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

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

Table of Contents

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2014 and 2013, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information included in Schedule 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Baton Rouge, Louisiana
October 29, 2014

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

Consolidated Balance Sheets

June 30, 2014 and 2013

(In thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	$ 131,216	131,937
Short-term investments	22,134	19,231
Patient receivables, net of allowance for uncollectible accounts of $334,388 and $146,255 in 2014 and 2013, respectively	214,397	236,674
Other current assets	95,317	127,541
Total current assets	463,064	515,383
Assets limited as to use, net of current portion	858,970	754,249
Property and equipment, net	1,143,128	1,102,803
Other assets	149,915	152,382
Total assets	$ 2,615,077	2,524,817
Liabilities and Net Assets		
Current liabilities:		
Lines of credit	$ 5,732	835
Current installments of long-term debt	14,392	13,822
Current portion of capital lease obligations	8,527	8,213
Accounts payable	86,283	88,205
Other current liabilities	170,416	202,967
Total current liabilities	285,350	314,042
Professional and general liabilities, excluding current portion	30,207	31,888
Long-term debt, excluding current installments	582,712	599,607
Capital lease obligations, excluding current portion	6,386	12,463
Accrued pension cost	298,064	264,952
Other long-term liabilities	22,840	24,220
Total liabilities	1,225,559	1,247,172
Net assets:		
Unrestricted	1,329,871	1,221,806
Temporarily restricted	32,756	27,227
Permanently restricted	5,300	5,300
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.	1,367,927	1,254,333
Noncontrolling interests	21,591	23,312
Total net assets	1,389,518	1,277,645
Total liabilities and net assets	$ 2,615,077	2,524,817

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Changes in unrestricted net assets:			
Unrestricted revenues:			
Net patient service revenue, net of contractual allowances and discounts	$	1,667,438	1,469,958
Provision for uncollectible accounts		(190,314)	(161,838)
Net patient service revenue		1,477,124	1,308,120
Other revenue		101,434	93,689
Equity in income from equity investees, net		13,729	11,659
Total unrestricted revenues		1,592,287	1,413,468
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		3,452	2,044
Expiration of time restrictions		151	142
Total net assets released from restrictions used for operations		3,603	2,186
Total unrestricted revenues and other support		1,595,890	1,415,654
Operating expenses:			
Salaries and wages		619,565	550,375
Employee benefits		157,461	146,888
Total salaries, wages, and employee benefits		777,026	697,263
Physician fees		49,482	31,207
Professional services		21,302	17,463
Other services		249,516	207,870
Leases, insurance, and utilities		63,666	50,751
Supplies		300,580	276,443
Depreciation and amortization		92,026	84,098
Interest		24,895	25,821
Other		3,102	2,778
Total operating expenses		1,581,595	1,393,694
Operating income		14,295	21,960

(Continued)

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

Consolidated Statements of Operations

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Nonoperating gains (losses):			
Investment return		120,260	70,038
Other		(3,135)	(10,316)
Change in fair value of interest rate swap agreements		(1,016)	10,040
Total nonoperating gains (losses), net		116,109	69,762
Unrestricted revenues, gains, and other support in excess of expenses and losses before noncontrolling interest		130,404	91,722
Noncontrolling interests		(4,178)	(2,569)
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc.		126,226	89,153
Pension-related changes other than net periodic pension cost		(17,293)	67,738
Other		(868)	(565)
Increase in unrestricted net assets	$	108,065	156,326

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Changes in unrestricted net assets:		
Unrestricted revenues, gains, and other support in excess of expenses attributable to Franciscan Missionaries of Our Lady Health System, Inc.	$ 126,226	89,153
Pension-related changes other than net periodic pension cost	(17,293)	67,738
Other	(868)	(565)
Increase in unrestricted net assets	108,065	156,326
Changes in temporarily restricted net assets:		
Contributions	8,148	8,297
Income from long-term investments, net	935	5
Net assets released from restrictions	(3,603)	(2,186)
Other	49	309
Increase in temporarily restricted net assets	5,529	6,425
Changes in permanently restricted net assets	—	(210)
Changes in noncontrolling interests:		
Unrestricted revenues, gains, and other support in excess of expenses and losses	4,178	2,569
Distributions	(1,424)	(2,272)
Acquired controlling interest	(4,279)	—
Acquired noncontrolling interest	—	15,838
Other	(196)	12
(Decrease) increase in noncontrolling interests	(1,721)	16,147
Increase in net assets	111,873	178,688
Net assets, beginning of year	1,277,645	1,098,957
Net assets, end of year	$ 1,389,518	1,277,645

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	111,873	178,688
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		92,026	84,098
Provision for uncollectible accounts		190,314	161,838
Loss (gain) on sale or disposal of property and equipment, net		(2,778)	67
Net realized and unrealized gains on assets limited as to use and investment securities		(115,707)	(63,140)
Income from equity investees		(13,729)	(11,659)
Change in value of interest rate swap agreements		1,016	(10,040)
Amortization of net premium on bond issues		(987)	(192)
Pension-related changes other than net periodic pension cost		17,293	(67,738)
Loss on early extinguishment of debt		—	970
Acquired controlling interest		4,279	—
Acquired noncontrolling interest		—	(15,838)
Distributions to noncontrolling interest		1,424	2,272
Return of income from equity investees		12,565	9,685
Changes in operating assets and liabilities:			
Short-term investments, net		—	(155)
Receivables		(174,530)	(204,964)
Inventories		(1,196)	(4,096)
Prepaid expenses and other assets		990	(12,144)
Accounts payable, accrued expenses, and other liabilities		(12,378)	65,777
Professional and general liabilities		(1,236)	2,854
Net cash provided by operating activities		109,239	116,283

