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, 2015 and 2014, and Independent Auditors' Report

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

TABLE OF CONTENTS

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 subsidiary and American Lebanese Syrian Associates Charities, Inc. (collectively, the "Organization"), which comprise the combined statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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.

October 9, 2015

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

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CASH AND CASH EQUIVALENTS	$ 116,511,932	$ 129,701,765
RECEIVABLES:		
Contributions	19,033,080	17,730,068
Patient care services—net	15,768,242	13,123,665
Grants and contracts	16,106,541	5,247,477
Other	1,797,536	3,575,380
UNRESTRICTED INVESTMENTS	2,350,160,301	2,146,309,761
RESTRICTED INVESTMENTS	934,101,271	974,719,630
ASSETS LIMITED AS TO USE	12,471,495	12,292,027
PROPERTY AND EQUIPMENT—Net	649,491,352	614,508,792
OTHER ASSETS	28,542,509	19,951,152
TOTAL	$4,143,984,259	$3,937,159,717
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 62,026,196	$ 56,270,422
Accrued expenses	58,231,886	50,392,838
Annuity obligations	35,904,483	34,635,959
Long-term debt	217,271,404	223,034,956
Other liabilities	15,306,319	13,008,193
Total liabilities	388,740,288	377,342,368
NET ASSETS:		
Unrestricted	2,814,919,510	2,578,631,115
Temporarily restricted	66,439,327	66,082,159
Permanently restricted	873,885,134	915,104,075
Total net assets	3,755,243,971	3,559,817,349
TOTAL	$4,143,984,259	$3,937,159,717

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, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:								
Support:								
Contributions	$ 852,223,022	$ 5,813,657	$ 17,360	$ 858,054,039	$ 793,162,707	$ 3,313,115	$ 530,000	$ 797,005,822
Bequests	190,705,389	34,000	2,953,280	193,692,669	172,569,886	-	567,137	173,137,023
Special events—net	13,014,260	-	-	13,014,260	13,471,042	-	-	13,471,042
Total support	1,055,942,671	5,847,657	2,970,640	1,064,760,968	979,203,635	3,313,115	1,097,137	983,613,887
Revenues:								
Net patient service revenue	105,576,630	-	-	105,576,630	97,421,430	-	-	97,421,430
Research grants and contracts	85,346,636	-	-	85,346,636	80,937,617	-	-	80,937,617
Net investment income	18,510,006	1,261,766	8,222,632	27,994,404	263,390,036	5,636,296	121,617,552	390,643,884
Net assets released from restrictions	59,164,468	(6,752,255)	(52,412,213)	-	54,465,406	(3,011,519)	(51,453,887)	-
Other revenues	16,172,808	-	-	16,172,808	33,961,546	-	-	33,961,546
Total revenues	284,770,548	(5,490,489)	(44,189,581)	235,090,478	530,176,035	2,624,777	70,163,665	602,964,477
Total revenues, gains and other support	1,340,713,219	357,168	(41,218,941)	1,299,851,446	1,509,379,670	5,937,892	71,260,802	1,586,578,364
EXPENSES:								
Program services:								
Patient care services	367,779,303	-	-	367,779,303	317,682,384	-	-	317,682,384
Research	339,670,870	-	-	339,670,870	323,357,158	-	-	323,357,158
Education, training, and community services	82,502,706	-	-	82,502,706	81,264,655	-	-	81,264,655
Total program services	789,952,879	-	-	789,952,879	722,304,197	-	-	722,304,197

See notes to combined financial statements.

