bonds; due in varying installments through fiscal year 2026, which bear interest at a variable rate (2.25% at June 30, 2018)		42,775	44,175
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2012A, $56,530 bonds; due in varying installments through 2033, with interest fixed at 2.47%		56,395	56,530

(In thousands)

	2018	2017
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012B, \$100,000 bonds; due in varying installments through 2043, with interest at fixed rates ranging from 4.00% to 5.00%	100,000	100,000
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2015A, \$190,710; due in varying installments through 2040, with interest fixed rates ranging from 3.50% to 5.00%	189,560	190,710
Master Trust Indenture Note (Franciscan Missionaries of our Lady Health System Project) Series 2015B, Northern Trust Company Note; due in full on August 17, 2025, with variable interest rate at LIBOR plus 0.95% (2.93% at June 30, 2018)	35,160	35,160
Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A, \$150,000 bonds; due in varying installments through fiscal year 2048, with fixed interest rates ranging from 3.75% to 5.00%	150,000	150,000
	701,305	715,040
Add unamortized premiums	29,828	30,989
Total Obligated Group bonds	731,133	746,029
Capital improvement financing	24,224	—
Other debt due in varying installments through 2033	9,483	9,497
Total long-term debt for FMOLHS	764,840	755,526
Less current installments of long-term debt	16,666	13,762
Less costs of issuance	7,398	8,010
	\$ 740,776	733,754

In December 2017, Our Lady of the Lake, Inc. and Baton Rouge Hospital Energy Holdings I, LLC entered into an a concession agreement to manage and optimize the Lake's heating and cooling infrastructure, which will provide energy efficiencies and capacity. In association with the concession agreement, the Lake and BRHEH also entered into a thermal services agreement, with payment terms that will fund operating and maintenance cost, thermal services cost, and debt repayments for capital improvement financing. The concession agreement has a term of 20 years and as of June 30, 2018, the amount of borrowings under the agreement totaled \$24,224.

FMOLHS and FMOLHS Affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (note 2). The total debt subject to the Obligated Group Guarantee and Master Trust Indenture amounted to $731,133 and $746,029 as of June 30, 2018 and 2017, respectively.

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property of FMOLHS or its affiliates.

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

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

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

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

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

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

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

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

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

On June 29, 2017, FMOLHS completed the issuance of $150,000 Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A. The proceeds of the bonds will be used for the purpose of (i) financing a portion of the cost of acquiring, constructing, furnishing, and equipping a new freestanding children’s hospital in Baton Rouge, Louisiana and (ii) paying costs of issuance of the bonds.

FMOLHS and FMOLHS Affiliates made cash payments for interest of $28,631 and $19,343 during the years ended June 30, 2018 and 2017, respectively.

(In thousands)

Aggregate maturities of long-term debt at June 30, 2018 follow:

Year ending June 30:		
2019	$	16,666
2020		17,582
2021		16,917
2022		17,084
2023		17,174
Thereafter		649,589
	$	735,012

(11) Interest Rate Swaps

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

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

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

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

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

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

(In thousands)

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations and changes in unrestricted net assets. The net unrealized gain on the interest rate swaps for the years ended June 30, 2018 and 2017 was $3,435 and $5,998, respectively, and is included in nonoperating gains in the accompanying consolidated statements of operations and changes in unrestricted net assets.

The following is a summary of the contracts outstanding at June 30, 2018 and 2017 and are recorded, as applicable, in either other assets or other long-term liabilities:

	June 30, 2018					
Related bond issuance	**Notional amount**	**Maturity date**	**Average rate paid**	**Average rate received**	**Increase (decrease) in interest expense**	**Swap fair value**
2005D	$ 60,375	7/1/2028	3.53%	1.08%	1,465,318	(4,590)
2005D	60,375	7/1/2028	1.08	1.44	(208,068)	(410)
2008A	44,825	7/1/2025	3.66	1.08	1,156,976	(2,503)
2008A	44,825	7/1/2025	1.08	1.44	(154,032)	(200)

	June 30, 2017					
Related bond issuance	**Notional amount**	**Maturity date**	**Average rate paid**	**Average rate received**	**Increase (decrease) in interest expense**	**Swap fair value**
2005D	$ 64,000	7/1/2028	3.53%	0.52%	$ 1,932	(7,429)
2005D	64,000	7/1/2028	0.52	1.04	(329)	409
2008A	45,350	7/1/2025	3.66	0.52	1,425	(4,433)
2008A	45,350	7/1/2025	0.52	1.04	(233)	315

(In thousands)

(12) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by time and purpose at June 30, 2018 and 2017 are available for the following purposes:

		2018	2017
Healthcare services	$	50,131	37,733
Elderly housing		8,035	9,223
Building and equipment acquisitions		—	116
Educational services		7,000	6,594
Other		410	41
	$	65,576	53,707

Permanently restricted net assets totaled $5,450 and $5,482 at June 30, 2018 and 2017, the income from which is restricted for educational services.

Net assets released from restrictions for the years ended June 30, 2018 and 2017 are as follows:

		2018	2017
Healthcare services	$	4,107	2,856
Elderly housing		203	399
Educational services and other		1,389	1,463
	$	5,699	4,718

(13) Net Patient Service Revenue

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

(a) Medicare

Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies. The FMOLHS Affiliates are paid for retroactively

(Continued)

determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary. The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2011 to June 30, 2015.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost-reimbursement methodology. The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary. The FMOLHS Affiliates' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2005 to June 30, 2013.

(c) Blue Cross

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

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

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

The FMOLHS Affiliates' net patient service revenue for the years ended June 30, 2018 and 2017 increased $454 and $7,648, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, and prior year retroactive adjustments.

With the reduction of prepayment reviews, including recovery audit contractor (RAC) reviews by the CMS, the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service. Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue decreased by $2,020 and increased by $3,466 for the years ended June 30, 2018 and 2017, respectively.

(In thousands)

Presented below is a summary of amounts comprising net patient service revenue for the years ended June 30, 2018 and 2017:

		2018	2017
Inpatient revenue	$	2,661,784	2,310,664
Outpatient revenue		3,541,259	3,332,130
Gross patient service revenue		6,203,043	5,642,794
Less:			
Provision for contractual and other adjustments		4,184,124	3,773,898
Provision for uncollectible accounts		123,487	91,838
Net patient service revenue	$	1,895,432	1,777,058

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

		2018	Percentage		2017	Percentage
Medicare	$	658,878	33%	$	508,142	27%
Medicaid		458,743	23		383,857	21
Blue Cross		485,675	24		452,928	24
Self-pay		63,461	3		41,730	2
Managed care/other		352,162	17		482,239	26
	$	2,018,919	100%	$	1,868,896	100%

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

(14) Business and Credit Concentrations

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

(In thousands)

The mix of accounts receivable from patients and third-party payors at June 30, 2018 and 2017 is as follows:

	2018	2017
Medicare	30%	31%
Medicaid	14	9
Blue Cross	27	22
Self-pay	3	8
Managed care/other	26	30
	100%	100%

(15) Related-Party Transactions

The FMOL Sisters formed the Franciscan Fund (the Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs. Grant-making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back its specific contribution amounts in the form of a formal grant from the Fund. During 2018, no contributions were made to the Fund. During 2017, $8,000 contributions were made to the Fund.

The affiliation agreement between FMOLHS and Mary Bird Perkins Cancer Center was effective July 1, 2012. This agreement is to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services. The cost of this program is shared by both entities, and the operating expense for FMOLHS for the years ended June 30, 2018 and 2017 was $851 and $532, respectively.

During 2013, FMOLHS entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services. The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel. During 2018, FMOLHS entered into additional Management Services agreement with Mary Bird Perkins Cancer Center to manage business operations of new Gamma Knife Center treatment services. The management services and staffing expenses for both agreements incurred for the years ended June 30, 2018 and 2017 were $5,532 and $6,342, respectively.

Effective February 2012, FMOLHS amended the Operating Agreement with Resource Optimization & Innovation, LLC, which is organized to facilitate and administer the purchasing, manufacturing, processing, and distribution of medical and pharmaceutical products and services at competitive prices. FMOLHS's ownership percentage in Resource Optimization & Innovation, LLC is 9.45%, and the equity in income (loss) from this equity investee for the years ended June 30, 2018 and 2017 was $1,443 and $(19), respectively.

(In thousands)

The Lake contributed $3,800 (50% ownership interest) to Premier Health Holdings, LLC, which was formed on December 31, 2014. Premier Health Holdings, LLC owns, leases, and provides management services for urgent care centers. Management and consulting services are provided to urgent care centers owned or partially owned by the Lake, St. Elizabeth, and Lourdes. The Lake also owns 50% of Convenient Care, LLC, and some members with ownership in the remaining 50% of Convenient Care, LLC also have an ownership interest in Premier Health Holdings, LLC. In December 2016, Premier Health Holdings, LLC signed a $5,400 Line of Credit note with the Lake. The balance drawn, and due to the Lake, was $2,850 and $3,900 at June 30, 2017 and 2018, respectively.

The president of St. Dominic Hospital serves as a member of the board of trustees at FMOLHS. See footnote 23 for a description of the related St. Dominic Health Services, Inc. transaction.

In December 2017, Our Lady of the Lake, Inc. and Baton Rouge Hospital Energy Holdings I, LLC entered into an agreement to manage and optimize the Lake's heating and cooling infrastructure, which will provide energy efficiencies and capacity. The former CEO of Bernhard Energy Solutions is a member of FMOLHS's board of trustees.

(16) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans). The following tables at June 30, 2018 and 2017 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

		2018	2017
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$	1,021,455	992,486
Service cost		22,535	23,398
Interest cost		35,822	32,208
Actuarial (gains) losses		(7,141)	2,870
Benefits paid		(29,962)	(29,507)
Projected benefit obligation, end of year		1,042,709	1,021,455
Change in plan assets:			
Fair value of plan assets, beginning of year		555,777	481,174
Actual return on plan assets		35,426	56,041
Contributions made		35,100	48,069
Benefits paid		(29,962)	(29,507)
Fair value of plan assets, end of year		596,341	555,777
Funded status	$	(446,368)	(465,678)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost	$	(446,368)	(465,678)

(In thousands)

		2018	2017
Amounts recognized in unrestricted net assets:			
Prior service cost	$	446	420
Net actuarial loss		251,747	279,549
	$	252,193	279,969

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2018 and 2017 were as follows:

	2018	2017
Weighted average discount rate:		
The Lake (including FMOLHS and St. Elizabeth)	4.34%	4.06%
Lourdes	4.31	4.01
St. Francis	4.30	3.99
Rate of compensation increase	3.00–4.00	3.00–4.00

Net periodic pension cost for the years ended June 30, 2018 and 2017 includes the following components:

		2018	2017
Service cost, benefits earned during the year	$	22,535	23,398
Interest cost on projected benefit obligation		35,822	32,207
Expected return on plan assets		(41,846)	(35,978)
Amortization of actuarial losses		27,080	35,094
Amortization of prior service cost		(25)	(25)
Net periodic pension cost		43,566	54,696
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial loss		(721)	(17,194)
Amortization of net actuarial losses		(27,080)	(35,093)
Amortization of prior service cost		25	25
		(27,776)	(52,262)
Total recognized in net periodic benefit costs and unrestricted net assets	$	15,790	2,434

(Continued)

(In thousands)

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Weighted average discount rate:		
The Lake (including FMOLHS and St. Elizabeth)	4.06%	4.02%
Lourdes	4.01	3.95
St. Francis	3.99	3.92
Expected return on plan assets:		
The Lake (including FMOLHS and St. Elizabeth)	7.50%	7.50%
Lourdes	7.50	7.50
St. Francis	7.50	7.50
Rate of compensation increase:		
The Lake (including FMOLHS and St. Elizabeth)	3.0%–4.0%	3.0%–4.0%
Lourdes	3.0–4.0	3.0–4.0
St. Francis	3.0–4.0	3.0–4.0

The defined-benefit pension plan asset allocation as of the measurement date (June 30, 2018 and 2017) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2018	2017	Target allocation
Growth	51%	47%	45%–60%
Diversifiers	23	24	15–33
Inflation Sensitive	9	10	0–10
Liability Hedge	16	13	10–25
Cash	1	6	0–5

The allocation percentages above reflect investments recognized by investee funds within one day of year-end.

