St. Jude Children's Research Hospital, Inc. American Lebanese Syrian Associated Charities, Inc.

Combined Financial Statements as of and
for the Years Ended June 30, 2016 and 2015,
and Independent Auditors' Report

ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
St. Jude Children's Research Hospital, Inc. and
the Board of Directors of
American Lebanese Syrian Associated Charities, Inc.

We have audited the accompanying combined financial statements of St. Jude Children's Research Hospital, Inc. and its wholly owned subsidiaries and American Lebanese Syrian Associates Charities, Inc. (affiliated organizations and collectively, the Organization), which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined 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 combined financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization as of June 30, 2016 and 2015, and the changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 5, 2016

ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CASH AND CASH EQUIVALENTS	$ 184,235,260	$ 116,511,932
RECEIVABLES:		
Contributions	21,072,936	19,033,080
Patient care services—net	20,669,808	15,768,242
Grants and contracts	18,181,367	16,106,541
Other	1,352,902	1,797,536
UNRESTRICTED INVESTMENTS	2,241,263,443	2,350,160,301
RESTRICTED INVESTMENTS	930,713,936	934,101,271
ASSETS LIMITED AS TO USE	208,954,943	12,471,495
PROPERTY AND EQUIPMENT—Net	706,142,367	649,491,352
OTHER ASSETS	23,827,180	28,542,509
TOTAL	$ 4,356,414,142	$ 4,143,984,259
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 78,112,544	$ 62,026,196
Accrued expenses	58,800,205	58,231,886
Annuity obligations	35,166,309	35,904,483
Debt	211,247,710	217,271,404
Other liabilities	15,170,447	15,306,319
Total liabilities	398,497,215	388,740,288
NET ASSETS:		
Unrestricted	3,019,955,372	2,814,919,510
Temporarily restricted	64,904,956	66,439,327
Permanently restricted	873,056,599	873,885,134
Total net assets	3,957,916,927	3,755,243,971
TOTAL	$ 4,356,414,142	$ 4,143,984,259

See notes to combined financial statements.

ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:								
Support:								
Contributions	$ 925,809,774	$ 4,047,554	$ 167,301	$ 930,024,629	$ 852,223,022	$ 5,813,657	$ 17,360	$ 858,054,039
Bequests	214,374,296	-	2,174,418	216,548,714	190,705,389	34,000	2,953,280	193,692,669
Special events—net	15,795,350	-	-	15,795,350	13,014,260	-	-	13,014,260
Total support	1,155,979,420	4,047,554	2,341,719	1,162,368,693	1,055,942,671	5,847,657	2,970,640	1,064,760,968
Revenues:								
Net patient service revenue	114,471,276	-	-	114,471,276	105,576,630	-	-	105,576,630
Research grants and contracts	88,797,019	-	-	88,797,019	85,346,636	-	-	85,346,636
Net investment income (loss)	(1,717,379)	(502,612)	(72,118)	(2,292,109)	18,510,006	1,261,766	8,222,632	27,994,404
Net assets released from restrictions	8,177,449	(5,079,313)	(3,098,136)	-	59,164,468	(6,752,255)	(52,412,213)	-
Other revenues	19,885,696	-	-	19,885,696	16,172,808	-	-	16,172,808
Total revenues	229,614,061	(5,581,925)	(3,170,254)	220,861,882	284,770,548	(5,490,489)	(44,189,581)	235,090,478
Total revenues, gains, (losses) and other support	1,385,593,481	(1,534,371)	(828,535)	1,383,230,575	1,340,713,219	357,168	(41,218,941)	1,299,851,446
EXPENSES:								
Program services:								
Patient care services	389,040,517	-	-	389,040,517	367,779,303	-	-	367,779,303
Research	357,418,656	-	-	357,418,656	339,670,870	-	-	339,670,870
Education, training, and community services	96,250,622	-	-	96,250,622	82,502,706	-	-	82,502,706
Total program services	842,709,795	-	-	842,709,795	789,952,879	-	-	789,952,879

(Continued)

ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Supporting services:								
Fundraising	$ 202,203,569	$ -	$ -	$ 202,203,569	$ 188,275,287	$ -	$ -	$ 188,275,287
Administrative and general—Hospital	38,425,175	-	-	38,425,175	38,583,921	-	-	38,583,921
Administrative and general—ALSAC	96,256,459	-	-	96,256,459	86,694,371	-	-	86,694,371
Total supporting services	336,885,203	-	-	336,885,203	313,553,579	-	-	313,553,579
Total expenses	1,179,594,998	-	-	1,179,594,998	1,103,506,458	-	-	1,103,506,458
NET REVENUES, GAINS, (LOSSES) AND OTHER SUPPORT	205,998,483	(1,534,371)	(828,535)	203,635,577	237,206,761	357,168	(41,218,941)	196,344,988
LOSS FROM DISPOSAL OF PROPERTY AND EQUIPMENT	(962,621)	-	-	(962,621)	(918,366)	-	-	(918,366)
CHANGE IN NET ASSETS	205,035,862	(1,534,371)	(828,535)	202,672,956	236,288,395	357,168	(41,218,941)	195,426,622
NET ASSETS—Beginning of year	2,814,919,510	66,439,327	873,885,134	3,755,243,971	2,578,631,115	66,082,159	915,104,075	3,559,817,349
NET ASSETS—End of year	$3,019,955,372	$64,904,956	$873,056,599	$3,957,916,927	$2,814,919,510	$66,439,327	$873,885,134	$3,755,243,971

See notes to combined financial statements.