(Continued)

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

COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015				2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Supporting services:								
Fundraising	$ 188,275,287	$ -	$ -	$ 188,275,287	$ 166,560,526	$ -	$ -	$ 166,560,526
Administrative and general—Hospital	38,583,921	-	-	38,583,921	32,282,033	-	-	32,282,033
Administrative and general—ALSAC	86,694,371	-	-	86,694,371	76,254,423	-	-	76,254,423
Total supporting services	313,553,579	-	-	313,553,579	275,096,982	-	-	275,096,982
Total expenses	1,103,506,458	-	-	1,103,506,458	997,401,179	-	-	997,401,179
REVENUES, GAINS, AND OTHER SUPPORT IN EXCESS OF EXPENSES	237,206,761	357,168	(41,218,941)	196,344,988	511,978,491	5,937,892	71,260,802	589,177,185
LOSS FROM DISPOSAL OF PROPERTY AND EQUIPMENT	(918,366)	-	-	(918,366)	(1,689,278)	-	-	(1,689,278)
CHANGE IN NET ASSETS	236,288,395	357,168	(41,218,941)	195,426,622	510,289,213	5,937,892	71,260,802	587,487,907
NET ASSETS—Beginning of year	2,578,631,115	66,082,159	915,104,075	3,559,817,349	2,068,341,902	60,144,267	843,843,273	2,972,329,442
NET ASSETS—End 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

See notes to combined financial statements.

(Concluded)

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

COMBINED STATEMENT 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 AND AMORTIZATION	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 STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	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	$169,724,649	$183,813,098	$ 17,469,801	$371,007,548	$ 52,082,834	$ 49,887,961	$101,970,795	$472,978,343
CAMPAIGN MATERIALS AND EXPENSES	-	-	23,236,349	23,236,349	30,833,445	4,617,289	35,450,734	58,687,083
PROFESSIONAL FEES AND CONTRACT SERVICES	44,284,085	44,413,031	8,323,476	97,020,592	6,127,740	7,917,650	14,045,390	111,065,982
SUPPLIES	59,492,193	39,780,153	713,672	99,986,018	-	1,776,206	1,776,206	101,762,224
TELEPHONE	551,427	608,023	1,868,081	3,027,531	6,228,312	2,649,880	8,878,192	11,905,723
MAILING COSTS	-	-	19,283,001	19,283,001	38,702,444	13,030,114	51,732,558	71,015,559
OCCUPANCY	9,635,304	9,945,257	677,802	20,258,363	3,341,475	4,197,801	7,539,276	27,797,639
PRINTING AND PUBLICATIONS	-	-	525,711	525,711	3,339,876	644,113	3,983,989	4,509,700
TRAVEL, MEETINGS AND LOCAL TRANSPORTATION	6,409,431	3,020,170	1,788,075	11,217,676	6,473,235	2,320,232	8,793,467	20,011,143
INTEREST AND AMORTIZATION	954,862	2,124,525	141	3,079,528	-	3,400	3,400	3,082,928
SERVICE FEES	-	-	2,257,308	2,257,308	6,710,277	2,875,824	9,586,101	11,843,409
EQUIPMENT AND SOFTWARE MAINTENANCE	-	-	1,018,289	1,018,289	2,327,364	3,431,225	5,758,589	6,776,878
MISCELLANEOUS	3,979,395	3,840,094	2,886,415	10,705,904	8,200,273	7,373,340	15,573,613	26,279,517
Total before depreciation	295,031,346	287,544,351	80,048,121	662,623,818	164,367,275	100,725,035	265,092,310	927,716,128
DEPRECIATION AND AMORTIZATION	22,651,038	35,812,807	1,216,534	59,680,379	2,193,251	7,811,421	10,004,672	69,685,051
TOTAL FUNCTIONAL EXPENSES	$317,682,384	$323,357,158	$ 81,264,655	$722,304,197	$166,560,526	$ 108,536,456	$275,096,982	$997,401,179

See notes to combined financial statements.

AMERICAN LEBANESE SYRIAN ASSOCIATED CHARITIES, INC.