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

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Cash flows from investing activities:		
Capital expenditures	(135,757)	(174,899)
Purchases of assets limited to use	(143,501)	(219,168)
Sales of assets limited to use	191,152	161,119
Cash paid for acquisitions, net of cash acquired	53	(25,556)
Proceeds from sales of property and equipment	—	160
Net cash used in investing activities	(88,053)	(258,344)
Cash flows from financing activities:		
Repayment of long-term debt	(15,338)	(68,327)
Repayment of capital lease obligations, net	(5,763)	(7,070)
Proceeds from issuance of long-term debt	—	161,502
Proceeds from line of credit	7,700	—
Payment of bond issuance costs	—	(1,884)
Payments on line of credit, net	(2,803)	(5,506)
Acquired controlling interest	(4,279)	—
Acquired noncontrolling interest	—	7,549
Distributions to noncontrolling interest	(1,424)	(2,272)
Net cash (used in) provided by financing activities	(21,907)	83,992
Decrease in cash and cash equivalents	(721)	(58,069)
Cash and cash equivalents, beginning of year	131,937	190,006
Cash and cash equivalents, end of year	$ 131,216	131,937

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

- Our Lady of the Lake Regional Medical Center (the Lake) – Baton Rouge, Louisiana
- Our Lady of the Lake Ascension Community Hospital, Inc. (d.b.a. St. Elizabeth Hospital) – Gonzales, Louisiana
- Our Lady of Lourdes Regional Medical Center, Inc. (Lourdes) – Lafayette, Louisiana
- St. Francis Medical Center, Inc. (St. Francis) – Monroe, Louisiana
- Our Lady of the Angels, Inc. (Angels) – Bogalusa, Louisiana (since March 2014)

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co., Ltd. (Louise), which is wholly owned by FMOLHS (note 20).

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

(a) Principles of Consolidation

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

(b) Use of Estimates

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

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

(c) Cash Equivalents

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

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

(d) Investments and Investment Return

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

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

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

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

(e) Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average-cost method) or market.

(f) Assets Limited as to Use

Assets limited as to use include the following:

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

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

(g) Components of Net Assets

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

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

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

Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that are maintained permanently by FMOLHS. Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investments for specific or general purposes.

(Continued)

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

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

(h) Bond Issuance Costs

Bond issuance costs, premiums, and discounts, costs of letters of credit, and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective-interest method. Accumulated amortization was approximately $5,986 and $5,615 at June 30, 2014 and 2013, respectively.

(i) Property and Equipment

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

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

(j) Business Combination

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

(Continued)

(k) Cost in Excess of Net Assets Acquired

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

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

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests. For 2014, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined that it is not more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, no impairment loss was recorded in 2014 or 2013.

Accumulated amortization for all costs in excess of net assets acquired was $15,846 at June 30, 2014 and 2013.

(l) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. Net interest expense capitalized was $1,892 and $1,842 for the years ended June 30, 2014 and 2013, respectively.

(m) Impairment of Long-lived Assets

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

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. There are no assets reported as assets to be disposed of at June 30, 2014 and 2013.

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

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

(o) Consolidated Statements of Operations

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

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

(p) Net Patient Service Revenue and Patient Accounts Receivable

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

(Continued)

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

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

(q) Charity Care

The FMOLHS Affiliates provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Because the FMOLHS Affiliates do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

The FMOLHS Affiliates maintain records to identify and monitor the level of charges forgone that are associated with the charity care they provide. Charges forgone, based on established rates, totaled approximately $118,259 and $38,576 for the years ended June 30, 2014 and 2013, respectively.

The FMOLHS Affiliates do not include charity care in net patient service revenue. The cost of charity care provided in 2014 and 2013 approximated $43,089 and $13,734, respectively. FMOLHS Affiliates estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross charity charges associated with providing care to charity patients.

FMOLHS has experienced an increase in charges forgone and cost of charity care provided due to a significant increase in the uninsured patient population.

(r) Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments beginning in 2011 for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. FMOLHS utilizes a contingency accounting model to recognize EHR incentive revenues. FMOLHS records EHR incentive revenue when FMOLHS has complied with the meaningful use criteria for a full reporting period and when management determines that all uncertainties and contingencies are resolved prior to the recognition of income. In fiscal 2014 and 2013, FMOLHS recorded EHR incentive revenues of $6,712 and $9,527 comprised of $5,938 and $5,354 of Medicare revenues and $774 and $4,173 of Medicaid revenues, respectively. EHR incentive revenues are included in net patient service revenue in the accompanying consolidated statements of operations. There were no EHR incentive receivables from Medicare and Medicaid at June 30, 2014 and 2013.

(s) Income Taxes

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

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

(t) Asset Retirement Obligation

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

(u) Fair Value Measurements

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

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

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

(v) Fair Value Option

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

(w) Reclassifications

Certain reclassifications have been made to 2013 amounts to conform to the 2014 consolidated financial statement presentation.

(x) Healthcare Industry Environment

FMOLHS's management monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact FMOLHS in a number of ways, including (but not limited to) uncertainties associated with U.S. financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010 and upheld by the Supreme Court in June 2012. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant (and potentially unprecedented) capital investment in healthcare information technology (HCIT);
- Continuing volatility in the state and federal government reimbursement programs;
- Lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, changes in combined state/federal disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system;
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of HCIT and the transition to ICD-10; and
- Significant potential business model changes throughout the healthcare ecosystem, including within the healthcare commercial payor industry.

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on FMOLHS's financial position and operating results.

(y) Recent Accounting Pronouncements

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU requires not-for-profit entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donate financial assets that upon receipt were directed without the entity imposing any limitations for sale and were converted nearly immediately into cash. The ASU was effective for FMOLHS in the fiscal year ending June 30, 2014, and the adoption did not have a material effect on the consolidated financial statements.