(Concluded)

ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services				Supporting Services			
	Patient Care Services	Research	Education, Training, and Community Service	Total Program Services	Fundraising	Administrative and General	Total Supporting Services	Total Program and Supporting Services
SALARIES AND BENEFITS	$ 197,822,406	$ 203,177,278	$ 23,332,655	$424,332,339	$ 69,489,494	$ 60,381,699	$129,871,193	$ 554,203,532
CAMPAIGN MATERIALS AND EXPENSES	-	-	29,267,197	29,267,197	34,864,528	5,509,287	40,373,815	69,641,012
PROFESSIONAL FEES AND CONTRACT SERVICES	61,754,794	48,166,917	8,769,025	118,690,736	6,189,590	10,514,706	16,704,296	135,395,032
SUPPLIES	73,403,419	45,692,873	261,160	119,357,452	-	1,940,204	1,940,204	121,297,656
TELEPHONE	614,624	592,774	1,853,598	3,060,996	6,893,347	2,881,537	9,774,884	12,835,880
MAILING COSTS	-	-	19,004,136	19,004,136	44,095,887	17,437,732	61,533,619	80,537,755
OCCUPANCY	11,267,266	10,986,462	857,631	23,111,359	4,142,769	4,636,659	8,779,428	31,890,787
PRINTING AND PUBLICATIONS	-	-	622,334	622,334	3,186,796	751,477	3,938,273	4,560,607
TRAVEL, MEETINGS AND LOCAL TRANSPORTATION	6,064,378	3,215,573	1,937,913	11,217,864	5,953,611	2,691,414	8,645,025	19,862,889
INTEREST AND AMORTIZATION	1,978,672	4,324,885	300	6,303,857	-	8,994	8,994	6,312,851
SERVICE FEES	-	-	3,058,227	3,058,227	6,864,603	4,002,514	10,867,117	13,925,344
EQUIPMENT AND SOFTWARE MAINTENANCE	-	-	1,384,999	1,384,999	3,161,856	4,080,328	7,242,184	8,627,183
MISCELLANEOUS	6,783,495	4,687,874	3,977,408	15,448,777	14,469,438	10,596,303	25,065,741	40,514,518
Total before depreciation	359,689,054	320,844,636	94,326,583	774,860,273	199,311,919	125,432,854	324,744,773	1,099,605,046
DEPRECIATION	29,351,463	36,574,020	1,924,039	67,849,522	2,891,650	9,248,780	12,140,430	79,989,952
TOTAL FUNCTIONAL EXPENSES	$ 389,040,517	$ 357,418,656	$ 96,250,622	$842,709,795	$202,203,569	$134,681,634	$336,885,203	$ 1,179,594,998

See notes to combined financial statements.

ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services				Supporting Services			
	Patient Care Services	Research	Education, Training, and Community Service	Total Program Services	Fundraising	Administrative and General	Total Supporting Services	Total Program and Supporting Services
SALARIES AND BENEFITS	$ 180,412,260	$ 192,125,612	$ 18,894,673	$391,432,545	$ 61,116,646	$ 56,281,786	$117,398,432	$ 508,830,977
CAMPAIGN MATERIALS AND EXPENSES	-	-	24,080,558	24,080,558	31,448,722	4,858,480	36,307,202	60,387,760
PROFESSIONAL FEES AND CONTRACT SERVICES	58,245,980	42,475,087	7,440,127	108,161,194	5,687,715	10,245,223	15,932,938	124,094,132
SUPPLIES	72,581,709	44,916,131	46,835	117,544,675	-	1,983,883	1,983,883	119,528,558
TELEPHONE	712,388	829,391	2,007,143	3,548,922	8,200,304	3,418,418	11,618,722	15,167,644
MAILING COSTS	-	-	18,087,208	18,087,208	41,206,321	14,533,273	55,739,594	73,826,802
OCCUPANCY	11,475,996	10,878,818	754,435	23,109,249	3,798,988	4,731,779	8,530,767	31,640,016
PRINTING AND PUBLICATIONS	-	-	468,795	468,795	2,381,356	596,075	2,977,431	3,446,226
TRAVEL, MEETINGS AND LOCAL TRANSPORTATION	6,556,097	3,175,262	1,771,997	11,503,356	7,634,750	3,066,926	10,701,676	22,205,032
INTEREST AND AMORTIZATION	1,937,888	4,244,063	265	6,182,216	-	6,894	6,894	6,189,110
SERVICE FEES	-	-	2,610,135	2,610,135	7,078,861	3,069,077	10,147,938	12,758,073
EQUIPMENT AND SOFTWARE MAINTENANCE	-	-	1,088,242	1,088,242	2,647,734	3,137,630	5,785,364	6,873,606
MISCELLANEOUS	7,316,569	4,165,103	3,964,817	15,446,489	14,712,610	10,616,299	25,328,909	40,775,398
Total before depreciation	339,238,887	302,809,467	81,215,230	723,263,584	185,914,007	116,545,743	302,459,750	1,025,723,334
DEPRECIATION	28,540,416	36,861,403	1,287,476	66,689,295	2,361,280	8,732,549	11,093,829	77,783,124
TOTAL FUNCTIONAL EXPENSES	$ 367,779,303	$ 339,670,870	$ 82,502,706	$789,952,879	$188,275,287	$125,278,292	$313,553,579	$ 1,103,506,458

See notes to combined financial statements.