FMOLHS's overall expected long-term rate of return on assets is 7.50%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments.

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

(In thousands)

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

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

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2018 and 2017:

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 40,289	—	—	40,289
Equity:				
U.S. equity	37,856	—	—	37,856
Non-U.S. equity	36,180	—	—	36,180
Real assets	30,944	—	—	30,944
Fixed income	58,203	—	—	58,203
Assets measured at NAV(1)	—	—	—	392,869
Total	$ 203,472	—	—	596,341

(In thousands)

(1) Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

	June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category:				
Cash	$ 32,725	—	—	32,725
Equity securities:				
U.S. equity	32,338	—	—	32,338
Non-U.S. equity	59,925	—	—	59,925
Real assets	26,819	—	—	26,819
Fixed income	46,362	20,020	—	66,382
Assets measured at NAV(1)	—	—	—	337,588
Total	$ 198,169	20,020	—	555,777

(1) Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

There were no transfers into or out of Level 1, Level 2, or Level 3 investments during fiscal year 2018 or 2017.

(In thousands)

The fair values of the following plan assets have been estimated using the NAV per share as of June 30, 2018 and 2017:

	2018	2017	Redemption terms**	Notice period (Days)	Remaining life**
Asset category:					
U.S. equity funds (a)	$ 84,286	73,931	Monthly–Quarterly	30–60	—
International equity funds (b)	41,957	34,648	Monthly	50–10	—
International emerging markets (c)	28,906	36,396	Monthly	30	—
Fixed-income funds (d)	36,410	7,650	Monthly–illiquid	15–illiquid	1–2 years
Hedge fund of funds (e)	136,466	130,967	Monthly – annually	3–180	—
Real asset funds (f)	22,717	21,304	Monthly	30	—
U.S. venture capital funds (g)	4,884	5,101	—	—	1–3 Years
U.S. private equity (g)	10,386	5,627	—	—	1–8 Years
International private equity (g)	16,098	13,182	—	—	1–11 Years
Natural resources (g)	6,307	5,392	—	—	1–8 Years
Real estate funds (g)	4,452	3,390	—	—	7 Years
Total	$ 392,869	337,588			

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

(a) Objective is to drive overall portfolio growth while also outperforming the Russell 3000 Index with similar levels of risk.

(b) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.

(c) Objective is to drive overall portfolio growth while also outperforming the MSCI Emerging Markets Index (Net) with similar levels of risk.

(d) Objective is to ensure a liquid source of capital for spending and/or rebalancing during a period of economic contraction by investing primarily in high-quality bonds of sufficient duration.

(e) Objective is to reduce the volatility inherent in a portfolio with an equity bias while providing: 1) a return between that of equities and bonds, 2) lower volatility than equity markets, and 3) low correlation to other portfolio assets.

(f) Objective is to ensure a liquid source of capital for spending during periods of high, unanticipated inflation by investing in assets that tend to respond favorably in such an environment.

(g) Objective is to drive growth while capturing an "illiquidity premium" above that of public equity markets for locking up capital for an extended period of time.

(In thousands)

At June 30, 2018, FMOLHS's remaining outstanding commitments to private equity interests within the plan assets totaled $51,549. The projected capital calls for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2018	$	17,890
2019		15,149
2020		8,751
2021		5,877
2022		3,788
Thereafter		94
	$	51,549

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2018, the average remaining life of the private equity interests in the plan assets is approximately 4.6 years.

At June 30, 2018, FMOLHS had plan assets of $210,676 which were restricted from redemption for lock-up periods. Some of the investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2018, FMOLHS's plan assets investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal year:		
2019	$	199,713
2020		10,249
2021		—
2022		—
2023		—
Thereafter		714
	$	210,676

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

(In thousands)

As of June 30, 2018 and 2017, the Plans had accumulated benefit obligations (ABO) of $971,165 and $932,626, respectively. At June 30, 2018 and 2017, the fair value of plan assets falls short of the ABO by $374,823 and $376,848, respectively.

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $(22,834) and $(27,055), respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2018 are as follows:

Year(s) ending June 30:		
2019	$	35,349
2020		39,063
2021		42,361
2022		45,517
2023		48,460
2024–2028		281,250

(b) *Defined Contribution Plans*

The FMOLHS Affiliates sponsor 403(b) and 401(k) plans, which were closed to new entrants in 2006. No contributions are made to the plans by the FMOLHS Affiliates.

A new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan. The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates. Contribution expense of $14,511 and $12,915 was recorded for the years ended June 30, 2018 and 2017, respectively.

(c) *Retiree Medical Plan*

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder. The healthcare plan is funded on a pay-as-you-go basis. Lourdes retains the right to modify or terminate the benefits and/or cost-sharing provisions. The accrued liability for such benefits was approximately $301 and $394 at June 30, 2018 and 2017, respectively, and is included in other long-term liabilities.

(Continued)

(In thousands)

(17) Functional Expense

The FMOLHS Affiliates provide healthcare and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2018 and 2017 are as follows:

		2018	2017
Healthcare services	$	1,463,078	1,225,923
General and administrative		528,965	690,871
Educational services		21,578	22,115
Fund-raising		5,519	6,757
	$	2,019,140	1,945,666

(18) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2018 and 2017.

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2018 and 2017 are summarized as follows:

		2018		2017	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Liabilities – long-term debt	$	757,441	789,073	747,516	796,681

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

(In thousands)

(b) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2018 and 2017:

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
Global equity	$ —	—	—	—
U.S. Equity	110,566	—	—	110,566
Non-U.S. Equity	59,815	—	—	59,815
Real assets	40,052	—	—	40,052
Fixed income	63,428	79,884	—	143,312
Assets measured at NAV				116,870
Total – categorized	$ 273,861	79,884	—	470,615
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				655,677
				1,126,292
Liabilities:				
Interest rate swaps	$ —	7,703	—	7,703

(In thousands)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
Global equity	$ —	46,837	—	46,837
US Equity	63,617	16,556	—	80,173
Non-US Equity	93,884	—	—	93,884
Real assets	34,644	—	—	34,644
Fixed income	67,126	73,405	—	140,531
Interest rate swaps and other	—	866	—	866
Assets measured at NAV				48,924
Total – categorized	$ 259,271	137,664	—	445,859
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				685,177
				1,131,036
Liabilities:				
Interest rate swaps	$ —	11,862	—	11,862

The fair values of the following investments have been estimated using the NAV per share as of June 30, 2018 and 2017:

	2018	2017	Redemption terms**	Notice period (Days)	Remaining life**
Asset category:					
U.S. Equities (a)	$ 18,987	—	Monthly	30	—
International Equity (b)	69,927	24,146	Monthly	5	—
Real Assets – Inflation Sensitive (c)	27,956	24,779	Monthly	30	—
Totals	$ 116,870	48,925			

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

(a) Objective is to drive overall portfolio growth while also outperforming the Russell 3000 Index with similar levels of risk.

(b) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.

(c) Objective is to ensure a liquid source of capital for spending during periods of high, unanticipated inflation by investing in assets that tend to respond favorably in such an environment.

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2018 or 2017.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of FMOLHS's interest therein, its classification in Level 2 is based on FMOLHS's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.
- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) Limitations

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

(19) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expenses provided by law). FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer. As of June 30, 2018, FMOLHS has excess insurance coverage in place for general and professional liability risks, with a $2,000 self-insured retention for professional liability and a $1,000 layer of self-insurance for general liability. A $6,000 aggregate sits above these limits, covering general and professional liability. Incurred losses identified under FMOLHS's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations, such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The reserve for estimated professional and general liability, and worker's compensation costs is approximately $27,118 and $27,025 as of June 30, 2018 and 2017, respectively. Claims liabilities are estimated at a present value of future claims payments using a discount rate of 3%.

(In thousands)

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2018. To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

FMOLHS is also self-insured with respect to employee health coverage (up to $500 limit per claim) and workers' compensation (up to a limit of $450 per individual claim). Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program. The employee health self-insured reserves are approximately $9,205 and $6,668 as of June 30, 2018 and 2017, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately $12,149 and $12,089 as of June 30, 2018 and 2017, respectively, and are included in other current liabilities in the consolidated balance sheets.

(20) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities under operating leases. The terms of these leases range from month to month to 20 years. Assets held for lease at June 30, 2018 and 2017 consist of buildings and improvements with an original cost of $232,843 and $235,505, respectively, and fixed equipment with an original cost of $11,883 and $23,217, respectively. Total accumulated depreciation is $134,285 and $142,640 at June 30, 2018 and 2017, respectively. Future minimum lease payments to be received at June 30, 2018 are as follows:

Year ending June 30:		
2019	$	10,152
2020		7,680
2021		7,014
2022		6,905
2023		6,665
Thereafter		34,749
	$	73,165

(In thousands)

(21) Commitments and Contingencies

(a) Investments

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

(b) Capital Leases

As of June 30, 2018, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year. Future minimum lease payments as of June 30, 2018 are as follows:

Year ending June 30:		
2019	$	4,005
2020		2,939
2021		2,950
2022		2,890
2023		2,791
Thereafter		6,311
Total minimum lease payments		21,886
Less amounts representing interest		6,168
Present value of future minimum lease payments		15,718
Less current portion of capital lease obligations		2,569
Capital lease obligations excluding current portion	$	13,149

The net book value of assets under capital lease as of June 30, 2018 and 2017 was $14,139 and $23,093, respectively.

For the years ended June 30, 2018 and 2017, FMOLHS entered into new capital leases for equipment in the amounts of $1,238 and $3,863, respectively.

(In thousands)

(c) Operating Leases – Lessee

Rental expense for all operating leases totaled $26,618 and $25,632 for the years ended June 30, 2018 and 2017, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2018 follow:

Year ending June 30:		
2019	$	16,577
2020		13,839
2021		12,801
2022		12,167
2023		14,034
Thereafter		6,176
	$	75,594

(d) Asset Retirement Obligations

FMOLHS recognizes obligations associated with the future retirement of long lived assets. Estimated asset retirement obligations of $2,035 and $2,038 for the years ended June 30, 2018 and 2017, respectively, are classified as other long-term liabilities.

(e) Contingent Liabilities

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

(f) Regulatory Compliance

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

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

(Continued)

(22) Cooperative Endeavor Agreements

(a) Our Lady of the Lake Cooperative Endeavor Agreement

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

- The Lake constructed a medical education building (MEB) to house LSU training programs (which was donated by the Lake to LSU at completion of construction), expanded its clinical capacity by 60 licensed beds, and implemented a Trauma Center. The Lake recorded $1,852 in other current liabilities in the consolidated balance sheets as of June 30, 2018 and 2017 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.
- DHH provided payments under a reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that have occurred with the Lake's increased role in LSU's graduate medical education program. The supplemental hospital payments received through June 30, 2018 were based on estimated costs for Medicaid and uninsured patients. A reconciliation of all costs and payments for fiscal year ended June 30, 2018 made pursuant to this agreement will occur in fiscal year 2018. For the years ended June 30, 2018 and 2017, the Lake recorded additional net patient service revenues less the estimated amounts for retroactive adjustments under the agreement of $55,080 and $94,460, respectively.

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

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities. Lease agreements were implemented for LSU Health outpatient facilities and equipment.
- GME program amendments were implemented for assignment of GME reimbursement caps.
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics.
- For the years ended June 30, 2018 and 2017, the amount paid to LSU for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $54,456 and $55,935, respectively.

(b) Our Lady of Angels Cooperative Endeavor Agreement

Angels entered into an agreement with the DHH and LSU in January 2014. Angels receives disproportionate share payments and other supplemental payments from DHH to cover costs associated with higher Medicaid and uninsured patient volumes for this service area. The commencement date for patient care services for Angels was March 7, 2014. For the years ended June 30, 2018 and 2017, Angels recorded additional net patient service revenue of $29,694 and $31,730, respectively.

The major components of the Angels' agreement include:

- Angels leases facilities and equipment and manages the operations of the hospital and outpatient facilities.
- Angels agrees to continue the graduate medical education and training programs in Bogalusa, Louisiana.
- Angels established clinical services agreements, including the LSU School of Medicine, to provide professional services at the hospital and outpatient facilities.
- For the years ended June 30, 2018 and 2017, the amount paid to LSU for leased buildings and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $12,339 and $11,695, respectively.