The FASB issued ASU No. 2013-04, *Liabilities (Topic 405); Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the-Obligation is Fixed at the Reporting Date,* in February 2013. ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed as the sum of the amount the entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the entity expects to pay on behalf of its co-obligors. The ASU is effective for FMOLHS in the fiscal year ending June 30, 2015. ASU 2013-04 is to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. Management has not evaluated the impact of this ASU on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, on a Tax Credit Carryforward Exists*. ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The ASU is effective for FMOLHS in the fiscal year ending June 30, 2015. The new standard is to be applied prospectively but retrospective application is permitted. Management has not evaluated the impact of this ASU on its consolidated financial statements.

(z) Correction of an Immaterial Error

The consolidated statement of cash flows for the year ended June 30, 2013 has been revised to correct an immaterial error related to the reporting of the purchases and sales of assets limited as to use within the investing activities section of the consolidated statement of cash flows. Under the current presentation, these activities have been reported on a gross basis increasing the sales of assets limited to use by $161,119 and purchases of assets limited to use by ($219,168) within the investing activities section of the consolidated statement of cash flows. Previously these activities were reported on a net basis as a change in assets limited as to use of ($58,049). This error correction has no effect on the total amount of cash used in investing activities. Management has concluded that this error was not material to the 2013 consolidated financial statements.

(In thousands)

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

Short-term investments consist of the following:

	2014	2013
Asset category:		
Cash	$ 1,188	794
Equity securities:		
U.S. companies	3,940	4,013
U.S. companies – alternative investments	1,142	806
International companies	1,797	1,400
International companies – alternative investments	685	552
Real assets	851	650
Real assets – alternative investments	627	531
Fixed income securities:		
U.S. government guaranteed	174	149
U.S. agency	482	428
Corporate	589	589
Municipal	50	33
Alternative investments	142	124
Other	1,441	1,569
Emerging markets	1,335	854
Alternative asset funds:		
Hedge funds	5,579	4,873
Natural resource funds	363	386
Real estate fund	175	178
Private equity funds	1,574	1,302
Total	$ 22,134	19,231

(Continued)

(In thousands)

The composition of assets limited as to use at June 30, 2014 and 2013 is as follows:

	2014				
	Board-designated for capital	Trusted bond funds	Self-insurance trust funds	Other	Total
Asset category:					
Cash	$ 39,686	18,994	—	3,388	62,068
Equity securities:					
U.S. companies	70,350	—	4,201	6,672	81,223
U.S. companies – alternative investments	47,378	—	—	—	47,378
International companies	74,561	—	—	487	75,048
International companies – alternative investments	28,416	—	—	—	28,416
Real assets	35,317	—	—	—	35,317
Real assets – alternative investments	26,034	—	—	—	26,034
Fixed income securities:					
U.S. government guaranteed	7,236	—	2,099	—	9,335
U.S. agency	19,999	—	11,100	1,051	32,150
Corporate	24,443	—	7,014	989	32,446
Municipal	2,064	—	7,519	—	9,583
Alternative investments	5,900	—	—	—	5,900
Other	56,321	—	2,218	732	59,271
Emerging markets	55,372	—	—	—	55,372
Alternative asset funds:					
Hedge funds	231,489	—	—	81	231,570
Natural resource funds	15,044	—	—	—	15,044
Real estate fund	7,253	—	—	—	7,253
Private equity funds	65,338	—	—	73	65,411
	812,201	18,994	34,151	13,473	878,819
Less amounts classified as current assets	—	18,994	—	855	19,849
Noncurrent portion	$ 812,201	—	34,151	12,618	858,970

(In thousands)

		2013				
		Board-designated for capital	Trusted bond funds	Self-insurance trust funds	Other	Total
Asset category:						
Cash	$	34,828	58,572	—	3,144	96,544
Equity securities:						
U.S. companies		77,509	—	3,439	5,262	86,210
U.S. companies – alternative investments		33,963	—	—	—	33,963
International companies		58,998	—	—	486	59,484
International companies – alternative investments		23,260	—	—	—	23,260
Real assets		27,408	—	—	—	27,408
Real assets – alternative investments		22,371	—	—	—	22,371
Fixed income securities:						
U.S. government guaranteed		6,288	—	2,138	—	8,426
U.S. agency		18,021	—	10,570	354	28,945
Corporate		24,843	—	3,944	1,329	30,116
Municipal		1,380	—	10,095	—	11,475
Alternative investments		5,246	—	—	—	5,246
Other		56,379	—	2,691	1,081	60,151
Emerging markets		36,000	—	—	—	36,000
Alternative asset funds:						
Hedge funds		205,300	—	—	109	205,409
Natural resource funds		16,251				16,251
Real estate fund		7,488	—	—	—	7,488
Private equity funds		54,919	—	—	—	54,919
		710,452	58,572	32,877	11,765	813,666
Less amounts classified as current assets		102	58,572	—	743	59,417
Noncurrent portion	$	710,350	—	32,877	11,022	754,249

(a) Board-designated for Capital

In accordance with Board approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements.

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

(In thousands)

(b) Alternative Assets

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

		2014	**2013**
Alternative assets:			
U.S. companies	$	48,520	34,769
International companies		29,101	23,812
Real assets		26,661	22,902
Emerging markets		56,707	36,854
Hedge funds		237,149	210,282
Private equity		66,985	56,221
Natural resources		15,407	16,637
Real estate funds		7,428	7,666
Total alternative assets	$	487,958	409,143

At June 30, 2014, FMOLHS's remaining outstanding commitments to private equity interests totaled $22,440. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below:

		Projected capital calls
Fiscal year:		
2015	$	21,449
2016		665
2017		255
2018		71
	$	22,440

Private equity interests have 10-year terms, with extensions of 1 to 4 years. As of June 30, 2014, the average remaining life of the private equity interests is approximately 4.7 years.