ST. JUDE CHILDREN'S RESEARCH HOSPITAL, INC.
AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 202,672,956	$ 195,426,622
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,989,952	77,783,124
Amortization	(563,515)	(563,389)
Net realized and unrealized investment gains	22,935,385	(3,413,411)
Loss on disposal of property and equipment	962,621	918,366
Transfer of permanently restricted contributions, interest and transfers of restricted assets	(4,411,898)	43,638,512
Changes in operating assets and liabilities:		
Contributions receivable	(2,039,856)	(1,303,012)
Patient care and other receivables	(6,531,758)	(11,725,797)
Other assets	4,645,150	(8,661,520)
Accounts payable and accrued expenses	3,877,163	15,211,928
Annuity obligations	(738,174)	1,268,524
Net cash provided by operating activities	300,798,026	308,579,947
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(665,086,214)	(799,991,506)
Sale of investments	754,506,829	640,125,018
Net increase in assets limited as to use	(196,555,256)	(131,750)
Capital expenditures	(125,683,972)	(113,970,949)
Proceeds from disposal of property and equipment	722,017	967,919
Net cash used in investing activities	(232,096,596)	(273,001,268)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions and bequests	2,341,719	2,970,640
Permanently restricted interest and dividends	5,168,315	5,803,061
Transfers of restricted net assets	(3,098,136)	(52,412,213)
Bond principal payments	(5,390,000)	(5,130,000)
Net cash used in financing activities	(978,102)	(48,768,512)
NET CHANGE IN CASH AND EQUIVALENTS	67,723,328	(13,189,833)
CASH AND CASH EQUIVALENTS—Beginning of year	116,511,932	129,701,765
CASH AND CASH EQUIVALENTS—End of year	$ 184,235,260	$ 116,511,932
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Capital expenditures, on account	$ 12,650,643	$ 678,016

See notes to combined financial statements.

1. ORGANIZATION

St. Jude Children's Research Hospital, Inc. and its wholly owned subsidiaries (collectively, the Hospital), is a research, treatment, and education center whose mission is to save children's lives by finding the causes of catastrophic illnesses, improving related treatments, and finding cures for their diseases. More than 8,500 patients are seen at the Hospital yearly, most of whom are treated on a continuing outpatient basis as part of ongoing research programs and account for approximately 76,000 hospital visits per year. The current basic science and clinical research at the Hospital includes work in gene therapy, chemotherapy, the biochemistry of normal cancerous cells, radiation treatment, blood diseases, resistance to therapy, viruses, hereditary diseases, influenza, pediatric AIDS, and physiological effects of catastrophic illnesses.

The accompanying combined financial statements include the accounts of the Hospital and its affiliated support organization, American Lebanese Syrian Associated Charities, Inc. (ALSAC), collectively referred to herein as the Organization. ALSAC is a not-for-profit corporation established to build awareness and raise funds to support the operations of the Hospital. The bylaws of ALSAC provide that all funds raised, except for funds required for its operations and funds restricted as to other uses by donors, be distributed to or be held for the exclusive benefit of the Hospital. All significant intercompany transactions have been eliminated in combination.

Operations are overseen by the Boards of Governors and Directors (the Board). The research activities of the Hospital are reviewed annually by a Scientific Advisory Board composed of internationally prominent physicians and scientists.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Organization's combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents—Cash and cash equivalents include currency and deposits with financial institutions used as working capital to fund daily operations with original maturities of three months or less.

Contributions—All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported in the combined statements of activities as temporarily restricted or permanently restricted.

Unconditional promises to give cash and other assets are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions, as stipulated by the donor, are substantially met. The gifts are reported as either temporarily or permanently restricted support in the combined statements of activities if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. Donor-restricted contributions for which restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying combined financial statements.

Investments and Investment Income—Investments where a readily determinable fair value exists are stated at fair value. Fair value is determined using the closing prices for investments traded on the applicable domestic or global stock exchange. Investments, including alternative investments, limited partnerships, and similar interests, with no readily determinable fair value, are stated at estimated fair value based on combined financial statements and other information received from the fund managers. However, the recorded value could differ from the value that would have been used had a readily available market existed for such investments. Investments also include funds invested in money market securities with maturities of three months or less, but such funds are held for the long-term benefit of the Hospital. All related gains and losses are included in net investment income (loss) in the combined statements of activities.

ALSAC employs a policy that establishes the amount of endowment investment income that may be used to fund operations. Under this policy, an amount determined annually, not to exceed 7% of the previous three years' average calendar year-end market values, may be distributed to fund operations and is reported as net assets released from restriction on the combined statements of activities. Actual endowment investment income is reported as a change in permanently restricted net assets on the combined statements of activities. All other investment income is reported as changes in unrestricted net assets in the combined statements of activities, unless restricted by the donor or law.

ALSAC has significant exposure to a number of risks, including interest rate, market, and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the combined financial statements.

Assets Limited as to Use—Assets limited as to use include assets set aside by the Board for liability insurance funding, over which the Board retains control and may, at its discretion, subsequently use for other purposes and assets held by the bond trustee under related indenture agreements.

Costs of Borrowing—Bond issuance costs and bond premiums are amortized over the term of the related bond issue and included in the combined statements of functional expenses as interest and amortization. Approximately $70,000 of bond issuance costs and approximately $634,000 of bond premium were amortized during 2016 and 2015.

The Hospital capitalizes interest cost on qualified construction expenditures, net of income earned on related trusteed assets, as a component of the cost of related projects. The Organization capitalized interest of approximately $3,228,000 and $3,621,000 in 2016 and 2015, respectively.

Property and Equipment—Property and equipment are stated at cost. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets. Amortization of leasehold improvements is provided over the life of either the asset or the related lease, whichever is shorter.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support in the combined statements of activities. 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 in the combined statements of activities. Gifts of long-lived assets are reported when placed into service. Contributions restricted to the purchase of property and equipment, which restrictions are met within the same year as received, are reported as increases in unrestricted net assets in the accompanying combined financial statements.

Impairment of Long Lived Assets—The Organization accounts for impairment of long-lived assets in accordance with Accounting Standards Codification (ASC) Topic 360, *Property, Plant, and Equipment*. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate the book value of the asset may not be recoverable. In accordance with ASC 360, the Organization uses an estimate of future undiscounted cash flows of the related assets over the remaining life in assessing whether the assets are recoverable. The determination of the impairment, if any, for property and equipment is based on Level 3 inputs (see Note 5, Fair Value Measurement). There was no impairment in 2016 or 2015.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. These net assets consist primarily of charitable gift agreements and charitable remainder trusts.

Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Net Patient Service Revenues and Receivables—No family ever pays the Hospital for the care their child receives. Accordingly, net patient service revenue consists only of estimated net realizable amounts from third-party payors for services rendered, including estimated retroactive revenue adjustments (if necessary) due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Patient service revenue has been reduced by adjustments for uncollectible accounts totaling approximately $1,629,000 and $831,000 in 2016 and 2015, respectively.

The Hospital has agreements with governmental and other third party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. Patient care services receivable has been reduced by estimated provisions for contractual adjustments and uncollectible amounts of $84,400,000 and $84,028,000 in 2016 and 2015, respectively.

Charity Care—The Hospital provides charity care to patients for all charges in excess of those realizable from third-party payors. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Grant and Contract Revenue Recognition—The Hospital is the direct recipient of grant funding from various governmental agencies and nongovernmental sources for designated research projects initiated by these external entities. Revenue from grants and contracts are earned as related research costs are incurred.

Other Revenue—Other revenue includes technology licensing, net of payout to inventors, and other miscellaneous revenue. Technology licensing included in other revenue was approximately $11,700,000 and $7,600,000 for the years ended June 30, 2016 and 2015, respectively.

Income Taxes—The Organization qualifies as tax exempt under existing provisions of the Internal Revenue Code (the Code), and its income is generally not subject to federal or state income taxes. The Organization is not considered a private foundation as defined in Section 509(a) of the Code; and therefore, individual donors are entitled to the maximum charitable deduction under Section 170(c) of the Code.

As of June 30, 2016, the Organization had not identified any uncertain tax positions under ASC Topic 740, *Income Taxes*, requiring adjustments to its combined financial statements. In the event the Organization were to recognize interest and penalties related to uncertain tax positions, it would be recognized in the combined financial statements as a general expense. Generally, tax years ending in 2013 through 2016 are open to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

Concentration of Credit Risk—ALSAC has deposits with financial institutions, which exceed federal depository insurance limits by approximately $21,188,000 and $22,647,000 at June 30, 2016 and 2015, respectively. ALSAC has not experienced any losses on such deposits, and management considers the risk of loss to be minimal.

Contributed Services—Unpaid volunteers make significant contributions of their time, principally in fundraising activities. The value of these services is not recognized in the combined financial statements since they do not meet certain applicable criteria specified under guidance issued under ASC Topic 958, *Not-for-Profit Entities*.

Joint Costs and Functional Expense Allocation—ALSAC conducts a number of activities, which jointly benefit its education, training, and community service program objectives, as well as fundraising and general and administrative activities. These costs, which are not specifically attributable to a single function or activity (i.e., joint costs), are allocated by management based on a combination of factors. These costs have been allocated for the purposes of preparing the accompanying combined statements of functional expenses and relate to ALSAC's television and radio programs and commercials, direct mail program, and certain other fundraising and public awareness events.

For the years ended June 30, 2016 and 2015, ALSAC incurred joint costs of approximately $109,606,000 and $94,324,000, respectively, for direct mail and television. Of those costs, $50,861,000 and $44,850,000 were allocated to program costs, $41,898,000 and $36,048,000 to fundraising costs, and $16,847,000 and $13,426,000 to general and administrative costs for the years ended June 30, 2016 and 2015, respectively.

Use of Estimates—The preparation of combined financial statements in conformity with GAAP requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts for television and radio pledges, valuation of investments, allowances for contractual adjustments, estimated professional and general liability costs, reserves for workers' compensation claims, reserves for employee health care claims, and the allocation of joint costs to functional expense categories. In addition, laws and regulations governing various federal-sponsored and state-sponsored reimbursement 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 may change in the near term.

Subsequent Events—The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through October 5, 2016, the date the combined financial statements were available to be issued, that require recognition or disclosure, except for the redemption of the Series 2006 Revenue Bonds on July 1, 2016.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. This ASU provides companies the option of applying a full or modified retrospective approach upon adoption. This ASU is effective for fiscal years beginning after December 15, 2017. However, the FASB recently issued a final ASU that defers the effective date by one year with early adoption permitted for annual periods beginning after December 15, 2017. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820)—Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends ASC Topic 820, *Fair Value Measurement*. The amendments in this ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. This guidance 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. The amendments in this guidance are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. ALSAC elected to early adopt this ASU as of June 30, 2016, as permitted, and has applied this guidance retrospectively, as required. ALSAC presents the investment disclosure required by this new guidance in Note 5, Fair Value Measurement. There are no effects on the combined statements of financial position.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)—Simplifying the Measurement of Inventory*, which requires that inventory be measured at the lower of cost and net realizable value. Prior to the issuance of the new guidance, inventory was measured at the lower of cost or market. Replacing the concept of market with the single measurement of net realizable value is intended to create efficiencies for preparers. Inventory measured using the last-in, first-out (LIFO) method and the retail inventory method are not impacted by the new guidance. The guidance is effective January 1, 2017.

Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard requires all leases that have a term of over 12 months to be recognized on the combined statements of financial position with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the combined statement of activities will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard is effective for annual periods beginning after December 15, 2019. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities, (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification, required disclosures on liquidity and availability of resources, requires expanded disclosure about expenses and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2016 and 2015, consist of the following:

	2016		
	Unrestricted	**Temporarily Restricted**	**Total**
Television specials—net of allowance for uncollectible pledges of approximately $2.6 million	$ 4,704,642	$ -	$ 4,704,642
Radiothons—net of allowance for uncollectible pledges of approximately $1.6 million	7,264,302	-	7,264,302
Charitable remainder trust receivables	-	1,605,246	1,605,246
Community development projects and other	7,498,746	-	7,498,746
Total	$19,467,690	$1,605,246	$21,072,936

	2015		
	Unrestricted	Temporarily Restricted	Total
Television specials—net of allowance for uncollectible pledges of approximately $2.5 million	$ 4,476,374	$ -	$ 4,476,374
Radiothons—net of allowance for uncollectible pledges of approximately $1.4 million	6,364,790	-	6,364,790
Charitable remainder trust receivables	-	1,865,585	1,865,585
Community development projects and other	6,326,331	-	6,326,331
Total	$17,167,495	$1,865,585	$19,033,080

Charitable remainder trust receivables are temporarily restricted net assets as of June 30, 2016 and 2015, based on time restrictions imposed by donors, either for a specified period or for the life of the donor. The receivables are discounted over their estimated useful lives at an average rate of 1.8% and 2.0% as of June 30, 2016 and 2015, respectively.