(23) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through October 19, 2018, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose, except as follows:

Effective July 31, 2018, St. Francis Medical Center acquired the remaining 50% equity interest in P&S Surgery Center LLC for $7,132. Prior to the acquisition, St. Francis Medical Center's equity investment percentage was 50%.

Lourdes has entered into a letter of intent to purchase Women's & Children's Hospital from HCA Healthcare, which includes the Elaine M. Junca Woman's Imaging Centre, Lafayette Surgicare, The Cancer & Infusion Center, Kid's Specialty Center and physician clinics. A final sales agreement is expected to occur in fiscal year 2019.

FMOLHS entered into exclusive discussions with St. Dominic Health Services, Inc. in Jackson, Mississippi to assume sponsorship of this health system. St. Dominic's Health Services, Inc. includes an acute care facility and other ambulatory and community-based services. A final sale agreement for both acquisitions is expected occur in fiscal year 2019.

SUPPLEMENTAL SCHEDULES

Schedule 1

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

Consolidating Schedule – Balance Sheet Information

June 30, 2018
(with comparative totals as of June 30, 2017)

(In thousands)

Assets	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2018	Total 2017
Current assets										
Cash and cash equivalents	$ 36,941	6,221	118,877	17,583	27,700	20,785	7,016	—	235,123	196,370
Short-term investments	4,391	—	—	—	—	—	—	—	4,391	2,389
Receivables										
Patients	(22,316)	—	273,362	18,097	33,571	51,269	8,413	—	362,396	442,766
Less allowance for uncollectible accounts	—	—	(178,049)	(6,014)	(12,751)	(16,372)	(9,043)	—	(222,229)	(255,399)
Net patient receivables	(22,316)	—	95,313	12,083	20,820	34,897	(630)	—	140,167	187,367
Other current assets	31,386	2,640	66,796	2,735	367	11,218	863	(3,752)	112,253	117,321
Total current assets	50,402	8,861	280,986	32,401	48,887	66,900	7,249	(3,752)	491,934	503,447
Assets limited as to use, net of current portion	998,745	5,916	879,156	7,533	90,663	23,843	—	(914,873)	1,090,983	1,103,038
Property and equipment, net	64,386	2,132	740,535	50,219	100,621	229,504	4,088	—	1,191,485	1,136,039
Other assets	92,280	12,456	108,647	5,369	19,481	31,027	5,194	(23,335)	251,119	229,972
Total assets	$ 1,205,813	29,365	2,009,324	95,522	259,652	351,274	16,531	(941,960)	3,025,521	2,972,496
Liabilities and Net Assets										
Current liabilities										
Lines of credit	$ —	—	5,000	—	—	—	—	—	5,000	—
Current installments of long-term debt	—	—	7,027	548	5,217	3,874	—	—	16,666	13,762
Current portion of capital lease obligations	1,057	—	1,342	156	—	12	—	—	2,567	4,767
Accounts payable	15,216	273	61,756	3,094	7,912	10,211	2,820	(2,596)	98,686	139,644
Other current liabilities	36,683	2,563	78,824	11,088	22,904	21,094	4,969	(1,156)	176,969	184,559
Total current liabilities	52,956	2,836	153,949	14,886	36,033	35,191	7,789	(3,752)	299,888	342,732
Professional and general liabilities, excluding current portion	24,649		15,373	1,661	4,895	3,081	175	(22,716)	27,118	27,025
Long-term debt, excluding current installments	—	—	449,195	12,464	115,280	163,837	—	—	740,776	733,754
Capital lease obligations, excluding current portion	—	—	12,690	417	—	42	—	—	13,149	15,208
Accrued pension cost	27	5,452	293,983	—	66,144	80,762	—	—	446,368	465,678
Other long-term liabilities	980,470		556	—	8,626	301	—	(915,075)	74,878	71,743
Total liabilities	1,058,102	8,288	925,746	29,428	230,978	283,214	7,964	(941,543)	1,602,177	1,656,140
Net assets										
Unrestricted	147,443	8,627	998,168	65,873	27,675	60,447	8,558	(130)	1,316,661	1,222,018
Temporarily restricted	268	7,000	52,278	221	999	5,088	9	(287)	65,576	53,707
Permanently restricted	—	5,450	—	—	—	—	—	—	5,450	5,482
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc	147,711	21,077	1,050,446	66,094	28,674	65,535	8,567	(417)	1,387,687	1,281,207
Noncontrolling interests	—	—	33,132	—	—	2,525	—	—	35,657	35,149
Total net assets	147,711	21,077	1,083,578	66,094	28,674	68,060	8,567	(417)	1,423,344	1,316,356
Total liabilities and net assets	$ 1,205,813	29,365	2,009,324	95,522	259,652	351,274	16,531	(941,960)	3,025,521	2,972,496

See accompanying independent auditors' report

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center, Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2018	Total 2017
Changes in unrestricted net assets										
Unrestricted revenues										
Net patient service revenue, net of contractual allowances and discounts	$ 21,253	—	1,278,720	122,079	239,677	291,600	65,590	—	2,018,919	1,868,896
Provision for uncollectible accounts	(1)	(194)	(90,334)	(10,234)	(10,633)	(11,760)	(331)	—	(123,487)	(91,838)
Net patient service revenue	21,252	(194)	1,188,386	111,845	229,044	279,840	65,259	—	1,895,432	1,777,058
Other revenue	270,127	21,329	54,983	1,787	10,162	9,253	1,284	(258,208)	110,717	116,160
Equity in income from equity investees, net	2,585	—	8,980	592	870	5,015	—	—	18,042	13,419
Total unrestricted revenues	293,964	21,135	1,252,349	114,224	240,076	294,108	66,543	(258,208)	2,024,191	1,906,637
Net assets released from restrictions used for operations										
Satisfaction of program restrictions	244	1,145	2,106	2	1,325	683	—	—	5,505	4,536
Expiration of time restrictions	—	—	194	—	—	—	—	—	194	182
Total net assets released from restrictions used for operations	244	1,145	2,300	2	1,325	683	—	—	5,699	4,718
Total unrestricted revenues and other support	294,208	22,280	1,254,649	114,226	241,401	294,791	66,543	(258,208)	2,029,890	1,911,355
Operating expenses										
Salaries and wages	89,636	11,043	424,504	49,316	93,735	87,625	24,384	(250)	779,993	743,819
Employee benefits	23,312	3,089	93,214	11,883	20,763	21,094	4,533	—	177,888	179,225
Total salaries, wages, and benefits	112,948	14,132	517,718	61,199	114,498	108,719	28,917	(250)	957,881	923,044
Physician fees	33		56,789	449	3,825	13,886	7,268	(3,549)	78,701	68,798
Professional services	2,771	173	17,598	615	9,546	455	30	—	31,188	31,146
Other services	109,366	3,929	272,974	22,370	55,181	55,236	13,973	(200,560)	332,469	335,782
Leases, insurance, and utilities	9,830	2,110	32,379	3,306	10,086	11,169	7,320	(3,973)	72,227	69,498
Supplies	52,613	541	235,308	13,214	39,829	85,099	5,356	(49,876)	382,084	372,887
Depreciation and amortization	43,364	692	48,300	4,138	11,082	13,083	214	—	120,873	110,058
Interest	115	—	17,860	569	5,062	6,584	—	—	30,190	24,222
Other	419	—	5,532	320	1,944	1,439	214	—	9,868	7,733
Total operating expenses	331,459	21,577	1,204,458	106,180	251,053	295,670	63,292	(258,208)	2,015,481	1,943,168
Operating income (loss) before impairment and settlement of pension plans	(37,251)	703	50,191	8,046	(9,652)	(879)	3,251	—	14,409	(31,813)
Impairment	—	—	—	—	3,659	—	—	—	3,659	2,498
Operating (loss) income	(37,251)	703	50,191	8,046	(13,311)	(879)	3,251	—	10,750	(34,311)

(Continued)

Schedule 2

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center, Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2018	Total 2017
Nonoperating gains (losses)										
Investment return	$ 3,491	492	45,796	450	5,864	1,529	—	—	57,622	85,345
Other	—	—	—	—	—	—	—	—	—	4,661
Change in fair value of interest rate swap agreement	3,435	—	—	—	—	—	—	—	3,435	5,998
Total nonoperating gains (losses), net	6,926	492	45,796	450	5,864	1,529	—	—	61,057	96,004
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses	(30,325)	1,195	95,987	8,496	(7,447)	650	3,251	—	71,807	61,693
Noncontrolling interests	—	—	(2,632)	—	—	(1,595)	—	—	(4,227)	(2,249)
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	(30,325)	1,195	93,355	8,496	(7,447)	(945)	3,251	—	67,580	59,444
Pension-related changes other than net periodic pension cost	—	—	18,267	—	3,891	5,618	—	—	27,776	52,262
Other	32,641	(151)	(19,622)	(1,912)	(8,239)	(3,108)	(322)		(713)	(5,820)
Increase (decrease) in unrestricted net assets	$ 2,316	1,044	92,000	6,584	(11,795)	1,565	2,929	—	94,643	105,886

See accompanying independent auditors' report

Schedule 3

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

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Franciscan Missionaries of Our Lady University, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center, Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2018	Total 2017
Changes in unrestricted net assets										
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	$ (30,325)	1,195	93,355	8,496	(7,447)	(945)	3,251	—	67,580	59,444
Pension-related changes other than net periodic pension cost	—	—	18,267	—	3,891	5,618	—	—	27,776	52,262
Other	32,640	(151)	(19,619)	(1,912)	(8,240)	(3,108)	(323)	—	(713)	(5,820)
Increase (decrease) in unrestricted net assets	2,315	1,044	92,003	6,584	(11,796)	1,565	2,928	—	94,643	105,886
Changes in temporarily restricted net assets										
Contributions	485	1,551	10,440	24	523	2,378	3	(60)	15,344	12,352
Income from long-term investments, net	—	—	2,222	—	2	—	—	—	2,224	748
Net assets released from restrictions	(244)	(1,145)	(2,300)	(2)	(1,325)	(683)	—	—	(5,699)	(4,718)
Increase in temporarily restricted net assets	241	406	10,362	22	(800)	1,695	3	(60)	11,869	8,382
Changes in permanently restricted net										
Contributions	—	(32)	—	—	—	—	—	—	(32)	82
Increase in permanently restricted net asserts	—	(32)	—	—	—	—	—	—	(32)	82
Changes in noncontrolling interest										
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to FMOLHS	—	—	2,632	—	—	1,595	—	—	4,227	2,249
Distributions	—	—	(2,780)	—	—	(2,013)	—	—	(4,793)	(4,229)
Acquired controlling interest	—	—	624	—	—	—	—	—	624	439
Sale of noncontrolling interest	—	—	450	—	—	—	—	—	450	(399)
Changes in noncontrolling interest	—	—	926	—	—	(418)	—	—	508	(1,940)
Increase (decrease) in net assets	2,556	1,418	103,291	6,606	(12,596)	2,842	2,931	(60)	106,988	112,410
Net assets, beginning of year	145,155	19,659	980,287	59,488	41,270	65,218	5,636	(357)	1,316,356	1,203,946
Net assets, end of year	$ 147,711	21,077	1,083,578	66,094	28,674	68,060	8,567	(417)	1,423,344	1,316,356

See accompanying independent auditors' report

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

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

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

Table of Contents

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2018 and 2017, and their changes in net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Baton Rouge, Louisiana
October 19, 2018

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

Consolidated Balance Sheets

June 30, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	235,123	196,370
Short-term investments		4,391	2,389
Patient receivables, net of allowance for uncollectible accounts of $222,230 and $255,399 in 2018 and 2017, respectively		140,167	187,367
Other current assets		112,253	117,321
Total current assets		491,934	503,447
Assets limited as to use, net of current portion		1,090,983	1,103,038
Property and equipment, net		1,191,485	1,136,039
Other assets		251,119	229,972
Total assets	$	3,025,521	2,972,496
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	5,000	—
Current installments of long-term debt		16,666	13,762
Current portion of capital lease obligations		2,567	4,767
Accounts payable		98,686	139,644
Other current liabilities		176,969	184,559
Total current liabilities		299,888	342,732
Professional and general liabilities, excluding current portion		27,118	27,025
Long-term debt, excluding current installments		740,776	733,754
Capital lease obligations, excluding current portion		13,149	15,208
Accrued pension cost		446,368	465,678
Other long-term liabilities		74,878	71,743
Total liabilities		1,602,177	1,656,140
Net assets:			
Unrestricted		1,316,661	1,222,018
Temporarily restricted		65,576	53,707
Permanently restricted		5,450	5,482
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.		1,387,687	1,281,207
Noncontrolling interests		35,657	35,149
Total net assets		1,423,344	1,316,356
Total liabilities and net assets	$	3,025,521	2,972,496