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 195,426,622	$ 587,487,907
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	77,783,124	69,685,051
Amortization	(563,389)	(562,082)
Net realized and unrealized investment gains	(3,413,411)	(364,928,925)
Loss on disposal of property and equipment	918,366	1,689,278
Transfer of permanently restricted contributions, interest and transfers of restricted assets	43,638,512	42,889,944
Changes in operating assets and liabilities:		
Contributions receivable	(1,303,012)	3,411,248
Patient care and other receivables	(11,725,797)	(1,479,453)
Other assets	(8,661,520)	(425,807)
Accounts payable and accrued expenses	15,211,928	20,054,635
Annuity obligations	1,268,524	(1,592,890)
Net cash provided by operating activities	308,579,947	356,228,906
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(799,991,506)	(518,708,487)
Sale of investments	640,125,018	443,983,088
Net increase in assets limited as to use	(131,750)	(117,750)
Capital expenditures	(113,970,949)	(146,458,146)
Proceeds from disposal of property and equipment	967,919	175,922
Net cash used in investing activities	(273,001,268)	(221,125,373)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions and bequests	2,970,640	1,097,137
Permanently restricted interest and dividends	5,803,061	7,466,806
Transfers of restricted net assets	(52,412,213)	(51,453,887)
Bond principal payments	(5,130,000)	(4,890,000)
Net cash used in financing activities	(48,768,512)	(47,779,944)
NET CHANGE IN CASH AND EQUIVALENTS	(13,189,833)	87,323,589
CASH AND CASH EQUIVALENTS—Beginning of year	129,701,765	42,378,176
CASH AND CASH EQUIVALENTS—End of year	$ 116,511,932	$ 129,701,765
NON-CASH INVESTING AND FINANCING ACTIVITIES--		
Capital expenditures, on account	$ 678,016	$ -

See notes to combined financial statements.

1. ORGANIZATION

St. Jude Children's Research Hospital, Inc. and its wholly owned subsidiary (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 8,300 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 74,000 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 in the 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 2015. Approximately $70,000 of bond issuance costs and approximately $632,000 of bond premium were amortized during 2014.

The Organization 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 $3,621,000 and $6,985,000 in 2015 and 2014, 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 Topic 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 Topic 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, charged to property and equipment is based on Level 3 inputs (see Note 5). There was no impairment in 2015 or 2014.

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 $831,000 and $681,000 in 2015 and 2014, 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 $84,028,000 and $68,925,000 in 2015 and 2014, 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 revenue, net of payouts to inventors and other miscellaneous revenue. Technology licensing included in other revenue was approximately $7,600,000 and $24,400,000 for the years ended June 30, 2015 and 2014, 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, 2015, 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 interest expense for interest and miscellaneous for penalties. Generally, tax years ending in 2012 through 2015 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 $22,647,000 and $18,687,000 at June 30, 2015 and 2014, 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—The Organization 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 the Organization's television and radio programs and commercials, direct mail program, and certain other fundraising and public awareness events.

For the years ended June 30, 2015 and 2014, ALSAC incurred joint costs of approximately $94,324,000 and $92,624,000, respectively, for direct mail and television. Of those costs, $44,850,000 and $45,160,000 were allocated to program costs, $36,048,000 and $35,089,000 to fundraising costs, and $13,426,000 and $12,375,000 to general and administrative costs for the years ended June 30, 2015 and 2014, 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 9, 2015, the date the combined financial statements were available to be issued, that require recognition or disclosure.

Recent Accounting Pronouncements—In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2013-06, *Services Received from Personnel of an Affiliate*, which amends ASC Topic 958, *Not-for-Profit Entities*. This ASU requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The new guidance is effective for reporting periods beginning after June 15, 2014. The adoption of this ASU did not have a material effect on the combined financial statements.