All other contributions receivable at June 30, 2016 and 2015, are considered unconditional promises to give and, in all significant respects, are due in less than one year.

4. INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments as of June 30, 2016 and 2015, is as follows:

	2016	2015
Global equity	$ 1,213,447,850	$ 1,298,185,855
Marketable alternative	963,879,888	983,780,032
Real assets	375,975,368	351,653,568
Private equity	346,579,613	282,567,085
Fixed income	237,332,733	325,560,101
Cash	34,761,927	42,514,931
Total	$ 3,171,977,379	$ 3,284,261,572

Marketable alternative investments include hedged equity, distressed debt, and multi-strategy investments. ALSAC is obligated under certain investment contracts to periodically advance funding up to contractual levels. Such commitments were approximately $558,080,000 and $412,720,000 at June 30, 2016 and 2015, respectively.

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

	2016	2015
Under bond indenture agreements— held by trustee	$ 207,132,006	$ 10,576,750
Under self-insurance funding arrangements— pooled investment funds	1,822,937	1,894,745
Total	208,954,943	12,471,495

Assets limited as to use under self-insurance funding arrangements are invested by the Hospital in two pooled investment funds (the Funds) in exchange for units of those Funds. The Funds are administered by a third-party custodian and maintained for the exclusive use of the Hospital. As monies become available for investment, additional units in the Funds are purchased. The units are carried at NAV as computed based on the fair value of underlying securities, principally composed of limited investment partnerships, common stocks, and corporate and municipal bonds.

The composition of net investment income (loss) for the years ended June 30, 2016 and 2015, is as follows:

	2016	2015
Net realized and unrealized investment gains (losses)	$ (22,893,213)	$ 3,379,049
Interest and dividend income	21,755,498	25,589,472
Investment expenses	(1,154,394)	(974,117)
Net investment income (loss)	$ (2,292,109)	$ 27,994,404

Realized and unrealized gains and losses are included in net investment income (loss) in the combined statements of activities.

5. FAIR VALUE MEASUREMENT

ALSAC accounts for assets and liabilities measured at fair value using ASC Topic 820, *Fair Value Measurement*. Certain assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis, generally as a result of impairment charges. Under ASC 820, fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets measured at fair value on a nonrecurring basis include long-lived assets.

The guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The fair value of cash, receivables, accounts payable, accrued expenses and annuity obligations approximate their carrying values. ALSAC considers the carrying amounts of all working capital to approximate fair value because of the short-term and/or nature of the instrument.

Investments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices, generally, will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. In the absence of actively quoted prices and observable inputs, ALSAC estimates prices based on available historical data and near-term future pricing information that reflects its market assumptions.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by ALSAC for investments measured at fair value on a recurring basis:

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2—Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—Inputs are unobservable and significant to the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

NAV—For these assets, ASU 2015-07 eliminated the requirement that investments for which fair value is measured at NAV per share (or its equivalent) using the practical expedient be categorized in the fair value hierarchy. The majority of these investments were categorized as Level 2 in prior years and possess the observability and redemption characteristics of that Level.

Most investments classified within Level 3 and the NAV category consist of the shares/units (or equivalent ownership interest in partner's capital) in investment funds rather than direct ownership in the funds' underlying assets.

ALSAC's assets and investments by asset class and fair value hierarchy level as of June 30, 2016 and 2015, are as follows:

	2016				
	Level 1	**Level 2**	**Level 3**	**Net Asset Value**	**Total**
Global equity	$ 352,335,130	$ -	$ -	$ 861,112,720	$ 1,213,447,850
Marketable alternative	2,065,302	-	40,032,373	921,782,213	963,879,888
Real assets	137,722,395	-	191,042,769	47,210,204	375,975,368
Private equity	-	-	346,579,613	-	346,579,613
Fixed income	22,558,223	-	-	214,774,510	237,332,733
Cash	34,761,927	-	-	-	34,761,927
Total	$ 549,442,977	$ -	$ 577,654,755	$ 2,044,879,647	$ 3,171,977,379

	2015				
	Level 1	**Level 2**	**Level 3**	**Net Asset Value**	**Total**
Global equity	$ 373,228,283	$ -	$ -	$ 924,957,572	$ 1,298,185,855
Marketable alternative	14,366,449	-	32,812,060	936,601,523	983,780,032
Real assets	137,803,567	-	160,724,236	53,125,765	351,653,568
Private equity	-	-	282,567,085	-	282,567,085
Fixed income	49,508,998	-	-	276,051,103	325,560,101
Cash	42,514,931	-	-	-	42,514,931
Total	$ 617,422,228	$ -	$ 476,103,381	$ 2,190,735,963	$ 3,284,261,572

There were no significant transfers between Level 1 and Level 2 (asset-level reclassifications) during the fiscal years ended June 30, 2016 and 2015.