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Changes in unrestricted net assets:			
Unrestricted revenues:			
Net patient service revenue, net of contractual allowances and discounts	$	2,018,919	1,868,896
Provision for uncollectible accounts		(123,487)	(91,838)
Net patient service revenue		1,895,432	1,777,058
Other revenue		110,717	116,160
Equity in income from equity investees, net		18,042	13,419
Total unrestricted revenues		2,024,191	1,906,637
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		5,505	4,536
Expiration of time restrictions		194	182
Total net assets released from restrictions used for operations		5,699	4,718
Total unrestricted revenues and other support		2,029,890	1,911,355
Operating expenses:			
Salaries and wages		779,993	743,819
Employee benefits		177,888	179,225
Total salaries, wages, and employee benefits		957,881	923,044
Physician fees		78,701	68,798
Professional services		31,188	31,146
Other services		332,469	335,782
Leases, insurance, and utilities		72,227	69,498
Supplies		382,084	372,887
Depreciation and amortization		120,873	110,058
Interest		30,190	24,222
Other		9,868	7,733
Total operating expenses		2,015,481	1,943,168
Operating income (loss) before impairment		14,409	(31,813)
Impairment		(3,659)	(2,498)
Operating income (loss)		10,750	(34,311)

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

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Nonoperating gains:			
Investment return		57,622	85,345
Other		—	4,661
Change in fair value of interest rate swap agreements		3,435	5,998
Total nonoperating gains, net		61,057	96,004
Unrestricted revenues, gains, and other support in excess of expenses and losses before noncontrolling interest		71,807	61,693
Noncontrolling interests		(4,227)	(2,249)
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.		67,580	59,444
Pension-related changes other than net periodic pension cost		27,776	52,262
Other		(713)	(5,820)
Increase in unrestricted net assets	$	94,643	105,886

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Changes in unrestricted net assets:			
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.	$	67,580	59,444
Pension-related changes other than net periodic pension cost		27,776	52,262
Other		(713)	(5,820)
Increase in unrestricted net assets		94,643	105,886
Changes in temporarily restricted net assets:			
Contributions		15,344	12,352
Income from long-term investments, net		2,224	748
Net assets released from restrictions		(5,699)	(4,718)
Increase in temporarily restricted net assets		11,869	8,382
Changes in permanently restricted net assets:			
Contributions		(32)	82
(Decrease) increase in permanently restricted net assets		(32)	82
Changes in noncontrolling interests:			
Unrestricted revenues, gains, and other support in excess of expenses and losses		4,227	2,249
Distributions		(4,793)	(4,229)
Acquired controlling interest		624	439
Other		450	(399)
Increase (decrease) in noncontrolling interests		508	(1,940)
Increase in net assets		106,988	112,410
Net assets, beginning of year		1,316,356	1,203,946
Net assets, end of year	$	1,423,344	1,316,356

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	106,988	112,410
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		120,873	110,058
Impairment		3,659	2,498
Provision for uncollectible accounts		123,487	91,838
Loss (gain) on sale or disposal of assets, net		206	(1,418)
Net realized and unrealized losses (gains) on assets limited as to use and investment securities		(45,018)	(79,240)
Income from equity investees		(18,042)	(13,419)
Change in value of interest rate swap agreements		(3,435)	(5,998)
Amortization of net premium and costs on bond issues		(1,161)	(692)
Pension-related changes other than net periodic pension cost		(27,776)	(52,262)
Sale of noncontrolling interest		(1,074)	(40)
Distributions to noncontrolling interest		4,793	4,229
Return of income from equity investees		13,463	11,938
Changes in operating assets and liabilities:			
Receivables		(74,734)	(46,208)
Inventories		470	(1,480)
Prepaid expenses and other assets		5,557	(10,608)
Accounts payable, accrued expenses, and other liabilities		(27,339)	70,889
Professional and general liabilities		93	(1,627)
Net cash provided by operating activities		181,010	190,868

(Continued)

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

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Cash flows from investing activities:		
Capital expenditures	(174,124)	(163,148)
Purchases of assets limited as to use	(317,881)	(250,435)
Sales of assets limited as to use	366,920	117,344
Cash paid for equity investees and other acquisitions, net of cash acquired	—	(100)
Net cash used in investing activities	(125,085)	(296,339)
Cash flows from financing activities:		
Repayment of long-term debt	(14,092)	(13,819)
Repayment of capital lease obligations, net	(5,497)	(4,648)
Proceeds from issuance of long-term debt	1,136	166,960
Proceeds from line of credit	10,000	10,000
Payments on line of credit	(5,000)	(28,050)
Payment of bond issuance costs	—	(2,176)
Acquired controlling interest	1,074	439
Distributions to noncontrolling interest	(4,793)	(4,229)
Net cash (used in) provided by financing activities	(17,172)	124,477
Increase in cash and cash equivalents	38,753	19,006
Cash and cash equivalents, beginning of year	196,370	177,365
Cash and cash equivalents, end of year	$ 235,123	196,371
Supplemental noncash disclosures:		
Accounts payable for construction projects	$ 4,857	443
Capital lease obligations	1,238	3,863
Long-term debt for PPE	24,298	—

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

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

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 19). FMOLHS also has ownership interest in other entities providing services to meet its mission.

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

(a) Principles of Consolidation

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

(b) Use of Estimates

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

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

(c) Cash Equivalents

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

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

(d) Investments and Investment Return

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

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

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

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

(e) Inventories

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

(f) Assets Limited as to Use

Assets limited as to use include the following:

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

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

(g) Components of Net Assets

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

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

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

Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that do not permit contributions by FMOLHS. Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investments for specific or general purposes.

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

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

(h) Property and Equipment

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

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

FMOLHS capitalizes costs associated with the acquisition or development of major software for internal use in other assets in the consolidated balance sheets and amortizes the assets over the expected life of the software, generally between three and seven years. FMOLHS only capitalizes subsequent additions, modifications, or upgrades to internal-use software to the extent that such changes allow the software to perform a task it previously did not perform. FMOLHS expenses software maintenance and training costs as incurred.

(Continued)

FMOLHS evaluates cloud computing arrangements to determine whether the arrangement includes a software license or is a service contract. If determined to be a software license, then FMOLHS capitalizes the arrangement as an other asset and amortizes it over the expected life of the software license, generally between three and five years. If determined to be a service contract, then FMOLHS expenses the cost of the arrangement as the services are provided.

(i) Business Combination

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

(j) Cost in Excess of Net Assets Acquired

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

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

(Continued)

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests. In 2018 and 2017, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined no impairment exists.

Accumulated amortization for all costs in excess of net assets acquired was $15,846 at June 30, 2018 and 2017.

(k) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. Net interest expense capitalized was $2,107 and $250 for the years ended June 30, 2018 and 2017, respectively.

(l) Impairment of Long-lived Assets

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

FMOLHS recorded an impairment loss of $3,659 and $2,498 in 2018 and 2017, respectively.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. There are no assets reported to be disposed of at June 30, 2018 or 2017.

(m) Cost of Issuances

Bond issuance costs are presented as a direct deduction from the carrying value of debt in the accompanying consolidated financial statements. Premiums, discounts, costs of letters of credit, and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective-interest method. Accumulated amortization was approximately $7,631 and $7,204 at June 30, 2018 and 2017, respectively.

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

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

(o) *Consolidated Statements of Operations and Changes in Unrestricted Net Assets*

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

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

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

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

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

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

(Continued)

(q) *Income Taxes*

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

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

(r) *Asset Retirement Obligation*

FMOLHS recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, FMOLHS capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations. The liability is included in other long-term liabilities in the accompanying consolidated balance sheets.

(s) *Fair Value Measurements*

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

(Continued)

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

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

(t) Fair Value Option

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

(u) Recently Issued Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, in May 2014, which was amended by ASU No. 2015-14, *Revenue from Contracts with Customers (ASU 2015-14)*, in August 2015. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2014-09 and ASU 2015-14 as of July 1, 2018 using the retrospective transition method. Adoption of the new standard will result in changes to the presentation of net operating revenues and bad debt expense in the consolidated statements of operations and changes in unrestricted net assets, but the presentation of the amount of income from operations and net income is not expected to materially change upon adoption of the new standards.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)*, which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The provisions of ASU 2016-01 are effective for annual periods in fiscal years beginning after December 15, 2018. FMOLHS is currently evaluating the effect that ASU 2016-01 will have on its consolidated financial statements. In addition, in February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities*, to clarify certain aspects of ASU 2016-01; FMOLHS will adopt ASU 2018-03 and ASU 2016-01 concurrently.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which introduces a right-of-use model that requires lessees to recognize all leases, other than short-term leases with a maximum possible term of one year or less, on their balance sheet. Also, the amortization of these leases will be dependent of the portion of the underlying asset being utilized during the lease term. Additionally, in January and July 2018, the FASB issued ASUs 2018-01, *Land Easement Practical Expedient for Transition to Topic 842, 2018-10, Codification Improvements to Topic 842, Leases, and 2018-11, Leases* (Topic 842): Targeted Improvements. ASU 2018-01 clarified the applicability of ASC 842 to land easements and provided an optional transition practical expedient for existing land easements. ASU 2018-10 made certain technical corrections to ASC 842. ASU 2018-11 allows companies to adopt ASC 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and nonlease components of a contract if certain criteria are met. ASU 2016-02 is effective for FMOLHS beginning July 1, 2019, with early adoption permitted. The three ASUs issued in 2018 are effective for FMOLHS at the same time as it adopts ASU 2016-02. FMOLHS is currently evaluating the impact of the ASU, but is currently unable to estimate the effect, if any.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-02)*, in August 2016. ASU 2016-14 changes how not-for-profit entities, including health entities, report net asset classes, expenses and liquidity in their financial statements. The new standard permits early adoption and is effective for annual reporting periods beginning after December 15, 2017. FMOLHS will implement the provisions of ASU 2016-14 as of July 1, 2018. FMOL is currently evaluating the effects of ASU 2016-14 and expects the adoption to have a significant impact on the financial statement presentation, however, does not expect there to be a material impact to the amounts reported.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates step 2 of the goodwill impairment test and replaces the qualitative assessment. Under the standard, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and recognize an impairment loss for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss not exceeding the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for FMOLHS for the annual period beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017. FMOL is currently evaluating the effect that ASU 2017-04 will have on its consolidated financial statements.

(Continued)

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07)*, which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective for FMOLHS in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. FMOLHS is evaluating the effect that ASU 2017-07 will have on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). The new guidance applies to all entities that receive or make contributions, including not-for-profit entities. FMOLHS is required to apply ASU No. 2018-08 to contributions received during annual periods beginning after June 15, 2018, including interim periods within those annual periods. FMOLHS is required to apply ASU No. 2018-08 to contributions provided during annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. FMOLHS does not expect the adoption of ASU 2018-08 to have a material impact on the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820) (ASU 2018-13), which modifies the disclosure requirements on fair value measurements. This ASU modifies the disclosure requirements on fair value measurements. The ASU removes the requirement to disclose: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The ASU requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The new guidance is effective for annual periods in fiscal years beginning after December 15, 2019, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (*Topic 715*)* (ASU 2018-14), which modified the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The new guidance is effective for annual periods in fiscal years beginning after December 15, 2021, and early adoption is permitted. FMOLHS is currently evaluating this guidance and the impact on its consolidated financial statements.