At June 30, 2014 and 2013, FMOLHS had hedge fund investments of $285,669 and $245,051, respectively, which were restricted from redemption for lock-up periods. Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days notice after the initial lock-up period.

(In thousands)

Based upon the terms and conditions in effect at June 30, 2014, FMOLHS's hedge fund investments can be redeemed or sold as follows:

		Amount
Fiscal year:		
2015	$	272,813
2016		7,935
2017		—
2018		—
2019		—
2020–2024		—
Thereafter		4,921
Total	$	285,669

(c) Trusteed Bond Funds

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations. The consolidated trusteed bond funds as of June 30, 2014 and 2013 consist of the following categories:

		2014	2013
Construction funds	$	—	37,217
Principal and interest funds		18,994	21,355
		18,994	58,572
Less amounts classified as other current assets		18,994	58,572
Noncurrent portion	$	—	—

The above funds were established in accordance with related indentures to secure the payment of principal and interest on the related obligations, and to pay or reimburse the FMOLHS Affiliates for payment of the costs of the acquisition, construction, and installation of certain extensions and improvements to their facilities. Amounts classified as current represent funds deposited to pay current costs of construction projects and to pay related debt service costs classified as current liabilities. Information regarding FMOLHS's debt obligations is included in note 11.

(In thousands)

(d) *Self-insurance Trust Funds*

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (note 20).

(e) *Other*

Other assets limited at to use as of June 30, 2014 and 2013 consist of the following:

		2014	2013
Scholarships – limited by donor	$	54	355
Healthcare services – limited by donor		11,723	9,974
Resident deposits		111	109
Escrow, security deposits, and surplus cash		327	276
Capital improvement – limited by grantor agency		1,258	1,051
		13,473	11,765
Less amounts classified as current		855	743
	$	12,618	11,022

All investments are considered “trading” for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of unrestricted revenues, gains, and other support in excess of expenses and losses. The following schedule for the years ended June 30, 2014 and 2013 summarizes the investment return and its classification in the consolidated statements of operations:

		Unrestricted	Temporarily restricted	Total
2014:				
Dividends and interest, net of expenses of $2,686	$	4,553	935	5,488
Realized and unrealized gains, net		115,707	—	115,707
Investment return	$	120,260	935	121,195
2013:				
Dividends and interest, net of expenses of $1,986	$	6,898	5	6,903
Realized and unrealized gains, net		63,140	—	63,140
Investment return	$	70,038	5	70,043

(Continued)

(In thousands)

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

(3) Patient Receivables

The composition of net patient receivables at June 30, 2014 and 2013 is as follows:

		2014	2013
Patient accounts receivable	$	548,785	382,929
Less allowance for uncollectible accounts		334,388	146,255
	$	214,397	236,674

For patient receivables associated with self-pay patients, including patients with deductibles and copayment balances for which third-party coverage provides for a portion of the services provided, FMOLHS Affiliates record an estimated provision for uncollectible accounts in the year of service. FMOLHS has experienced an increase in the provision for uncollectible accounts due to a significant increase in uninsured and underinsured patient population including the transition of patients resulting from the Cooperative Endeavor Agreement discussed in note 23. FMOLHS' allowance for uncollectible accounts increased by 128.6% and 99.9% compared to June 30, 2013 and 2012, respectively.

(4) Other Current Assets

The composition of other current assets at June 30, 2014 and 2013 is as follows:

		2014	2013
Due from third-party payors	$	—	540
Other receivables		19,923	13,430
Inventories		28,876	27,680
Prepaid expenses and other current assets		26,669	26,474
Assets limited as to use required for current liabilities		19,849	59,417
	$	95,317	127,541

(In thousands)

(5) Property and Equipment

A summary of property and equipment as of June 30, 2014 and 2013 is as follows:

	2014	2013	Estimated useful lives
Land	$ 124,167	123,845	—
Land improvements	24,732	26,011	2–40 years
Buildings and building improvements	1,080,498	943,203	5–50 years
Fixed equipment	120,794	114,891	3–50 years
Movable equipment	614,840	562,916	3–25 years
Leasehold improvements	14,371	7,769	5–15 years
Building and building improvements held for lease	3,543	3,543	2–22 years
Construction in progress	67,164	142,295	—
	2,050,109	1,924,473	
Less accumulated depreciation	906,981	821,670	
	$ 1,143,128	1,102,803	

At June 30, 2014, the FMOLHS Affiliates were obligated under purchase commitments of $11,405 relating to the completion of various construction projects and purchases of equipment. Approximately $3,998 and $10,658 related to such projects and other property additions are included in accounts payable at June 30, 2014 and 2013, respectively.