The changes in assets by asset class measured at fair value for which ALSAC used Level 3 inputs to determine fair value for the years ended June 30, 2016 and 2015, are as follows:

	Marketable Alternative	**Real Assets**	**Private Equity**	**Total**
Ending balance at June 30, 2014	$ 31,821,920	$ 160,041,345	$ 214,684,193	$ 406,547,458
Purchases	155	39,083,968	73,412,545	112,496,668
Sales	(79,122)	(40,876)	-	(119,998)
Distributions	(627,020)	(50,109,550)	(50,316,943)	(101,053,513)
Interest and dividends	136,467	4,951,893	3,666,343	8,754,703
Realized gain [(a)]	403,241	31,027,409	30,292,763	61,723,413
Unrealized gain (loss) [(a)]	1,156,419	(24,229,953)	10,828,184	(12,245,350)
Ending balance at June 30, 2015	32,812,060	160,724,236	282,567,085	476,103,381
Transfers into Level 3 [(b)]	48,736	-	-	48,736
Purchases	-	42,775,703	85,548,134	128,323,837
Sales	(120,065)	(124,249)	-	(244,314)
Distributions	(641,182)	(30,104,260)	(48,680,661)	(79,426,103)
Interest and dividends	387,519	3,474,124	3,204,216	7,065,859
Realized gain [(a)]	271,438	17,308,472	30,044,957	47,624,867
Unrealized gain (loss) [(a)]	7,273,867	(3,011,257)	(6,104,118)	(1,841,508)
Ending balance at June 30, 2016	$ 40,032,373	$ 191,042,769	$ 346,579,613	$ 577,654,755

[(a)] The total amounts of realized gain and unrealized gain (loss) are included in net investment income (loss) on the combined statement of activities.

[(b)] Transfers into Level 3 relate to the creation of an illiquid side pocket tranche in a NAV categorized fund. The tranche was not redeemable at the June 30, 2016 measurement. Transfers into Level 3 are measured as of the beginning of the year.

ALSAC uses fund NAV as a practical expedient to estimate the fair value of ALSAC ownership interest for funds which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The investments in investment funds (in partnership format) by major category as of June 30, 2016 and 2015, are as follows:

2016	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Global equity [a]	$ 861,112,720	$ -	Daily, monthly, quarterly	0–60 days
Marketable alternatives [b]	921,782,213	-	Monthly, quarterly, annually, greater than one year	30–180 days
Real assets [c]	47,210,204	-	Not redeemable, monthly, quarterly	0–90 days
Fixed income [d]	214,774,510	-	Monthly	30 days
Total	$2,044,879,647	$ -		

2015	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Global equity [a]	$ 924,957,572	$ -	Daily, monthly, quarterly	0–60 days
Marketable alternatives [b]	936,601,523	-	Monthly, quarterly, annually, greater than one year	30–180 days
Real assets [c]	53,125,765	-	Not redeemable, monthly, quarterly	0–90 days
Fixed income [d]	276,051,103	-	Monthly	30 days
Total	$2,190,735,963	$ -		

There is approximately $206,255,000 across 17 funds undergoing full redemption from which ALSAC receives regular distributions, as stated in the funds' liquidity terms, or through liquidation by fund managers of underlying, illiquid securities. Liquidation of approximately $193,987,000 is expected to be completed within the next year. Illiquid balances expected to be distributed in the longer term remain from funds terminated in 2016, 2015, and prior to 2014 total approximately $7,024,000, $3,090,000, and $2,154,000, respectively.

[a] Includes investments in global equity and long/short equity hedge funds. The long/short equity funds include short positions as well as long positions and use leverage. Managers in this allocation pursue diversified strategies covering multiple capitalizations, styles and geographic focus. Some funds may be subject to lock-up provisions.

[b] Includes hedge fund strategies such as hedged equity, multi-strategy, arbitrage, global macro, distressed securities, and open mandate strategies. Underlying investments are primarily liquid instruments and their derivatives in fixed income, asset backed securities, currencies, trade claims, commodities, and equities. The funds include short positions as well as long positions and use leverage.

[c] Includes funds that invest in a variety of real assets that include real estate, real estate related debt and securities, oil and gas and other energy related investments, timber, commodities, precious metals, mining companies.

[d] Includes global fixed income investing in developed and emerging market fixed income securities and may use currency hedging.

6. TRUSTEED BOND FUNDS

The trusteed bond funds were established by the Hospital in accordance with the requirements of the indentures related to the Hospital Revenue Bonds discussed in Note 8. The trusteed bond funds, included in assets limited as to use in the accompanying combined statements of financial position, were approximately $207,132,000 and

$10,577,000 as of June 30, 2016 and 2015, respectively. These funds, which are considered Level 1 in the fair value hierarchy discussed in Note 5, are held by the bond trustee for the annual debt service of the Hospital Revenue Bonds.

7. PROPERTY AND EQUIPMENT

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

	2016	2015
Land and improvements	$ 49,326,981	$ 40,324,257
Buildings and improvements	874,270,315	852,327,190
Furniture and equipment	403,737,684	383,363,648
Computer software	57,796,928	49,598,733
Leasehold improvements	249,094	234,331
Construction in progress	121,517,503	72,840,585
	1,506,898,505	1,398,688,744
Less accumulated depreciation and amortization	(800,756,138)	(749,197,392)
Total property and equipment	$ 706,142,367	$ 649,491,352

Buildings and improvements, furniture and equipment and computer software are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives of 10 to 20 years, three to 20 years and three to five years, respectively. Leasehold improvements are recorded at cost and are depreciated on a straight-line basis over the term of the lease or the estimated useful lives, whichever is shorter.

Construction in progress at June 30, 2016, was principally composed of costs related to the Proton Beam Radiation Therapy (PBRT) Center for pediatric cancer treatment and the In Patient Room Design and Construction, which are housed in the Kay Research and Care Center. The PBRT facility and the Inpatient Rooms are expected to be substantially complete in calendar year 2016. The total estimated cost of property and equipment for the PBRT and Inpatient Room projects are $65,500,000 and $40,500,000, respectively.