(In thousands)

(v) *Recently Adopted Accounting Pronouncements*

The FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07)*, in May 2015. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient, limiting the disclosures to investments, which the entity has elected to measure the fair value using the practical expedient. Adoption of this standard should be applied on a retrospective basis. The new standard is effective for annual reporting periods beginning after December 15, 2016. FMOLHS adopted this standard effective July 1, 2017, and the standard did not have a significant impact on FMOLHS's consolidated financial statements. In accordance with the transition requirements of ASU 2015-07, FMOLHS removed $271,228 of level 3 investments that are measured using NAV as a practical expedient and $66,360 of level 2 investments that are measured using NAV as a practical expedient from the 2017 fair value hierarchy within footnote 16. Additionally, FMOLHS removed $48,924 of level 2 investments that are measured using NAV as a practical expedient from the 2017 fair value hierarchy within footnote 18. As the ASU was adopted retrospectively, the prior-period investments have been restated accordingly.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value for entities that measure inventory using first-in, first-out (FIFO) or average cost. The standard is effective for FMOLHS for the annual period beginning after December 15, 2016 and requires prospective application. FMOLHS adopted ASU 2015-11 effective July 1, 2017. Adopting the standard did not have a material effect on FMOLHS's consolidated financial statements.

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

Short-term investments at June 30, 2018 and 2017 consist of the following:

		2018	2017
Cash	$	11	3
Equity securities:			
U.S. companies		2,383	2,386
Fixed Income		1,997	—
Total	$	4,391	2,389

(In thousands)

The composition of assets limited as to use at June 30, 2018 and 2017 is as follows:

	2018				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 88,046	105,873	—	2,851	196,770
Equity securities:					
Global equity	—	—	—	—	—
U.S. equity	205,251		4,281	8,102	217,634
Non-U.S. equity	180,788	—	—	—	180,788
Private investments:					
Private equity/venture capital	58,049	—	—	—	58,049
Private real assets	10,296	—	—	—	10,296
Hedge funds	224,121	—	—	151	224,272
Real assets	92,777	—	—	—	92,777
Fixed income	109,352		28,417	3,546	141,315
	968,680	105,873	32,698	14,650	1,121,901
Less amounts classified as current assets, included in other current assets	—	29,354	—	1,564	30,918
Noncurrent portion	$ 968,680	76,519	32,698	13,086	1,090,983

(In thousands)

	2017				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 38,523	159,204	—	3,223	200,950
Equity securities:					
Global equity	46,837	—	—	—	46,837
U.S. equity	145,106	—	4,353	7,694	157,153
Non-U.S. equity	157,231	—	—	—	157,231
Private investments:					
Private equity/venture capital	64,712	—	—	—	64,712
Private real assets	12,096	—	—	—	12,096
Hedge funds	249,823	—	—	142	249,965
Real assets	83,387	—	—	—	83,387
Fixed income	124,439	—	27,793	3,360	155,592
	922,154	159,204	32,146	14,419	1,127,923
Less amounts classified as current assets, included in other current assets	—	23,854	—	1,031	24,885
Noncurrent portion	$ 922,154	135,350	32,146	13,388	1,103,038

(a) Board-Designated for Capital

In accordance with board of directors' approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements.

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

(In thousands)

(b) Alternative Assets

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

		2018	2017
Alternative assets:			
Global equity	$	—	46,837
U.S. equity		109,450	95,920
Non-U.S. equity		120,973	63,347
Private equity/venture capital		45,229	50,405
Private real assets		10,296	12,096
Hedge funds		224,272	249,965
Real assets		52,725	48,743
Fixed income		12,820	29,369
Total alternative assets	$	575,765	596,682

At June 30, 2018, FMOLHS's remaining outstanding commitments to private equity interests totaled $14,050. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2019	$	7,246
2020		4,411
2021		2,393
2022		—
2023		—
Thereafter		—
	$	14,050

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2018, the average remaining life of the private equity interests is approximately 1.2 years.

(In thousands)

At June 30, 2018 and 2017, FMOLHS had investments with restrictions of $329,272 and $335,245, respectively, which were restricted from redemption for lock-up periods. Some of the investments with restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2018, FMOLHS's investments with restrictions can be redeemed or sold as follows:

		Amount
Fiscal years:		
2019	$	310,675
2020		17,447
2021		—
2022		—
2023		—
2024–2027		—
Thereafter		1,150
Total	$	329,272

(c) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations. The consolidated trusteed bond funds as of June 30, 2018 and 2017 consist of the following categories:

		2018	2017
Principal and interest funds	$	26,429	20,863
Construction fund		79,444	138,341
Less amounts classified as other current assets		29,354	23,854
Noncurrent portion	$	76,519	135,350

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

(In thousands)

(d) Self-Insurance Trust Funds

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

(e) Other

Other assets limited as to use as of June 30, 2018 and 2017 consist of the following:

	2018	2017
Scholarships – by donor	$ 209	33
Healthcare services – by donor	13,549	13,541
Resident deposits	43	44
Escrow, security deposits, and surplus cash	172	171
Capital improvement – by grantor agency	677	630
	14,650	14,419
Less amounts classified as current	1,564	1,031
	$ 13,086	13,388

All investments are considered “trading” for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of revenues, gains, and other support in excess of expenses and losses in the consolidated statements of operations and changes in unrestricted net assets. The following schedule for the years ended

(In thousands)

June 30, 2018 and 2017 summarizes the investment return and its classification in the consolidated financial statements.

	Unrestricted	Temporarily restricted	Total
2018:			
Dividends and interest, net of expenses of $2,080	$ 12,604	2,224	14,828
Realized and unrealized gains, net	45,018	—	45,018
Investment return	$ 57,622	2,224	59,846
2017:			
Dividends and interest, net of expenses of $2,554	$ 6,105	748	6,853
Realized and unrealized gains, net	79,240	—	79,240
Investment return	$ 85,345	748	86,093

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

(3) Patient Receivables

The composition of net patient receivables at June 30, 2018 and 2017 is as follows:

	2018	2017
Patient accounts receivable	$ 362,397	442,766
Less allowance for uncollectible accounts	222,230	255,399
	$ 140,167	187,367

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

(Continued)

(In thousands)

(4) Other Current Assets

The composition of other current assets at June 30, 2018 and 2017 is as follows:

		2018	2017
Other receivables	$	20,134	21,687
Inventories		38,492	38,962
Prepaid expenses and other current assets		22,709	31,787
Assets limited as to use required for current liabilities		30,918	24,885
	$	112,253	117,321

(5) Property and Equipment

A summary of property and equipment as of June 30, 2018 and 2017 is as follows:

		2018	2017	Estimated useful lives
Land	$	132,149	126,298	—
Land improvements		25,327	25,343	2–40 Years
Buildings and building improvements		1,212,407	1,210,457	5–50 Years
Fixed equipment		96,213	119,739	3–50 Years
Movable equipment		702,593	774,581	3–25 Years
Leasehold improvements		18,383	19,379	5–15 Years
Construction in progress		140,311	35,345	—
		2,327,383	2,311,142	
Less accumulated depreciation		1,135,898	1,175,103	
	$	1,191,485	1,136,039	

At June 30, 2018, the FMOLHS Affiliates were obligated under purchase commitments of $60,872 relating to the completion of various construction projects and purchases of equipment. Approximately $5,300 and $3,382 related to such projects and other property additions are included in accounts payable at June 30, 2018 and 2017, respectively.

(In thousands)

(6) Other Assets

The composition of other assets at June 30, 2018 and 2017 is as follows:

		2018	2017
Investments in equity investees	$	62,520	61,438
Cost in excess of net assets acquired		111,011	106,595
Fair value of interest rate swap agreements		—	724
EPIC License and Build, net of accumulated amortization		49,932	40,559
Other		27,656	20,656
	$	251,119	229,972

(7) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2018 and 2017 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2018 and 2017 are as follows:

	Ownership interest		Investment in investees	Equity income (loss) of investees
2018:				
Convenient Care, LLC	50%	$	2,664	1,276
Surgical Specialty Center of Baton Rouge, LLC	49		7,004	6,828
Regional Eye Surgery Center LLC	13		325	318
Baton Rouge Physical Therapy – Lake	29		749	81
Lake Urgent Care Ascension – Lake	40		66	382
Premier Health Holdings, LLC	50		3,342	94
LHC Group Hospice	33		43	(4)
Innovation Institute	16		14,673	764
Baton Rouge Physical Therapy – St. Elizabeth	4		93	10
P&S Surgery Center, LLC	50		7,132	(90)
Northeast Louisiana Cancer Institute, LLC	50		3,421	725

(In thousands)

	Ownership interest		Investment in investees	Equity income (loss) of investees
Northeast Louisiana Physician Hospital Organization	25	$	130	(9)
Louisiana Home Care of Monroe, LLC	33		115	94
St. Francis Urgent Care	50		367	150
Lourdes After Hours, LLC	50		802	675
LHCG VIII	33		505	130
Park Place Surgery Center	45		5,861	4,213
H & S Land Company, LLC	50		228	—
Resource Optimization and Innovation, LLC	10		10,699	1,443
Lake Urgent Care Ascension – St. Elizabeth	27		44	255
Mary Bird Perkins Cancer Center – St. Elizabeth	35		3,116	328
InHealth	23		1,141	379
		$	62,520	18,042

	Ownership interest		Investment in investees	Equity income (loss) of investees
2017:				
Convenient Care, LLC	50%	$	2,862	1,439
Surgical Specialty Center of Baton Rouge, LLC	49		6,544	6,921
Regional Eye Surgery Center LLC	13		275	221
Baton Rouge Physical Therapy – Lake	29		727	40
Lake Urgent Care Ascension – Lake	30		318	249
Premier Health Holdings, LLC	50		3,248	(119)
LHC Group Hospice	33		14	(17)
Innovation Institute	16		14,009	(734)
Baton Rouge Physical Therapy – St. Elizabeth	4		90	5
P&S Surgery Center, LLC	50		11,018	407
Northeast Louisiana Cancer Institute, LLC	50		2,997	431

(Continued)

(In thousands)

	Ownership interest		Investment in investees	Equity income (loss) of investees
Northeast Louisiana Physician Hospital Organization	25	$	139	4
Louisiana Home Care of Monroe, LLC	33		81	98
St. Francis Urgent Care	50		216	56
Lourdes After Hours, LLC	50		526	490
LHCG VIII	33		466	103
Park Place Surgery Center	45		4,887	3,330
H & S Land Company, LLC	50		230	—
Resource Optimization and Innovation, LLC	10		9,256	(19)
Lake Urgent Care Ascension – St. Elizabeth	20		292	166
Mary Bird Perkins Cancer Center – St. Elizabeth	35		3,243	348
		$	61,438	13,419

(8) Lines of Credit

At June 30, 2018, the FMOLHS Affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $94,000, bearing interest at variable rates expiring at various dates through June 2019. The amount outstanding at June 30, 2018 was $5,000. No amount was outstanding at June 30, 2017. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

(9) Other Current Liabilities

The composition of other current liabilities at June 30, 2018 and 2017 is as follows:

		2018	2017
Accrued salaries and related expenses	$	80,694	73,794
Accrued interest		12,279	8,786
Due to third-party payors		35,637	28,478
Accrued expenses and other current liabilities		48,359	73,501
	$	176,969	184,559

(In thousands)

(10) Long-term Debt

A summary of long-term debt at June 30, 2018 and 2017 is as follows:

		2018	2017
Obligated group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds; due in varying installments through fiscal year 2026 with interest fixed at rates ranging from 5.50% to 5.75%	$	21,665	26,015
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005B, $50,000 tax-exempt bonds; due in varying installments from 2014 through fiscal year 2031, which bear interest at a variable rate (2.22% at June 30, 2018)		45,375	48,450
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2005D, $89,350 bonds due in varying installments through fiscal year 2029, which bear interest at a variable rate (2.20% at June 30, 2018)		60,375	64,000
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2008A, $47,185 bonds; due in varying installments through fiscal year 2026, which bear interest at a variable rate (2.25% at June 30, 2018)		42,775	44,175
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2012A, $56,530 bonds; due in varying installments through 2033, with interest fixed at 2.47%		56,395	56,530

(In thousands)

	2018	2017
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012B, $100,000 bonds; due in varying installments through 2043, with interest at fixed rates ranging from 4.00% to 5.00%	100,000	100,000
Louisiana Public Facilities Authority Hospital Revenue Refunding Bonds Series 2015A, $190,710; due in varying installments through 2040, with interest fixed rates ranging from 3.50% to 5.00%	189,560	190,710
Master Trust Indenture Note (Franciscan Missionaries of our Lady Health System Project) Series 2015B, Northern Trust Company Note; due in full on August 17, 2025, with variable interest rate at LIBOR plus 0.95% (2.93% at June 30, 2018)	35,160	35,160
Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A, $150,000 bonds; due in varying installments through fiscal year 2048, with fixed interest rates ranging from 3.75% to 5.00%	150,000	150,000
	701,305	715,040
Add unamortized premiums	29,828	30,989
Total Obligated Group bonds	731,133	746,029
Capital improvement financing	24,224	—
Other debt due in varying installments through 2033	9,483	9,497
Total long-term debt for FMOLHS	764,840	755,526
Less current installments of long-term debt	16,666	13,762
Less costs of issuance	7,398	8,010
	$ 740,776	733,754

In December 2017, Our Lady of the Lake, Inc. and Baton Rouge Hospital Energy Holdings I, LLC entered into an a concession agreement to manage and optimize the Lake's heating and cooling infrastructure, which will provide energy efficiencies and capacity. In association with the concession agreement, the Lake and BRHEH also entered into a thermal services agreement, with payment terms that will fund operating and maintenance cost, thermal services cost, and debt repayments for capital improvement financing. The concession agreement has a term of 20 years and as of June 30, 2018, the amount of borrowings under the agreement totaled $24,224.