(6) Other Assets

The composition of other assets at June 30, 2014 and 2013 is as follows:

	2014	2013
Unamortized bond issuance costs, net of accumulated amortization	$ 6,094	6,465
Investments in equity investees	41,369	39,949
Cost in excess of net assets acquired	80,810	78,869
Fair value of interest rate swap agreements	5,536	7,453
Other	16,106	19,646
	$ 149,915	152,382

(Continued)

(In thousands)

(7) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2014 and 2013 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2014 and 2013 are as follows:

	Ownership interest	Investment in investees	Equity income (loss) of investees
2014:			
Convenient Care, LLC	50%	$ 2,145	826
Capital Area Shared Service Organization – Lake	48	—	—
Surgical Specialty Center of Baton Rouge, LLC	49	5,664	5,887
Regional Eye Surgery Center LLC	13	52	168
Baton Rouge Physical Therapy – Lake	29	816	377
Lake Urgent Care Ascension – Lake	30	208	281
Baton Rouge Physical Therapy – STE	4	83	12
P&S Surgery Center, LLC	50	12,081	763
Northeast Louisiana Cancer Institute, LLC	50	2,321	(28)
Northeast Louisiana Physician Hospital Organization	25	184	7
Louisiana Home Care of Monroe, LLC	33	(27)	(100)
Lourdes After Hours, LLC	50	311	194
LHCG VIII	33	374	90
Park Place Surgery Center	45	6,066	3,527
H & S Land Company, LLC	50	235	—
Resource Optimization and Innovation, LLC	10	7,456	1,366
Capital Area Shared Service Organization – STE	17	—	—
Lake Urgent Care Ascension – STE	20	286	202
Mary Bird Perkins Cancer Center – STE	35	3,114	157
		$ 41,369	13,729

(In thousands)

	Ownership interest		Investment in investees	Equity income (loss) of investees
2013:				
Convenient Care, LLC	50%	$	1,643	497
Capital Area Shared Service Organization – Lake	48		—	(339)
Surgical Specialty Center of Baton Rouge, LLC	49		5,782	4,653
Regional Eye Surgery Center LLC	14		204	247
Baton Rouge Physical Therapy – Lake	29		572	169
Lake Surgery Center LP	47		—	(20)
Lake Urgent Care Ascension – Lake	30		287	177
Baton Rouge Physical Therapy – STE	4		71	22
P&S Surgery Center, LLC	50		12,755	1,174
Northeast Louisiana Cancer Institute, LLC	50		2,849	(71)
Northeast Louisiana Physician Hospital Organization	25		177	7
Louisiana Home Care of Monroe, LLC	33		73	11
Lourdes After Hours, LLC	50		425	159
LHCG VIII	33		337	12
Park Place Surgery Center	45		5,509	3,565
Resource Optimization and Innovation, LLC	10		6,090	1,402
Capital Area Shared Service Organization – STE	17		—	(120)
Lake Urgent Care Ascension – STE	20		218	118
Mary Bird Perkins Cancer Center – STE	35		2,957	(4)
		$	39,949	11,659

(8) Business Combinations

Effective December 31, 2012, the Lake acquired 51% of OLOL/USP Surgery Centers, LLC (OLOL/USP). Also effective December 31, 2012, OLOL/USP acquired 550 membership units or 55% of OLOL Pontchartrain Surgery Center, LLC (Center) for approximately $15,605, less withheld funds and purchases of retroactive insurance for the Center. The Center is a freestanding outpatient surgery center located in Covington, Louisiana. The results of OLOL/USP's operations have been included in the consolidated financial statements since that date.

OLOL's joint venture partner in OLOL/USP, entered into a management agreement as of January 1, 2013 with the Center. The joint venture partner manages the day-to-day business operations of the Center including, but not limited to, financial management, billing, purchasing, staffing, and recruiting. Effective

(In thousands)

January 1, 2013, the Lake entered into a management subcontract with the joint venture partner in which the Lake performs some of the duties under the management agreement, including managed care contracting.

The following summarizes the preliminary amounts of the assets acquired and liabilities assumed at the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest acquired.

Cash	$	214
Current assets		366
Accounts receivable		1,042
Property and equipment		1,751
Goodwill		21,081
Current liabilities		(564)
Other liabilities		(29)
Noncontrolling interest		(8,288)

Effective December 31, 2012, the Lake acquired an additional 24% ownership in Perkins Plaza Ambulatory Surgery Center, LLC, d/b/a Lake Surgery Center from Foundation Surgery Holdings, LLC for approximately $797, resulting in the Lake holding 70% ownership after the purchase.

Effective December 31, 2012, Our Lady of the Lake Physician Group, L.L.C. (OLOLPG), a wholly owned subsidiary of the Lake, purchased substantially all of the assets of Hematology-Oncology Associates of Baton Rouge, L.L.C. d/b/a Louisiana Hematology-Oncology Associates (LHOA) related to the physician practice. The purchase price was approximately $8,120. The physicians and the midlevels will be provided to OLOLPG through a professional services agreement between LHOA to OLOLPG. The remainder of the clinic staff will be employed by an unrelated entity and provided to OLOLPG through a management/staffing arrangement with the unrelated entity.

(9) Lines of Credit

At June 30, 2014, FMOLHS affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $35,500, bearing interest at variable rates expiring at various dates through June 2015. Outstanding amounts at June 30, 2014 and 2013 were $5,732 and $835, respectively. FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions.

(In thousands)

(10) Other Current Liabilities

The composition of other current liabilities at June 30, 2014 and 2013 is as follows:

		2014	2013
Accrued salaries and related expenses	$	76,760	71,489
Accrued interest		10,635	11,822
Due to third-party payors		27,581	59,223
Accrued expenses and other current liabilities		55,440	60,433
	$	170,416	202,967

(11) Long-term Debt

A summary of long-term debt at June 30, 2014 and 2013 is as follows:

		2014	2013
Obligated Group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds; due in varying installments through 2025 with interest fixed at rates ranging from 5.50% to 5.75%	$	37,210	40,699
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998B, $31,050 tax-exempt bonds; due in varying installments through 2016, with interest fixed at rates ranging from 3.375% to 5.000%, respectively), due in varying installments through 2016		14,000	18,500
Louisiana Public Facilities Authority Hospital Bonds Series 2005A, $80,000 tax-exempt bonds; due in varying installments from 2032 through 2036, with interest fixed at rates ranging from 5.00% to 5.25%		80,000	80,000
Louisiana Public Facilities Authority Hospital Bonds Series 2005B, $50,000 tax-exempt bonds; due in varying installments from 2014 through 2030, which bear interest at a variable rate (0.06% at June 30, 2013)		—	50,000