8. DEBT

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

Series 2006 Hospital Revenue Bonds due in annual installments through 2036, fixed interest from 4% to 5%	$ 202,080,000	$ 207,470,000
Unamortized premium on bonds	9,167,710	9,801,404
Total	$ 211,247,710	$ 217,271,404

In November 2006, the Hospital entered into an agreement with Shelby County, Tennessee, to issue $235,765,000 of Series 2006 Hospital Revenue Bonds (Series 2006 Bonds) at a premium of approximately $14,960,000. The bonds were issued on December 21, 2006. The Series 2006 Bonds were issued to refund a portion of the Series 1999 Hospital Revenue Bonds, to refund prior capital expenditures funded by ALSAC relating to the construction of the Chili's Care Center (CCC), and to fund future construction costs of the CCC. Some of the funds were used to pay issuance costs for the Series 2006 Bonds as permitted.

Payments of principal and interest on the Series 2006 Bonds are guaranteed by ALSAC. Under a guaranty agreement dated November 15, 2006, ALSAC has agreed to pay, on demand to the bond trustee, amounts necessary to enable the bond trustee to make payments on the Series 2006 Bonds. The Hospital is also subject to certain covenants, including limitations on the use of the proceeds, transfers of assets, and maintenance of corporate existence and status.

The Organization is also subject to a debt covenant on the Series 2006 Bonds. The covenant is the ratio of the combined income of the two organizations to the current portion of principal and interest on the Series 2006 Bonds. The Organization was in compliance with the debt covenant as of June 30, 2016.

The Hospital paid interest costs of approximately $10,100,000 and $10,400,000 during the years ended June 30, 2016 and 2015, respectively.

In May 2016, pursuant to the terms of the Bond Trust Indenture dated November 15, 2006, the Hospital called for optional redemption of all outstanding Series 2006 Bonds, and on July 1, 2016, the Hospital redeemed the Series 2006 Bonds with payment in full of the remaining principal amount of $202,080,000.

9. RESTRICTIONS ON NET ASSETS

Permanently restricted net assets as of June 30, 2016 and 2015, are restricted for the following purposes:

	2016	2015
Future needs of the hospital	$ 685,211,467	$ 686,858,803
Endowed chairs	171,347,352	171,239,480
Treatment and research	16,497,780	15,786,851
Total	$ 873,056,599	$ 873,885,134

Temporarily restricted net assets of approximately $64,905,000 and $66,439,000 at June 30, 2016 and 2015, respectively, consisted primarily of charitable gift agreements and charitable remainder trusts receivable.

10. ENDOWMENT FUNDS

ALSAC's endowment consists of approximately 60 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. There are no board-designated endowment funds.

Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. All permanently restricted net assets as of June 30, 2016 and 2015, are donor-restricted endowments.

Changes in endowment net assets, all of which are permanently restricted, for the years ended June 30, 2016 and 2015, are as follows:

	2016	2015
Endowment net assets—beginning of year	$ 873,885,134	$ 915,104,075
Contributions and bequests	2,341,719	2,970,640
Interest and dividends	5,168,315	5,803,061
Net realized and unrealized gains (losses)	(5,240,433)	2,419,571
Appropriation of endowment assets for expenditures	(3,098,136)	(52,412,213)
Endowment net assets—end of year	$ 873,056,599	$ 873,885,134

11. NET PATIENT SERVICE REVENUE

The Hospital has agreements with governmental and other third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors is as follows:

Medicaid—Inpatient and outpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the beneficiaries' state of residence. Revenue from the Medicaid program accounted for approximately 30% and 31% of the Hospital's net patient service revenue for the years ended June 30, 2016 and 2015, respectively.

Blue Cross—All acute care services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates. Revenue from Blue Cross subscribers accounted for approximately 20% and 26% of the Hospital's net patient service revenue for the years ended June 30, 2016 and 2015, respectively.

Commercial—The Hospital has also entered into other reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, per diem amounts, case rates, fee schedules, and discounts from established charges. Revenue from commercial subscribers accounted for approximately 47% and 41% of the Hospital's net patient service revenue for the years ended June 30, 2016 and 2015, respectively.

The components of net patient service revenue as of June 30, 2016 and 2015, consisted of the following:

	2016	2015
Gross patient service revenue—net of charity care charges foregone	$ 407,724,819	$ 388,994,794
Less provision for contractual adjustments and uncollectible charges	(293,253,543)	(283,418,164)
Net patient service revenue	$ 114,471,276	$ 105,576,630

12. CHARITY CARE AND CONTRACTUAL ADJUSTMENTS

It is the Hospital's policy to provide care to patients for all charges in excess of those realizable from third-party payors. Following that policy, charges foregone, based on established rates, totaled approximately $97,700,000 and $85,800,000 in 2016 and 2015, respectively. Management's estimate of costs incurred to provide charity care were $74,400,000 and $65,500,000 in 2016 and 2015, respectively.

The Hospital also participates in TennCare and other states' Medicaid programs. Under these programs, the Hospital provides care to patients at payment rates, which are determined by state governments. The Hospital recorded gross patient charges to Medicaid patients totaling approximately $191,800,000 and $184,300,000, and recorded net revenue of approximately $34,400,000 and $32,600,000 in 2016 and 2015, respectively. This resulted in a total contractual adjustment related to Medicaid programs of approximately $157,400,000 and $151,700,000, or 82%, of Medicaid program charges for 2016 and 2015, respectively.

In addition to the patient care benefits described above, the Hospital provides significant research benefits to the broader community and other outreach programs.