FMOLHS and FMOLHS Affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (note 2). The total debt subject to the Obligated Group Guarantee and Master Trust Indenture amounted to $731,133 and $746,029 as of June 30, 2018 and 2017, respectively.

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property of FMOLHS or its affiliates.

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

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

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

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

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

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

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

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

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

On June 29, 2017, FMOLHS completed the issuance of $150,000 Louisiana Public Facilities Authority Hospital Revenue Bond Series 2017A. The proceeds of the bonds will be used for the purpose of (i) financing a portion of the cost of acquiring, constructing, furnishing, and equipping a new freestanding children's hospital in Baton Rouge, Louisiana and (ii) paying costs of issuance of the bonds.

FMOLHS and FMOLHS Affiliates made cash payments for interest of $28,631 and $19,343 during the years ended June 30, 2018 and 2017, respectively.

(In thousands)

Aggregate maturities of long-term debt at June 30, 2018 follow:

Year ending June 30:		
2019	$	16,666
2020		17,582
2021		16,917
2022		17,084
2023		17,174
Thereafter		649,589
	$	735,012

(11) Interest Rate Swaps

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

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

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

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

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

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

(In thousands)

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations and changes in unrestricted net assets. The net unrealized gain on the interest rate swaps for the years ended June 30, 2018 and 2017 was $3,435 and $5,998, respectively, and is included in nonoperating gains in the accompanying consolidated statements of operations and changes in unrestricted net assets.

The following is a summary of the contracts outstanding at June 30, 2018 and 2017 and are recorded, as applicable, in either other assets or other long-term liabilities:

	June 30, 2018					
Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	Increase (decrease) in interest expense	Swap fair value
2005D	$ 60,375	7/1/2028	3.53%	1.08%	1,465,318	(4,590)
2005D	60,375	7/1/2028	1.08	1.44	(208,068)	(410)
2008A	44,825	7/1/2025	3.66	1.08	1,156,976	(2,503)
2008A	44,825	7/1/2025	1.08	1.44	(154,032)	(200)

	June 30, 2017					
Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	Increase (decrease) in interest expense	Swap fair value
2005D	$ 64,000	7/1/2028	3.53%	0.52%	$ 1,932	(7,429)
2005D	64,000	7/1/2028	0.52	1.04	(329)	409
2008A	45,350	7/1/2025	3.66	0.52	1,425	(4,433)
2008A	45,350	7/1/2025	0.52	1.04	(233)	315

(In thousands)

(12) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by time and purpose at June 30, 2018 and 2017 are available for the following purposes:

		2018	2017
Healthcare services	$	50,131	37,733
Elderly housing		8,035	9,223
Building and equipment acquisitions		—	116
Educational services		7,000	6,594
Other		410	41
	$	65,576	53,707

Permanently restricted net assets totaled $5,450 and $5,482 at June 30, 2018 and 2017, the income from which is restricted for educational services.

Net assets released from restrictions for the years ended June 30, 2018 and 2017 are as follows:

		2018	2017
Healthcare services	$	4,107	2,856
Elderly housing		203	399
Educational services and other		1,389	1,463
	$	5,699	4,718

(13) Net Patient Service Revenue

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

(a) Medicare

Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies. The FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary. The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2011 to June 30, 2015.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost-reimbursement methodology. The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary. The FMOLHS Affiliates' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2005 to June 30, 2013.

(c) Blue Cross

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

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

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

The FMOLHS Affiliates' net patient service revenue for the years ended June 30, 2018 and 2017 increased $454 and $7,648, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, and prior year retroactive adjustments.

With the reduction of prepayment reviews, including recovery audit contractor (RAC) reviews by the CMS, the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service. Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue decreased by $2,020 and increased by $3,466 for the years ended June 30, 2018 and 2017, respectively.

(In thousands)

Presented below is a summary of amounts comprising net patient service revenue for the years ended June 30, 2018 and 2017:

		2018	2017
Inpatient revenue	$	2,661,784	2,310,664
Outpatient revenue		3,541,259	3,332,130
Gross patient service revenue		6,203,043	5,642,794
Less:			
Provision for contractual and other adjustments		4,184,124	3,773,898
Provision for uncollectible accounts		123,487	91,838
Net patient service revenue	$	1,895,432	1,777,058

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

		2018	Percentage		2017	Percentage
Medicare	$	658,878	33%	$	508,142	27%
Medicaid		458,743	23		383,857	21
Blue Cross		485,675	24		452,928	24
Self-pay		63,461	3		41,730	2
Managed care/other		352,162	17		482,239	26
	$	2,018,919	100%	$	1,868,896	100%

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

(14) Business and Credit Concentrations

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

(In thousands)

The mix of accounts receivable from patients and third-party payors at June 30, 2018 and 2017 is as follows:

	2018	2017
Medicare	30%	31%
Medicaid	14	9
Blue Cross	27	22
Self-pay	3	8
Managed care/other	26	30
	100%	100%

(15) Related-Party Transactions

The FMOL Sisters formed the Franciscan Fund (the Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs. Grant-making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back its specific contribution amounts in the form of a formal grant from the Fund. During 2018, no contributions were made to the Fund. During 2017, $8,000 contributions were made to the Fund.

The affiliation agreement between FMOLHS and Mary Bird Perkins Cancer Center was effective July 1, 2012. This agreement is to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services. The cost of this program is shared by both entities, and the operating expense for FMOLHS for the years ended June 30, 2018 and 2017 was $851 and $532, respectively.

During 2013, FMOLHS entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services. The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel. During 2018, FMOLHS entered into additional Management Services agreement with Mary Bird Perkins Cancer Center to manage business operations of new Gamma Knife Center treatment services. The management services and staffing expenses for both agreements incurred for the years ended June 30, 2018 and 2017 were $5,532 and $6,342, respectively.

Effective February 2012, FMOLHS amended the Operating Agreement with Resource Optimization & Innovation, LLC, which is organized to facilitate and administer the purchasing, manufacturing, processing, and distribution of medical and pharmaceutical products and services at competitive prices. FMOLHS's ownership percentage in Resource Optimization & Innovation, LLC is 9.45%, and the equity in income (loss) from this equity investee for the years ended June 30, 2018 and 2017 was $1,443 and $(19), respectively.

(In thousands)

The Lake contributed $3,800 (50% ownership interest) to Premier Health Holdings, LLC, which was formed on December 31, 2014. Premier Health Holdings, LLC owns, leases, and provides management services for urgent care centers. Management and consulting services are provided to urgent care centers owned or partially owned by the Lake, St. Elizabeth, and Lourdes. The Lake also owns 50% of Convenient Care, LLC, and some members with ownership in the remaining 50% of Convenient Care, LLC also have an ownership interest in Premier Health Holdings, LLC. In December 2016, Premier Health Holdings, LLC signed a $5,400 Line of Credit note with the Lake. The balance drawn, and due to the Lake, was $2,850 and $3,900 at June 30, 2017 and 2018, respectively.

The president of St. Dominic Hospital serves as a member of the board of trustees at FMOLHS. See footnote 23 for a description of the related St. Dominic Health Services, Inc. transaction.

In December 2017, Our Lady of the Lake, Inc. and Baton Rouge Hospital Energy Holdings I, LLC entered into an agreement to manage and optimize the Lake's heating and cooling infrastructure, which will provide energy efficiencies and capacity. The former CEO of Bernhard Energy Solutions is a member of FMOLHS's board of trustees.

(16) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans). The following tables at June 30, 2018 and 2017 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

		2018	2017
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$	1,021,455	992,486
Service cost		22,535	23,398
Interest cost		35,822	32,208
Actuarial (gains) losses		(7,141)	2,870
Benefits paid		(29,962)	(29,507)
Projected benefit obligation, end of year		1,042,709	1,021,455
Change in plan assets:			
Fair value of plan assets, beginning of year		555,777	481,174
Actual return on plan assets		35,426	56,041
Contributions made		35,100	48,069
Benefits paid		(29,962)	(29,507)
Fair value of plan assets, end of year		596,341	555,777
Funded status	$	(446,368)	(465,678)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost	$	(446,368)	(465,678)

(In thousands)

		2018	2017
Amounts recognized in unrestricted net assets:			
Prior service cost	$	446	420
Net actuarial loss		251,747	279,549
	$	252,193	279,969

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2018 and 2017 were as follows:

	2018	2017
Weighted average discount rate:		
The Lake (including FMOLHS and St. Elizabeth)	4.34%	4.06%
Lourdes	4.31	4.01
St. Francis	4.30	3.99
Rate of compensation increase	3.00–4.00	3.00–4.00

Net periodic pension cost for the years ended June 30, 2018 and 2017 includes the following components:

		2018	2017
Service cost, benefits earned during the year	$	22,535	23,398
Interest cost on projected benefit obligation		35,822	32,207
Expected return on plan assets		(41,846)	(35,978)
Amortization of actuarial losses		27,080	35,094
Amortization of prior service cost		(25)	(25)
Net periodic pension cost		43,566	54,696
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:			
Net actuarial loss		(721)	(17,194)
Amortization of net actuarial losses		(27,080)	(35,093)
Amortization of prior service cost		25	25
		(27,776)	(52,262)
Total recognized in net periodic benefit costs and unrestricted net assets	$	15,790	2,434

(In thousands)

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Weighted average discount rate:		
The Lake (including FMOLHS and St. Elizabeth)	4.06%	4.02%
Lourdes	4.01	3.95
St. Francis	3.99	3.92
Expected return on plan assets:		
The Lake (including FMOLHS and St. Elizabeth)	7.50%	7.50%
Lourdes	7.50	7.50
St. Francis	7.50	7.50
Rate of compensation increase:		
The Lake (including FMOLHS and St. Elizabeth)	3.0%–4.0%	3.0%–4.0%
Lourdes	3.0–4.0	3.0–4.0
St. Francis	3.0–4.0	3.0–4.0

The defined-benefit pension plan asset allocation as of the measurement date (June 30, 2018 and 2017) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2018	2017	Target allocation
Growth	51%	47%	45%–60%
Diversifiers	23	24	15–33
Inflation Sensitive	9	10	0–10
Liability Hedge	16	13	10–25
Cash	1	6	0–5

The allocation percentages above reflect investments recognized by investee funds within one day of year-end.

FMOLHS's overall expected long-term rate of return on assets is 7.50%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments.

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

(In thousands)

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

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

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2018 and 2017:

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category:				
Cash	$ 40,289	—	—	40,289
Equity:				
U.S. equity	37,856	—	—	37,856
Non-U.S. equity	36,180	—	—	36,180
Real assets	30,944	—	—	30,944
Fixed income	58,203	—	—	58,203
Assets measured at NAV(1)	—	—	—	392,869
Total	$ 203,472	—	—	596,341

(In thousands)

(1) Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 32,725	—	—	32,725
Equity securities:				
U.S. equity	32,338	—	—	32,338
Non-U.S. equity	59,925	—	—	59,925
Real assets	26,819	—	—	26,819
Fixed income	46,362	20,020	—	66,382
Assets measured at NAV(1)	—	—	—	337,588
Total	$ 198,169	20,020	—	555,777

(1) Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

There were no transfers into or out of Level 1, Level 2, or Level 3 investments during fiscal year 2018 or 2017.