In May 2014, the FASB issued 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 is effective for fiscal years beginning after December 15, 2017. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

In April 2015, the FASB issued ASU 2015-03, *Imputation of Interest (Subtopic 835-30)—Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. This guidance is effective January 1, 2016. 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)*. The amendments in this ASU eliminate the requirement that investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient be categorized in the fair value hierarchy. The new guidance is effective for reporting periods beginning after December 15, 2016. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

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.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2015 and 2014, consist of the following:

	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

	2014		
	Unrestricted	**Temporarily Restricted**	**Total**
Television specials—net of allowance for uncollectible pledges of approximately $3.0 million	$ 4,472,522	$ -	$ 4,472,522
Radiothons—net of allowance for uncollectible pledges of approximately $1.9 million	6,343,358	-	6,343,358
Charitable remainder trust receivables	-	1,802,944	1,802,944
Community development projects and other	5,111,244	-	5,111,244
Total	$15,927,124	$1,802,944	$17,730,068

Charitable remainder trust receivables are temporarily restricted net assets as of June 30, 2015 and 2014, 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 2.0% and 2.2% as of June 30, 2015 and 2014, respectively.

All other contributions receivable at June 30, 2015 and 2014, 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, 2015 and 2014, is as follows:

	2015	2014
Global equity	$1,298,185,855	$1,226,036,929
Marketable alternative	983,780,032	818,217,830
Real assets	351,653,568	475,178,829
Private equity	282,567,085	214,684,193
Fixed income	325,560,101	318,992,154
Cash	42,514,931	67,919,456
Total	$3,284,261,572	$3,121,029,391

Marketable alternative investments include hedged equity, distressed debt, and multi-strategy managers. ALSAC is obligated under certain investment contracts to periodically advance funding up to contractual levels. Such commitments were approximately $412,720,000 and $338,630,000 at June 30, 2015 and 2014, respectively.

The composition of assets limited as to use as of June 30, 2015 and 2014, is as follows:

	2015	2014
Under bond indenture agreements—held by trustee	$10,576,750	$10,445,000
Under self-insurance funding arrangements—pooled investment funds	1,894,745	1,847,027
Total	$12,471,495	$12,292,027

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 net asset value (NAV) as computed based on the fair value of underlying securities, principally composed of limited investment partnerships, common stocks, and corporate and municipal bonds, which are considered Level 2 in the fair value hierarchy discussed in Note 5.

The composition of net investment income for the years ended June 30, 2015 and 2014, is as follows:

	2015	2014
Net realized and unrealized investment gains	$ 3,379,049	$364,901,015
Interest and dividend income	25,589,472	26,695,415
Investment expenses	(974,117)	(952,546)
Net investment income	$ 27,994,404	$390,643,884

5. FAIR VALUE MEASUREMENTS

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 Topic 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, and accounts payable 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.

Most investments classified within Level 2 and Level 3 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. Since the net asset value (NAV) reported by each fund is used as a practical expedient to estimate the fair value of ALSAC's ownership interest, the fund's classification within Level 2 or Level 3 of the fair value hierarchy is based on ALSAC's ability to redeem its interest in the fund, or a portion thereof, at the financial statement measurement date or within the near term. ALSAC considers the near term to be the period up to one calendar quarter after the measurement date.

ALSAC's assets and investments by asset class and fair value hierarchy level as of June 30, 2015 and 2014, are as follows:

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Global equity	$373,228,283	$ 875,264,492	$ 49,693,080	$1,298,185,855
Marketable alternative	14,366,450	481,412,677	488,000,905	983,780,032
Real assets	137,803,567	53,125,766	160,724,235	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	$617,422,229	$1,685,854,038	$980,985,305	$3,284,261,572

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Global equity	$383,524,389	$ 811,207,235	$ 31,305,305	$1,226,036,929
Marketable alternative	38,235,090	382,109,639	397,873,101	818,217,830
Real assets	210,714,309	79,810,237	184,654,283	475,178,829
Private equity	-	-	214,684,193	214,684,193
Fixed income	62,933,436	256,058,718	-	318,992,154
Cash	67,919,456	-	-	67,919,456
Total	$763,326,680	$1,529,185,829	$828,516,882	$3,121,029,391