13. CONTRIBUTIONS

The composition of contributions as of June 30, 2016 and 2015, is as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
National direct marketing	$ 518,426,104	$ -	$ -	$ 518,426,104
Community development programs	22,119,382	-	-	22,119,382
Public support—other-than-direct mail	204,739,925	750,000	164,801	205,654,726
Radiothons	51,510,812	-	-	51,510,812
Federated fundraising agencies	10,395,476	-	-	10,395,476
Corporate and foundation gifts	58,180,448	10,671	2,500	58,193,619
Memorials	24,019,033	-	-	24,019,033
Sporting events	36,418,594	-	-	36,418,594
Annuity contracts	-	3,286,883	-	3,286,883
Total	$ 925,809,774	$ 4,047,554	$ 167,301	$ 930,024,629

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
National direct marketing	$ 481,628,783	$ -	$ -	$ 481,628,783
Community development programs	22,398,004	-	-	22,398,004
Public support—other-than-direct mail	193,316,710	766,720	-	194,083,430
Radiothons	48,596,076	-	-	48,596,076
Federated fundraising agencies	8,998,759	-	-	8,998,759
Corporate and foundation gifts	43,547,974	415,576	11,210	43,974,760
Memorials	21,775,500	-	6,150	21,781,650
Sporting events	31,961,216	102,000	-	32,063,216
Annuity contracts	-	4,529,361	-	4,529,361
Total	$ 852,223,022	$ 5,813,657	$ 17,360	$ 858,054,039

14. EMPLOYEE RETIREMENT BENEFIT PLANS

The Hospital sponsors a defined-contribution retirement annuity plan generally covering all employees who have completed one year of service. The plan requires that the Hospital make annual contributions based on participants' base compensation and employment classification. The plan allows individuals to begin making contributions to the plan as pretax deferral as soon as administratively feasible after hire date. Hospital contributions are 50% vested after two years of service and 100% vested after three years of service. Employee contributions are immediately 100% vested. Total cash contributions to the plan were approximately $20,800,000 and $19,100,000 for the years ended June 30, 2016 and 2015, respectively.

ALSAC sponsors a defined-contribution retirement plan generally covering all employees who have completed one year of service and 1,000 hours during a twelve-month period. The plan allows ALSAC to make annual contributions based on participants' salaries. Employees can choose to invest their contributions into the options provided through the plan. Employees become 30% vested in the employer contributions after two years of service, 60% after three years of service, and 100% after four years of service. ALSAC contributed approximately $6,039,000 and $4,712,000 to the plan during the years ended June 30, 2016 and 2015, respectively.

15. BUSINESS AND CREDIT CONCENTRATIONS

The Hospital routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

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

	2016	2015
Commercial insurance	61 %	60 %
Medicaid	19	11
Blue Cross	18	27
Other third-party payors	2	2
Total	100 %	100 %

16. FINANCIAL INSTRUMENTS

The carrying amounts of all applicable asset and liability financial instruments reported in the combined statements of financial position (except debt instruments) approximate their estimated fair values, in all significant respects, as of June 30, 2016 and 2015. Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

The fair values of the debt instruments have been estimated using interest rates currently available to the Hospital for borrowings having similar character, collateral, and duration. The aggregate fair value of such instruments approximated $202,800,000 and $215,000,000 as of June 30, 2016 and 2015, respectively.

17. SELF-INSURANCE PROGRAMS

The Hospital is self-insured for the following:

- Comprehensive general and professional liability coverage up to $2 million per claim and $7 million in the aggregate, with $100 million of excess claims-made coverage above the self-insured retentions. The reserve for the estimated ultimate costs of both report claims and claims incurred, but not reported, was approximately $1,800,000 and $1,700,000 as of June 30, 2016 and 2015, respectively. The reserve is included in the combined statement of financial position as other liabilities.

- Workers' compensation liabilities up to a specific retention of $500,000, with excess coverage at statutory limits. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported, was approximately $900,000 and $1,000,000 as of June 30, 2016 and 2015. The reserve is included in the combined statement of financial position as other liabilities.

- Employee health coverage (medical and prescription drug) up to $400,000 per covered individual per year with no lifetime limit. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported, was approximately $3,800,000 and $4,100,000 as of June 30, 2016 and 2015. The reserve is included in the combined statement of financial position as other liabilities.

The Hospital also has substantial excess liability coverage available under the provisions of certain claims-made policies. To the extent that any claims-made coverage is not renewed or replaced with equivalent 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 Hospital’s incident reporting system, that any such claims would not have a material effect on the combined 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. Excess policies for professional liability coverage, workers’ compensation coverage, and employee health coverage expire on May 1, 2017, January 1, 2018, and December 31, 2016, respectively.

18. LEASES

The Organization leases certain office space and equipment under noncancelable operating leases. Future minimum lease payments required under such leases having an initial or remaining term of more than one year as of June 30, 2016, consist of the following:

Years Ending June 30	
2017	$ 5,070,726
2018	4,001,386
2019	3,527,375
2020	2,346,631
2021	1,347,883
Thereafter	2,225,242
Total	$ 18,519,243

Rent expense for all operating leases was approximately $9,728,000 and $9,546,000 for the years ended June 30, 2016 and 2015, respectively.

19. LINES OF CREDIT

ALSAC maintains a $25,000,000 line of credit with a bank for short-term working capital. The line is unsecured, bears interest at London InterBank Offered Rate (LIBOR) plus 1% (1.5% at June 30, 2016), and expires on February 5, 2017. There were no amounts outstanding against the line on June 30, 2016.

ALSAC maintains another $25,000,000 line of credit with a separate financial institution for working capital purposes. The line is unsecured and bears interest at LIBOR plus 1% (1.5% at June 30, 2016), and expires on February 1, 2017. There were no amounts outstanding against the line on June 30, 2016.

20. COMMITMENTS AND CONTINGENCIES

The Organization is involved in various claims and matters of litigation that arise in the normal course of business. Although the outcome of these proceedings and claims cannot be determined with certainty, the Organization's management is of the opinion that the outcome will not have a material adverse effect on the combined financial statements.

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