The fair values of the following plan assets have been estimated using the NAV per share as of June 30, 2018 and 2017:

	2018	2017	Redemption terms**	Notice period (Days)	Remaining life**
Asset category:					
U.S. equity funds (a)	$ 84,286	73,931	Monthly–Quarterly	30–60	—
International equity funds (b)	41,957	34,648	Monthly	50–10	—
International emerging markets (c)	28,906	36,396	Monthly	30	—
Fixed-income funds (d)	36,410	7,650	Monthly–illiquid	15–illiquid	1–2 years
Hedge fund of funds (e)	136,466	130,967	Monthly–annually	3–180	—

(In thousands)

	2018	2017	Redemption terms**	Notice period (Days)	Remaining life**
Real asset funds (f)	$ 22,717	21,304	Monthly	30	—
U.S. venture capital funds (g)	4,884	5,101	—	—	1–3 Years
U.S. private equity (g)	10,386	5,627	—	—	1–8 Years
International private equity (g)	16,098	13,182	—	—	1–11 Years
Natural resources (g)	6,307	5,392	—	—	1–8 Years
Real estate funds (g)	4,452	3,390	—	—	7 Years
Total	$ 392,869	337,588			

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

(a) Objective is to drive overall portfolio growth while also outperforming the Russell 3000 Index with similar levels of risk.

(b) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.

(c) Objective is to drive overall portfolio growth while also outperforming the MSCI Emerging Markets Index (Net) with similar levels of risk.

(d) Objective is to ensure a liquid source of capital for spending and/or rebalancing during a period of economic contraction by investing primarily in high-quality bonds of sufficient duration.

(e) Objective is to reduce the volatility inherent in a portfolio with an equity bias while providing: 1) a return between that of equities and bonds, 2) lower volatility than equity markets, and 3) low correlation to other portfolio assets.

(f) Objective is to ensure a liquid source of capital for spending during periods of high, unanticipated inflation by investing in assets that tend to respond favorably in such an environment.

(g) Objective is to drive growth while capturing an “illiquidity premium” above that of public equity markets for locking up capital for an extended period of time.

(In thousands)

At June 30, 2018, FMOLHS's remaining outstanding commitments to private equity interests within the plan assets totaled $51,549. The projected capital calls for the next five fiscal years and thereafter are summarized in the table below:

	Projected capital calls
Fiscal year:	
2018	$ 17,890
2019	15,149
2020	8,751
2021	5,877
2022	3,788
Thereafter	94
	$ 51,549

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2018, the average remaining life of the private equity interests in the plan assets is approximately 4.6 years.

At June 30, 2018, FMOLHS had plan assets of $210,676 which were restricted from redemption for lock-up periods. Some of the investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days' notice after the initial lock-up period.

Based upon the terms and conditions in effect at June 30, 2018, FMOLHS's plan assets investments with restrictions can be redeemed or sold as follows:

	Amount
Fiscal year:	
2019	$ 199,713
2020	10,249
2021	—
2022	—
2023	—
Thereafter	714
	$ 210,676

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

(In thousands)

As of June 30, 2018 and 2017, the Plans had accumulated benefit obligations (ABO) of $971,165 and $932,626, respectively. At June 30, 2018 and 2017, the fair value of plan assets falls short of the ABO by $374,823 and $376,848, respectively.

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $(22,834) and $(27,055), respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2018 are as follows:

Year(s) ending June 30:		
2019	$	35,349
2020		39,063
2021		42,361
2022		45,517
2023		48,460
2024–2028		281,250

(b) *Defined Contribution Plans*

The FMOLHS Affiliates sponsor 403(b) and 401(k) plans, which were closed to new entrants in 2006. No contributions are made to the plans by the FMOLHS Affiliates.

A new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan. The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates. Contribution expense of $14,511 and $12,915 was recorded for the years ended June 30, 2018 and 2017, respectively.

(c) *Retiree Medical Plan*

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder. The healthcare plan is funded on a pay-as-you-go basis. Lourdes retains the right to modify or terminate the benefits and/or cost-sharing provisions. The accrued liability for such benefits was approximately $301 and $394 at June 30, 2018 and 2017, respectively, and is included in other long-term liabilities.

(In thousands)

(17) Functional Expense

The FMOLHS Affiliates provide healthcare and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2018 and 2017 are as follows:

		2018	2017
Healthcare services	$	1,463,078	1,225,923
General and administrative		528,965	690,871
Educational services		21,578	22,115
Fund-raising		5,519	6,757
	$	2,019,140	1,945,666

(18) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2018 and 2017.

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2018 and 2017 are summarized as follows:

		2018		2017	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Liabilities – long-term debt	$	757,441	789,073	747,516	796,681

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

(In thousands)

(b) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2018 and 2017:

		June 30, 2018		
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
Global equity	$ —	—	—	—
U.S. Equity	110,566	—	—	110,566
Non-U.S. Equity	59,815	—	—	59,815
Real assets	40,052	—	—	40,052
Fixed income	63,428	79,884	—	143,312
Assets measured at NAV				116,870
Total – categorized	$ 273,861	79,884	—	470,615
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				655,677
				1,126,292
Liabilities:				
Interest rate swaps	$ —	7,703	—	7,703

(In thousands)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets category:				
Equity securities:				
Global equity	$ —	46,837	—	46,837
US Equity	63,617	16,556	—	80,173
Non-US Equity	93,884	—	—	93,884
Real assets	34,644	—	—	34,644
Fixed income	67,126	73,405	—	140,531
Interest rate swaps and other	—	866	—	866
Assets measured at NAV				48,924
Total – categorized	$ 259,271	137,664	—	445,859
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				685,177
				1,131,036
Liabilities:				
Interest rate swaps	$ —	11,862	—	11,862

The fair values of the following investments have been estimated using the NAV per share as of June 30, 2018 and 2017:

	2018	2017	Redemption terms**	Notice period (Days)	Remaining life**
Asset category:					
U.S. Equities (a)	$ 18,987	—	Monthly	30	—
International Equity (b)	69,927	24,146	Monthly	5	—
Real Assets – Inflation Sensitive (c)	27,956	24,779	Monthly	30	—
Totals	$ 116,870	48,925			

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

(a) Objective is to drive overall portfolio growth while also outperforming the Russell 3000 Index with similar levels of risk.

(b) Objective is to drive overall portfolio growth while also outperforming MSCI EAFE Index (Net) with similar levels of risk.

(c) Objective is to ensure a liquid source of capital for spending during periods of high, unanticipated inflation by investing in assets that tend to respond favorably in such an environment.

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2018 or 2017.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of FMOLHS's interest therein, its classification in Level 2 is based on FMOLHS's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.
- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) Limitations

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

(19) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expenses provided by law). FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer. As of June 30, 2018, FMOLHS has excess insurance coverage in place for general and professional liability risks, with a $2,000 self-insured retention for professional liability and a $1,000 layer of self-insurance for general liability. A $6,000 aggregate sits above these limits, covering general and professional liability. Incurred losses identified under FMOLHS's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations, such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The reserve for estimated professional and general liability, and worker's compensation costs is approximately $27,118 and $27,025 as of June 30, 2018 and 2017, respectively. Claims liabilities are estimated at a present value of future claims payments using a discount rate of 3%.

(In thousands)

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2018. To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

FMOLHS is also self-insured with respect to employee health coverage (up to $500 limit per claim) and workers' compensation (up to a limit of $450 per individual claim). Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program. The employee health self-insured reserves are approximately $9,205 and $6,668 as of June 30, 2018 and 2017, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately $12,149 and $12,089 as of June 30, 2018 and 2017, respectively, and are included in other current liabilities in the consolidated balance sheets.

(20) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities under operating leases. The terms of these leases range from month to month to 20 years. Assets held for lease at June 30, 2018 and 2017 consist of buildings and improvements with an original cost of $232,843 and $235,505, respectively, and fixed equipment with an original cost of $11,883 and $23,217, respectively. Total accumulated depreciation is $134,285 and $142,640 at June 30, 2018 and 2017, respectively. Future minimum lease payments to be received at June 30, 2018 are as follows:

Year ending June 30:	
2019	$ 10,152
2020	7,680
2021	7,014
2022	6,905
2023	6,665
Thereafter	34,749
	$ 73,165

(In thousands)

(21) Commitments and Contingencies

(a) Investments

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

(b) Capital Leases

As of June 30, 2018, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year. Future minimum lease payments as of June 30, 2018 are as follows:

Year ending June 30:		
2019	$	4,005
2020		2,939
2021		2,950
2022		2,890
2023		2,791
Thereafter		6,311
Total minimum lease payments		21,886
Less amounts representing interest		6,168
Present value of future minimum lease payments		15,718
Less current portion of capital lease obligations		2,569
Capital lease obligations excluding current portion	$	13,149

The net book value of assets under capital lease as of June 30, 2018 and 2017 was $14,139 and $23,093, respectively.

For the years ended June 30, 2018 and 2017, FMOLHS entered into new capital leases for equipment in the amounts of $1,238 and $3,863, respectively.

(In thousands)

(c) Operating Leases – Lessee

Rental expense for all operating leases totaled $26,618 and $25,632 for the years ended June 30, 2018 and 2017, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2018 follow:

Year ending June 30:		
2019	$	16,577
2020		13,839
2021		12,801
2022		12,167
2023		14,034
Thereafter		6,176
	$	75,594

(d) Asset Retirement Obligations

FMOLHS recognizes obligations associated with the future retirement of long lived assets. Estimated asset retirement obligations of $2,035 and $2,038 for the years ended June 30, 2018 and 2017, respectively, are classified as other long-term liabilities.

(e) Contingent Liabilities

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

(f) Regulatory Compliance

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

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

(22) Cooperative Endeavor Agreements

(a) Our Lady of the Lake Cooperative Endeavor Agreement

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

- The Lake constructed a medical education building (MEB) to house LSU training programs (which was donated by the Lake to LSU at completion of construction), expanded its clinical capacity by 60 licensed beds, and implemented a Trauma Center. The Lake recorded $1,852 in other current liabilities in the consolidated balance sheets as of June 30, 2018 and 2017 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.
- DHH provided payments under a reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that have occurred with the Lake's increased role in LSU's graduate medical education program. The supplemental hospital payments received through June 30, 2018 were based on estimated costs for Medicaid and uninsured patients. A reconciliation of all costs and payments for fiscal year ended June 30, 2018 made pursuant to this agreement will occur in fiscal year 2018. For the years ended June 30, 2018 and 2017, the Lake recorded additional net patient service revenues less the estimated amounts for retroactive adjustments under the agreement of $55,080 and $94,460, respectively.

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

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities. Lease agreements were implemented for LSU Health outpatient facilities and equipment.
- GME program amendments were implemented for assignment of GME reimbursement caps.
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics.
- For the years ended June 30, 2018 and 2017, the amount paid to LSU for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $54,456 and $55,935, respectively.

(b) Our Lady of Angels Cooperative Endeavor Agreement

Angels entered into an agreement with the DHH and LSU in January 2014. Angels receives disproportionate share payments and other supplemental payments from DHH to cover costs associated with higher Medicaid and uninsured patient volumes for this service area. The commencement date for patient care services for Angels was March 7, 2014. For the years ended June 30, 2018 and 2017, Angels recorded additional net patient service revenue of $29,694 and $31,730, respectively.

The major components of the Angels' agreement include:

- Angels leases facilities and equipment and manages the operations of the hospital and outpatient facilities.
- Angels agrees to continue the graduate medical education and training programs in Bogalusa, Louisiana.
- Angels established clinical services agreements, including the LSU School of Medicine, to provide professional services at the hospital and outpatient facilities.
- For the years ended June 30, 2018 and 2017, the amount paid to LSU for leased buildings and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $12,339 and $11,695, respectively.

(23) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through October 19, 2018, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose, except as follows:

Effective July 31, 2018, St. Francis Medical Center acquired the remaining 50% equity interest in P&S Surgery Center LLC for $7,132. Prior to the acquisition, St. Francis Medical Center's equity investment percentage was 50%.