There were no significant transfers between Level 1 and Level 2 (asset-level reclassifications) during the fiscal year ended June 30, 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, 2015 and 2014, are as follows:

	Global Equity	Marketable Alternative	Real Assets	Private Equity	Total
Ending balance at June 30, 2013	$ 24,985,022	$ 344,943,345	$ 152,891,058	$ 182,062,616	$ 704,882,041
Transfers into Level 3 [(a)]	-	10,743,500	-	-	10,743,500
Transfers out of Level 3 [(c)]	-	(37,305,008)	-	-	(37,305,008)
Purchases	-	74,000,000	34,101,557	44,674,191	152,775,748
Sales	-	(23,063,223)	(9,537)	-	(23,072,760)
Distributions	-	(13,019,217)	(30,896,524)	(46,511,853)	(90,427,594)
Interest and dividends	-	-	4,075,491	3,395,027	7,470,518
Realized gain [(b)]	-	7,857,046	18,178,108	22,000,842	48,035,996
Unrealized (loss) gain [(b)]	6,320,283	33,716,658	6,314,130	9,063,370	55,414,441
Ending balance at June 30, 2014	31,305,305	397,873,101	184,654,283	214,684,193	828,516,882
Transfers into Level 3 [(d)]	24,627,440	-	-	-	24,627,440
Transfers out of Level 3 [(c)]	-	(33,784,275)	(24,627,440)	-	(58,411,715)
Purchases	-	117,178,500	39,083,968	73,412,545	229,675,013
Sales	-	(157,869)	(40,876)	-	(198,745)
Distributions	(8,031,277)	(692,096)	(50,109,550)	(50,316,943)	(109,149,866)
Interest and dividends	26	136,469	4,951,893	3,666,343	8,754,731
Realized gain [(b)]	2,684,532	460,533	31,027,409	30,292,763	64,465,237
Unrealized (loss) gain [(b)]	(892,946)	6,986,542	(24,215,452)	10,828,184	(7,293,672)
Ending balance at June 30, 2015	$ 49,693,080	$ 488,000,905	$ 160,724,235	$ 282,567,085	$ 980,985,305

(a) Transfers into Level 3 relate to the reclassification of investment funds, in full or in part, that were not redeemable at the measurement date or within one quarter near term. Transfers into Level 3 are measured as of the beginning of the year.

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

(c) Transfers out of Level 3 relate to the expiration of redemption lock-ups with the exception of the fund class change strategy shift of $24.6 million in 2015.

(d) Transfers out of Level 3 relate to a class change in a fund with a strategy shift from Real Assets to Global Equity. Transfers into Level 3 are measured as of the beginning of the year.

ALSAC's policy is to recognize transfers in and transfers out of Level 3 securities as of the actual date of the event or change in circumstances that caused the transfer.

ALSAC uses fund net asset values (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, 2015 and 2014, are as follows:

2015	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity (a)	$ 394,918,930	$ -	Daily, monthly, quarterly	0–60 days
Marketable alternatives (b) (c)	820,210,538	-	Monthly, quarterly, annually, greater than one year	30–180 days
Real assets (d) (e)	171,586,504	150,794,003	Not redeemable, monthly, quarterly	0–90 days
Private equity (e) (f)	281,067,738	261,926,477	Not redeemable	
Fixed Income (g)	35,776,106	-	Monthly	30 days
Total	$ 1,703,559,816	$ 412,720,480		

2014	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity (a)	$ 397,219,605	$ -	Daily, monthly, quarterly	0–60 days
Marketable alternatives (b) (c)	780,434,353	-	Monthly, quarterly, annually, greater than one year	30–180 days
Real assets (d) (e)	211,029,278	135,544,302	Not redeemable, monthly, quarterly	0–90 days
Private equity (f)	213,156,172	203,085,915	Not redeemable	
Total	$ 1,601,839,408	$ 338,630,217		

There is approximately $21,408,000 across nine 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 $18,662,000 is expected to be completed within the next year. Illiquid balances expected to be distributed in the longer term remain from funds terminated in 2005, 2008, 2010, 2012, and 2013 totaling approximately $299,000, $499,000, $632,000, $282,000, and $1,034,000, 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 may have lock-up provisions or invest in private investments which are typically segregated into "side pockets" (a separate share class) and are not available for redemption until the investment is liquidated by the manager. The time at which the investments in side pockets will be liquidated cannot be estimated.