(In thousands)

	2014	2013
Louisiana Public Facilities Authority Hospital Bonds Series 2005B, $50,000 tax-exempt bonds; due in varying installments from 2014 through 2030, which bear interest at a variable rate (0.17% at June 30, 2014)	49,700	—
Louisiana Public Facilities Authority Hospital Bonds Series 2005D, $88,325 bonds due in varying installments through 2028, which bear interest at a variable rate (2.81% at June 30, 2013)	—	76,275
Louisiana Public Facilities Authority Hospital Bonds Series 2005D, $88,325 bonds due in varying installments through 2028, which bear interest at a variable rate (0.1% at June 30, 2014)	72,975	—
Louisiana Public Facilities Authority Hospital Bonds Series 2008A, $47,185 bonds; due in varying installments through 2025, which bear interest at a variable rate (3.00% at June 30, 2013)	—	46,309
Louisiana Public Facilities Authority Hospital Bonds Series 2008A, $47,185 bonds; due in varying installments through 2025, which bear interest at a variable rate (0.2% at June 30, 2014)	46,125	—
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2009A, $125,000 bonds; due in varying installments from 2029 through 2039, with interest fixed at rates ranging from 6.625% to 6.75%	125,000	125,000
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012A, $56,530 bonds; due in varying installments through 2033, with interest fixed at 2.47% at June 30, 2014	56,530	56,530
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012B, $100,000 bonds; due in varying installments through 2042, with interest at a variable rate ranging from 4.00% to 5.00%	100,000	100,000
	581,540	593,313
Add unamortized premium	4,215	5,202
Total Obligated Group bonds	585,755	598,515

(In thousands)

		2014	2013
Other debt due in varying installments from 2015 through 2033		11,349	14,914
Total long-term debt for FMOLHS		597,104	613,429
Less current installments of long-term debt		14,392	13,822
	$	582,712	599,607

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (note 2). The total debt subject to the Obligated Group guarantee and Master Trust Indenture amounted to $585,755 and $598,515 as of June 30, 2014 and 2013, respectively.

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

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

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

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

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

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

On August 7, 2014, FMOLHS completed a refinancing of the Louisiana Public Facilities Authority Variable Rate Hospital Revenue Refunding Bonds (Franciscan Missionaries of Our Lady Health System Project) Series 2008A through the purchase of the Bonds by Capital One Municipal Funding. The interest rate on the Series 2008A Bonds is computed as a percentage of LIBOR plus a spread and matures in varying installments through 2025.

On August 25, 2014, FMOLHS completed a refinancing of the Louisiana Public Facilities Authority Variable Rate Hospital Revenue Notes (Franciscan Missionaries of Our Lady Health System Project) Series 2005B and Louisiana Public Facilities Authority Variable Rate Hospital Revenue Refunding Notes (Franciscan Missionaries of Our Lady Health System Project) Series 2005D (both formerly Bonds) through the purchase of the Notes by MUFG Union Bank, N.A. f/k/a Union Bank, N.A. The interest rates on the Series 2005B and Series 2005D Revenue Notes are computed as a percentage of LIBOR plus a spread and matures in varying installments through 2028.

FMOLHS and FMOLHS Affiliates made cash payments for interest of $21,567 and $25,106 during the years ended June 30, 2014 and 2013, respectively.

(In thousands)

Aggregate maturities of long-term debt at June 30, 2014 follow:

Year ending June 30:		
2015	$	14,392
2016		19,160
2017		13,087
2018		11,420
2019		14,460
Thereafter		520,370
	$	592,889

(12) Interest Rate Swaps

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

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

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

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

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

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

(In thousands)

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations. The net unrealized gain (loss) on the interest rate swaps for the years ended June 30, 2014 and 2013 was $(1,016) and $10,040, respectively, and is included in nonoperating gains (losses) in the accompanying consolidated statements of operations.

The following is a summary of the contracts outstanding at June 30, 2014 and 2013 and are recorded, as applicable, in either other assets or other long-term liabilities:

June 30, 2014

Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	(Decrease) increase in interest expense	Swap fair value
2005D	$ 72,975	7/1/2028	3.53%	0.12%	$ 2,489	(9,931)
2005D	72,975	7/1/2028	0.12	1.62	(1,093)	3,283
2008A	46,164	7/1/2025	3.66	0.12	1,684	(6,709)
2008A	47,900	7/1/2025	0.12	1.61	(708)	2,253

June 30, 2013

Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	(Decrease) increase in interest expense	Swap fair value
2005D	$ 76,275	7/1/2028	3.53%	0.15%	$ 2,579	(10,360)
2005D	76,275	7/1/2028	0.15	1.00	(647)	4,413
2008A	48,125	7/1/2025	3.66	0.15	1,689	(7,181)
2008A	48,125	7/1/2025	0.15	0.99	(408)	3,040

(In thousands)

(13) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by time and purpose at June 30, 2014 and 2013 are available for the following purposes:

		2014	2013
Healthcare services	$	18,015	13,784
Elderly housing		9,669	9,777
Building and equipment acquisitions		116	116
Educational services		4,805	3,437
Other		151	113
	$	32,756	27,227

Permanently restricted net assets totaled $5,300 at June 30, 2014 and 2013, the income from which is restricted for educational services.