Lourdes has entered into a letter of intent to purchase Women's & Children's Hospital from HCA Healthcare, which includes the Elaine M. Junca Woman's Imaging Centre, Lafayette Surgicare, The Cancer & Infusion Center, Kid's Specialty Center and physician clinics. A final sales agreement is expected to occur in fiscal year 2019.

FMOLHS entered into exclusive discussions with St. Dominic Health Services, Inc. in Jackson, Mississippi to assume sponsorship of this health system. St. Dominic's Health Services, Inc. includes an acute care facility and other ambulatory and community-based services. A final sale agreement for both acquisitions is expected occur in fiscal year 2019.

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

October 19, 2018

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

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements Franciscan Missionaries of Our Lady Health System, Inc. (the System), for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Although not considered to be significant deficiencies or material weaknesses, we noted the following items during our audit which we would like to bring to your attention.

Incorrect Data Utilized in the Actuarial Valuation

During our audit we noted errors in the census data utilized in estimating the accrued pension costs. These errors included incorrect benefit commencement dates, incorrect benefit amounts, incorrect dates of birth, and individuals mistakenly included in the census data listing, which occurred due to manual entry of the census data input fields.

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We understand that management is implementing corrective actions and we recommend that management continue to strengthen its process and procedures to ensure its census data is accurate.

Management's Response

The System and pension consulting firm have instituted new valuation data procedures, which will reduce manual entry beginning with the 2018 census data file. An additional audit will be conducted to confirm participant inclusion, commencement date and dates of birth for the historical information.

* * * * * * *

We would be pleased to discuss our comment and recommendation with you at any time.

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

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

Very truly yours,

KPMG LLP

Baton Rouge, Louisiana
October 19, 2018

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301 Main Street
Baton Rouge, LA 70801

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc., and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2018 and 2017, and the changes in net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of Franciscan Missionaries of Our Lady Health System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franciscan Missionaries of our Lady Health System, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Baton Rouge, Louisiana
October 19, 2018

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

Report on Federal Awards in Accordance with the Uniform Guidance

Year Ended June 30, 2018

(With Independent Auditors' Report Thereon)

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

KPMG LLP

Jackson, Mississippi
October 19, 2018

KPMG LLP
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Jackson, MS 39201-2127

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

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

Report on Compliance for Each Major Federal Program

We have audited Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations' (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2018. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively expended $11,170,728 in federal awards, which is not included in the System's accompanying schedule of expenditures of federal awards for the year ended June 30, 2018. Our audit, described below, did not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with the Uniform Guidance.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2018-01. Our opinion on each major federal program is not modified with respect to these matters.

The System's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

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

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

KPMG

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

We have audited the consolidated financial statements of the System as of and for the year ended June 30, 2018, and have issued our report thereon dated October 19, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Jackson, Mississippi
October 19, 2018

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM
AND AFFILIATED ORGANIZATIONS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal sponsor/Program title	Federal CFDA number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster*						
U S Department of Education						
Federal Work-Study (FWS)	84 033			$ 34,368	—	34,368
Federal Supplemental Education Opportunity Grant (FSEOG)	84 007			55,464	—	55,464
Federal Pell Grant Program (PELL)	84 063			1,609,733	—	1,609,733
Federal Direct Student Loans (Direct Loan)	84 268			15,167,225	—	15,167,225
Total Student Financial Aid Cluster				16,866,790	—	16,866,790
Other Financial Assistance						
U S Department of Education						
U S Department of Transportation						
Enhanced Mobility of Seniors and Individuals with Diabilities	20 513	L16-X-004 L16-X-006	Louisiana Dept of Transportation	—	100,880	100,880
U S Department of Housing and Urban Development						
Supportive Housing Program (SHP)	14 235	LA0100L6H041306	City of Baton Rouge	—	48,965	48,965
Housing Opportunities for Persons with AIDS	14 241	HOPWA-12-0003	City of Baton Rouge	—	248,293	248,293
Total U S Department of Housing and Urban Development				—	297,258	297,258
U S Department of Health and Human Services						
Nurse Anesthestist Traineeships	93 124			36,500	—	36,500
Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Ryan White Part D)	93 153			361,662	—	361,662
Affected Family Members AIDS Healthcare	93 153	H12HA24808	Louisiana State University Health System	—	160,430	160,430
Total CFDA				361,662	160,430	522,092
Assumption Community Hospital – Ebola Hospital Preparedness Program (HHP)	93 817	not available	Louisiana Hospital Association	—	14,624	14,624
OLOL – National Bioterrorism Hospital Perparedness Program	93 889	059583	Louisiana Hospital Association	—	36,801	36,801
Lourdes – National Bioterrorism Hospital Perparedness Program	93 889	059583	Louisiana Hospital Association	—	96,900	96,900
St Francis Medical Center – National Bioterrorism Hospital Perparedness Program	93 889	059583	Louisiana Hospital Association	—	28,198	28,198
SFMC Health and Human Services (HHS) Affordable Care Act	93 889		Louisiana Hospital Association	—	95,000	95,000
Total CFDA				—	256,899	256,899
HIV Emergency Relief (Ryan White Part A)	93 914	H89HA11432	City of Baton Rouge	—	438,215	438,215
Aids United/The Fenway Institute	93 914	U69HA310670100	Aids United	—	2,966	2,966
Total CFDA				—	441,181	441,181
OLOL – Early Intervention (Ryan White Part C)	93 918			347,285	—	347,285
Total U S Department of Health and Human Services				745,447	873,134	1,618,581
U S Department of Homeland Security						
Corporation for National and Community Service						
Senior Companion Program (SCP)	94 016			166,252	—	166,252
Total federal expenditures				$ 17,778,489	1,271,272	19,049,761

* Denotes a major program

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System) under programs of the federal government for the year ended June 30, 2018. The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively expended $11,170,728 in federal awards, which is not included in the Schedule. The amounts reported as federal expenditures were obtained from the System's general ledger. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the System.

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

(2) Summary of Significant Accounting Policies

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

(3) Federal Direct Student Loans

The System's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by students during fiscal year 2018, which were not made by the System. The System is responsible only for the performance of certain administrative duties with respect to its Direct Loans Program, and accordingly, these loans are not included in its consolidated financial statements. The System is not required to maintain the balance of the loans outstanding to students and former students of the System under these programs. Such balances are maintained and administered by the lenders and guarantors of these loans.

(Continued)

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

During the year ended June 30, 2018, the System advanced the following amounts of new loans under the Direct Loan Program:

	CFDA number		Amount expended
Unsubsidized direct loans	84.268	$	7,229,225
Direct loans	84.268		2,474,051
Parents' loans for undergraduate students	84.268		783,920
Parents' loans for graduate students	84.268		4,680,029
Total		$	15,167,225

(4) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the System's 2018 consolidated financial statements as follows:

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the System	$	2,180,839
Federal Supplemental Education Opportunity Grant – agency transactions		55,464
Federal Pell Grant Program – agency transactions		1,609,733
Federal Direct Student Loans (Direct Loan) – agency transactions		15,167,225
Nurse Anesthetists Traineeships – agency transactions		36,500
Federal expenditures per the Schedule	$	19,049,761

(5) Matching Expenditures

Although not included on the Schedule, the System incurred matching expenditures of the following during the year ended June 30, 2018:

Our Lady of the Lake Hospital (Livingston) – National Bioterrorism Hospital Preparedness Program	$	2,820
PACE – Department of Transportation Federal Transit Administration Grant – Enhanced Mobility of Seniors and Individuals with Disabilities		36,954
St. Francis Medical Center – National Bioterrorism Hospital Preparedness Program		2,820
Total matching expenditures	$	42,594

(6) Expenditures of Federal Awards to Subrecipients

The System did not pass through any expenditures of federal awards to subrecipients during 2018.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

(1) Summary of Auditor's Results

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

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

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

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

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

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

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

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

(g) Major programs:

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

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

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

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 2018-01 Special Tests and Provisions – Disbursement Notification

Federal Agency:

U.S. Department of Education

CFDA Number:

84.268

Program:

Student Financial Aid Cluster

Award Year:

July 1, 2017 through June 30, 2018

Criteria

Under the Student Financial Aid Cluster, schools must notify students when federal funds are credited to the students' accounts in accordance with 34 CFR section 668.165. Following disbursement of Direct Loans, FPL, TEACH, and FFEL, schools must notify students or their parents, in writing, of the amount and type of funds that have been credited to the student's account. This notification must also state the student's ability to cancel all or a portion of these funds and the process to do so. Schools with an affirmative confirmation process must notify students within 30 days before or 30 days after the funds are disbursed.

Condition

During our test work over the Student Financial Aid Cluster, we selected a sample of 25 students who had received financial aid funding during the fiscal year. Within our sample, we noted 1 instance in which a student was not notified of a Direct Loan being credited to her account for the summer 2018 semester.

Cause

The Senior Financial Aid Counselor receives a weekly report listing all students who had financial aid funds allocated to their accounts. This report is in excel and lists the student's email and the type, amount, and date of each disbursement. She then uses Mail Merge within Microsoft Word to send out personalized emails to these students from her email account. The emails are automatically personalized for each student's name and email address with amount and type of funds disbursed as listed in the report. The student who did not receive notification was on the list of students who received disbursements and was on the list linked to Mail Merge. A Mail Merge issue caused her email to not be sent. Lack of a control checking that all students with disbursements were sent notification emails through Mail Merge prevented this student from being sent the appropriate notification.

Questioned Cost

None identified.

Effect

Noncompliance resulted in the student not being notified funding was credited to their account. Additionally, the student did not receive the information on their right to cancel all or part of this funding.

Recommendation

We recommend that the University add a control to verify all students who received loan disbursements and were on the Mail Merge list were actually sent the appropriate notification within the required timeframes.

Management Response

We concur with the finding. Management has updated the University's procedures to include a process whereby the disbursement roster is verified against the award list during the mail merge process. The senior financial aid counselor currently prints copies of all disbursement emails. Effective immediately, the senior financial aid counselor will pass the printed copies to another financial aid counselor for comparison to the initial disbursement roster. Upon completion of verification, the financial aid counselor will sign off on the roster confirming all emails were processed. Should any student on the disbursement roster not have a disbursement email, notice will be given to the senior financial aid counselor who will proceed with creation of the email. University personnel will also research using the Communications Management module within Colleague to automate and track this process.

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

Corrective Action Plan

Year ended June 30, 2018

Finding No. 2018-01 Special Tests and Provisions – Disbursement Notification

Federal Agency:

U.S. Department of Education

CFDA Number:

84.268

Program:

Student Financial Aid Cluster

Award Year:

July 1, 2017 through June 30, 2018

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Condition

During our test work over the Student Financial Aid Cluster, we selected a sample of 25 students who had received financial aid funding during the fiscal year. Within our sample, we noted 1 instance in which a student was not notified of a Direct Loan being credited to her account for the summer 2018 semester.

Cause

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Questioned Cost

None identified.

Effect

Noncompliance resulted in the student not being notified funding was credited to their account. Additionally, the student did not receive the information on their right to cancel all or part of this funding.

Recommendation

We recommend that the University add a control to verify all students who received loan disbursements and were on the Mail Merge list were actually sent the appropriate notification within the required timeframes.

Management Response

We concur with the finding. Management has updated the University's procedures to include a process whereby the disbursement roster is verified against the award list during the mail merge process. The senior financial aid counselor currently prints copies of all disbursement emails. Effective immediately, the senior financial aid counselor will pass the printed copies to another financial aid counselor for comparison to the initial disbursement roster. Upon completion of verification, the financial aid counselor will sign off on the roster confirming all emails were processed. Should any student on the disbursement roster not have a disbursement email, notice will be given to the senior financial aid counselor who will proceed with creation of the email. University personnel will also research using the Communications Management module within Colleague to automate and track this process.

Corrective Action Plan

Name of contact person responsible for corrective action: Terry Martin, Director of Financial Aid

Corrective Action Planned: The Financial Aid office will implement a change in their process for student notification of awards. The senior financial aid counselor will provide printed copies of all disbursement emails, along with the disbursement roster, to another financial aid counselor within the department for verification. The financial aid counselor will validate that each student who received awards has been issued an email notification of the award. To confirm the validation, the financial aid counselor will initial the disbursement roster indicating the verification took place.

Anticipated Completion Date: October 15, 2018