(d) Includes funds that invest in a variety of real assets that include public and private real estate, real estate related debt and securities, public and private oil and gas and other energy related investments, timber, commodities, precious metals, public and private mining companies.

(e) Includes illiquid investments held in limited partnership funds. The nature of these illiquid investments is such that distributions may be received through acquisition, sale or liquidation of the underlying assets of the funds. As a result, the timing of distributions from these illiquid investments is uncertain.

(f) Includes investment mandates for global private equity such as leveraged buyouts, growth equity, venture capital and distressed investments. The nature of these illiquid investments is such that distributions may be received through acquisition, sale or liquidation of the underlying assets of the funds. As a result, the timing of distributions from these illiquid investments is uncertain. The funds in this category do not permit redemptions.

(g) 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 $10,577,000 and $10,445,000 as of June 30, 2015 and 2014, 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, 2015 and 2014, is as follows:

	2015	2014
Land and improvements	$ 40,324,257	$ 38,269,589
Buildings and improvements	852,327,190	666,520,040
Furniture and equipment	383,363,648	363,732,891
Computer software	49,598,733	38,653,931
Leasehold improvements	234,331	161,073
Construction in progress	72,840,585	194,186,962
	1,398,688,744	1,301,524,486
Less accumulated depreciation and amortization	(749,197,392)	(687,015,694)
Total property and equipment	$ 649,491,352	$ 614,508,792

Furniture and equipment and computer software are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives of 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, 2015, was principally composed of costs related to the Proton Beam Radiation Therapy (PBRT) Center for pediatric cancer treatment, which is housed in the Kay Research and Care Center. The PBRT facility is expected to be substantially complete in calendar year 2016. The total estimated cost of property and equipment for the PBRT project is $65,500,000.

8. LONG-TERM DEBT

A summary of long-term debt as of June 30, 2015 and 2014, is as follows:

	2015	2014
Series 2006 Hospital Revenue Bonds due in annual installments through 2036, fixed interest from 4% to 5%	$207,470,000	$212,600,000
Unamortized premium on bonds	9,801,404	10,434,956
Total	$217,271,404	$223,034,956

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 as are 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, 2015.

Future maturities of long-term debt, by year and in the aggregate, are as follows:

Years Ending June 30	Long-Term Debt
2016	$ 5,390,000
2017	5,660,000
2018	5,940,000
2019	6,240,000
2020	6,550,000
Thereafter	177,690,000
	207,470,000
Plus unamortized premium on bonds	9,801,404
Total	$217,271,404

The Hospital paid interest costs of approximately $10,400,000 and $10,700,000 during the years ended June 30, 2015 and 2014, respectively.

9. RESTRICTIONS ON NET ASSETS

Permanently restricted net assets as of June 30, 2015 and 2014, are restricted for the following purposes:

	2015	2014
Future needs of the hospital	$686,858,803	$745,055,669
Endowed chairs	171,239,480	155,158,931
Treatment and research	15,786,851	14,889,475
Total	$873,885,134	$915,104,075

Temporarily restricted net assets of approximately $66,439,000 and $66,082,000 at June 30, 2015 and 2014, 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.

As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors 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, 2015 and 2014, are donor-restricted endowments.

Changes in endowment net assets, all of which are permanently restricted, for the years ended June 30, 2015 and 2014, are as follows:

	2015	2014
Endowment net assets—beginning of year	$915,104,075	$843,843,273
Contributions and bequests	2,970,640	1,097,137
Interest and dividends	5,803,061	7,466,806
Net realized and unrealized gains	2,419,571	114,150,746
Appropriation of endowment assets for expenditures	(52,412,213)	(51,453,887)
Endowment net assets—end of year	$873,885,134	$915,104,075

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 31% of the Hospital's net patient service revenue for the years ended June 30, 2015 and 2014.

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 26% and 25% of the Hospital's net patient service revenue for the years ended June 30, 2015 and 2014, 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 41% of the Hospital's net patient service revenue for the years ended June 30, 2015 and 2014.

The components of net patient service revenue as of June 30, 2015 and 2014, consisted of the following:

	2015	2014
Gross patient service revenue—net of charity care charges foregone	$ 388,994,794	$ 343,540,717
Less provision for contractual adjustments and uncollectible charges	(283,418,164)	(246,119,287)
Net patient service revenue	$ 105,576,630	$ 97,421,430

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 $85,800,000 and $74,200,000 in 2015 and 2014, respectively. Management's estimate of costs incurred to provide charity care were $65,500,000 and $56,200,000 in 2015 and 2014, 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 $184,300,000 and $170,700,000, and recorded net revenue of approximately $32,600,000 and $30,200,000 in 2015 and 2014, respectively. This resulted in a total contractual adjustment related to Medicaid programs of approximately $151,700,000 and $140,500,000, or 82%, of Medicaid program charges for 2015 and 2014, 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, 2015 and 2014, is as follows:

	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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
National direct marketing	$ 438,439,934	$ -	$ -	$ 438,439,934
Community development programs	22,607,772	-	-	22,607,772
Public support—other-than-direct mail	185,775,140	-	-	185,775,140
Radiothons	45,992,317	-	-	45,992,317
Federated fundraising agencies	9,954,917	-	-	9,954,917
Corporate and foundation gifts	39,304,116	15,747	530,000	39,849,863
Memorials	20,827,160	-	-	20,827,160
Sporting events	30,261,351	-	-	30,261,351
Annuity contracts	-	3,297,368	-	3,297,368
Total	$ 793,162,707	$ 3,313,115	$ 530,000	$ 797,005,822

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 $19,100,000 and $18,900,000 for the years ended June 30, 2015 and 2014, 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 $4,712,000 and $4,779,000 to the plan during the years ended June 30, 2015 and 2014, 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, 2015 and 2014, is as follows:

	2015	2014
Commercial insurance	60 %	46 %
Medicaid	11	29
Blue Cross	27	23
Other third-party payors	2	2
	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, 2015 and 2014. 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 $215,000,000 and $226,300,000 as of June 30, 2015 and 2014, 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 $1,700,000 as of June 30, 2015 and 2014 and 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 $1,000,000 and $1,200,000 as of June 30, 2015 and 2014. The reserve is included in the combined statement of financial position as other liabilities.

- Employee health coverage up to $400,000 per covered individual per claim with no lifetime limit. The reserve for the estimated ultimate costs of both reported claims and claims incurred, but not reported, was approximately $4,100,000 and $3,900,000 as of June 30, 2015 and 2014. 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 Hospital's consolidated 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, 2016, January 1, 2016, and December 31, 2015, 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, 2015, consist of the following:

Years Ending June 30	
2016	$ 5,077,602
2017	3,673,165
2018	2,657,650
2019	2,220,186
2020	1,101,436
Thereafter	395,560
Total	$ 15,125,599

Rent expense for all operating leases was approximately $9,546,000 and $7,671,000 for the years ended June 30, 2015 and 2014, 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% (1.2% at June 30, 2015), and expires on February 5, 2016. There were no amounts outstanding against the line on June 30, 2015.

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% (1.2% at June 30, 2015) or 3.0%, whichever is greater, and expires on February 1, 2016. There were no amounts outstanding against the line on June 30, 2015.

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 financial statements.

* * * * * *