Net assets released from restrictions for the years ended June 30, 2014 and 2013 are as follows:

		2014	2013
Healthcare services	$	2,802	2,678
Elderly housing		151	142
Building and equipment acquisitions		—	(1,033)
Educational services and other		650	399
	$	3,603	2,186

(14) Net Patient Service Revenue

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

(a) Medicare

Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies. The FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary. The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2009 to June 30, 2012.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary. The FMOLHS Affiliates' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2005 to June 30, 2010.

(c) Blue Cross

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

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

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

The FMOLHS Affiliates' net patient service revenue for the years ended June 30, 2014 and 2013 increased $10,962 and $29,840, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, and prior year retroactive adjustments.

With the expansion of prepayment reviews, including recovery audit contractor (RAC) reviews by the Centers for Medicare and Medicaid Services (CMS), the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service. Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue decreased by $8,463 and $3,700 for the years ended June 30, 2014 and 2013, respectively.

The FMOLHS's Affiliates' net patient service revenue is also reduced by provision for uncollectible accounts. The historical collections and write-offs of bad debts are reviewed annually and periodically during the fiscal year to determine if adjustments need to occur to the allowance for uncollectible accounts. The allowance for uncollectible accounts includes an analysis of self-pay patients without insurance coverage, and an analysis of deductibles and copayment balances for patients with insurance coverage.

(In thousands)

FMOLHS's Affiliates' allowance for uncollectible accounts increased $188,133 and is primarily due to an increase in the self-pay payor mix.

Presented below is a summary of amounts comprising net patient service revenue for the years ended June 30, 2014 and 2013:

		2014	2013
Inpatient revenue	$	1,938,026	1,722,505
Outpatient revenue		2,207,841	1,734,913
Gross patient service revenue		4,145,867	3,457,418
Less provision for contractual and other adjustments		2,478,429	1,987,460
Less provision for uncollectible accounts		190,314	161,838
Net patient service revenue	$	1,477,124	1,308,120

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

		2014	Percentage		2013	Percentage
Medicare	$	415,509	25%	$	468,148	32%
Medicaid		253,050	15		101,538	7
Blue Cross		351,508	21		348,772	24
Self-pay		240,254	14		199,114	13
Managed care/other		407,117	25		352,386	24
	$	1,667,438	100%	$	1,469,958	100%

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The impact of the Health Care Acts is complicated and difficult to predict, but FMOLHS anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models. Many healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors, employers, and individuals. FMOLHS continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, FMOLHS must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. FMOLHS anticipates that its current efforts at implementing an enterprise-wide EHR will enable its compliance with Meaningful Use objectives mandated in the HITECH legislation.

(In thousands)

(15) Business and Credit Concentrations

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

The mix of accounts receivable from patients and third-party payors at June 30, 2014 and 2013 is as follows:

	2014	2013
Medicare	26%	27%
Medicaid	8	9
Blue Cross	20	20
Self-pay	17	13
Managed care/other	29	31
	100%	100%

(16) Related-party Transactions

The FMOL Sisters formed the Franciscan Fund (Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs. Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund. During 2014 and 2013, FMOLHS made no contributions to the Fund.

During 2011, FMOLHS Affiliates entered into an Operating Agreement with Capital Area Shared Services Organization, a related party. The agreement has an initial term expiring December 2016. The Operating Agreement requires FMOLHS Affiliates to commit to pay certain sublicense fees relating to its use of the services made available to the related third party and to pay certain implementation and system build costs and other costs contemplated under an information system contract for a period through December 31, 2016. FMOLHS has approximately $4,000 and $5,667 in prepayments at June 30, 2014 and 2013, respectively, included in other assets related to these agreements.

The affiliation agreement between FMOLHS Affiliate and Mary Bird Perkins Cancer Center was effective July 1, 2012. This agreement is to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services. The cost of this program is shared by both entities and the operating expense for FMOLHS for the years ended June 30, 2014 and 2013 was $1,028 and $677, respectively.

During 2013, FMOLHS Affiliate also entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services. The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel. The management services and staffing expenses incurred for the year ended June 30, 2014 were $4,028 and $1,130, respectively.

Effective February 2012, FMOLHS amended the Operating Agreement with Resource Optimization & Innovation, LLC, which is organized to facilitate and administer the purchasing, manufacturing, processing, and distribution of medical and pharmaceutical products and services at competitive prices. FMOLHS's ownership percentage in Resource Optimization & Innovation, LLC is 10%, and the equity in income from this equity investee for the years ended June 30, 2014 and 2013 was $1,366 and $1,402, respectively.

(In thousands)

(17) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans). The following table at June 30, 2014 and 2013 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans:

		2014	2013
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$	739,788	724,658
Service cost		24,189	26,037
Interest cost		37,737	34,719
Actuarial losses (gains)		73,942	(28,982)
Benefits paid		(18,671)	(16,644)
Projected benefit obligation, end of year		856,985	739,788
Change in plan assets:			
Fair value of plan assets, beginning of year		474,836	420,067
Actual return on plan assets		83,018	51,055
Contributions made		19,738	20,358
Benefits paid		(18,671)	(16,644)
Fair value of plan assets, end of year		558,921	474,836
Funded status	$	(298,064)	(264,952)

		2014	2013
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost	$	(298,064)	(264,952)
Unrestricted net assets		167,950	150,657
Amounts recognized in unrestricted net assets:			
Prior service cost	$	(1,307)	(1,544)
Net actuarial loss		169,257	152,201
	$	167,950	150,657

(Continued)

(In thousands)

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2014 and 2013 were as follows:

	2014	2013
Weighted average discount rate	4.58%	5.17%
Rate of compensation increase	3.50–4.25	3.50–4.25

Net periodic pension cost for the years ended June 30, 2014 and 2013 includes the following components:

	2014	2013
Service cost, benefits earned during the year	$ 24,189	26,037
Interest cost on projected benefit obligation	37,737	34,719
Expected return on plan assets	(37,427)	(33,032)
Amortization of actuarial losses	11,295	20,971
Amortization of prior service cost	(237)	(237)
Net periodic pension cost	35,557	48,458
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss (gain)	28,351	(47,004)
Amortization of net actuarial losses	(11,295)	(20,971)
Amortization of prior service cost	237	237
	17,293	(67,738)
Total recognized in net periodic benefit costs and unrestricted net assets	$ 52,850	(19,280)

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Weighted average discount rate	5.17%	4.85%
Expected return on plan assets	7.50	8.00
Rate of compensation increase	3.50–4.25	3.50–4.25

(In thousands)

The defined-benefit pension plan asset allocation as of the measurement date (June 30, 2014 and 2013) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2014	2013	Target allocation
U.S. Equity	20%	22%	15%–25%
Global equity	16	15	10–20
Real assets	9	8	5–15
Fixed income and cash	15	16	10–25
Emerging markets	7	5	3–10
Hedge funds	29	30	15–35
Private equity funds	4	4	2–10

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

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

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

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

(Continued)

(In thousands)

underlying investments of the fund. Level 3 assets include investments in private equities and hedge funds valued using significant unobservable inputs.

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2014 and 2013:

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset category:				
Cash	$ 15,290	—	—	15,290
Equity securities:				
U.S. companies	70,466	—	—	70,466
U.S. companies – alternative investments	—	—	40,476	40,476
International companies	61,418	—	—	61,418
International companies – alternative investments	—	27,924	—	27,924
Real assets	29,128	—	—	29,128
Real assets – alternative investments	—	18,513	—	18,513
Fixed income securities:				
U.S. government guaranteed	5,986	—	—	5,986
U.S. agency	—	15,488	—	15,488
Corporate	—	19,419	—	19,419
Municipal	—	1,480	—	1,480
Alternative investments	—	—	3,184	3,184
Other	22,590	1,897	—	24,487
Emerging markets	—	19,899	20,739	40,638
Alternative asset funds:				
Hedge funds	—	—	162,702	162,702
Natural resource funds	—	—	5,087	5,087
Real estate funds	—	—	2,478	2,478
Private equity funds	—	—	14,757	14,757
Total	$ 204,878	104,620	249,423	558,921

(Continued)

(In thousands)

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Asset category:				
Cash	$ 19,515	—	—	19,515
Equity securities:				
U.S. companies	74,740	—	—	74,740
U.S. companies – alternative investments	—	—	28,246	28,246
International companies	47,992	—	—	47,992
International companies – alternative investments	—	22,809	—	22,809
Real assets	22,672	—	—	22,672
Real assets – alternative investments	—	15,876	—	15,876
Fixed income securities:				
U.S. government guaranteed	4,278	—	—	4,278
U.S. agency	—	11,965	—	11,965
Corporate	—	17,299	—	17,299
Municipal	—	785	—	785
Alternative investments	—	—	2,826	2,826
Other	15,766	2,161	—	17,927
Emerging markets	—	12,527	12,838	25,365
Alternative asset funds:				
Hedge funds	—	—	143,130	143,130
Natural resource funds	—	—	5,491	5,491
Real estate funds	—	—	2,565	2,565
Private equity funds	—	—	11,355	11,355
Total	$ 184,963	83,422	206,451	474,836

There were no transfers into or out of Level 1, Level 2, and Level 3 investments during fiscal 2014 and 2013.

(In thousands)

The fair values of the following plan assets have been estimated using the net assets value per share as of June 30, 2014 and 2013:

	2014	2013	Redemption terms**	Notice period (days)	Remaining life**
Asset category:					
U.S. equity funds (a)	$ 40,476	28,246	Quarterly	60	—
International equity funds (b)	27,924	22,809	Monthly	10	—
International emerging markets (c)	40,637	25,365	Monthly	30	—
Fixed income special situations fund (d)	3,185	2,826	—	—	1 year
Hedge fund of funds (e)	162,702	143,130	Quarterly – annually	30 – 180	—
Real asset funds (f)	18,513	15,876	Monthly	24	—
U.S. venture capital funds (g)	6,183	4,645	—	—	4 – 6 years
U.S. private equity (h)	3,504	3,218	—	—	4 – 6 years
International private equity (i)	5,071	3,493	—	—	4 – 6 years
Natural resources (j)	5,087	5,491	—	—	4 – 6 years
Private real estate (k)	2,478	2,565	—	—	1 year

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

(a) The primary objective of the U.S. equity funds is to match the risk and return characteristics of the S&P 500 Index.

(b) The international equity fund's investment objective is to outperform the MSCI World Market Index by investing in a portfolio of publicly traded equity securities.

(c) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S., emerging market equities.

(d) The primary objective of the fixed income special situations fund is to outperform the S&P LSTA Leveraged Loan Index by focusing their investments in asset-based lending, on a senior-secured basis, to companies for working capital, project financing, refinancing, and capital structure improvement.

(e) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns through strategies such as multistrategy, event focused, distressed, U.S. long/short, and global long/short.

(f) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally.

(In thousands)

(g) U.S. venture capital funds invest in target funds, which in turn, make venture capital investments primarily in emerging growth companies with the objective of obtaining long-term growth capital.

(h) U.S. private equity funds invest in private limited partnerships, which in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment.

(i) International private equity funds invest in limited partnerships, which in turn, make international private equity investments with the objective of obtaining long-term growth of capital.

(j) Natural resources funds invest in limited partnerships, which in turn, make oil, gas, and timber investments.

(k) Private real estate invest its capital on a pari passu basis in certain real estate funds formed as limited partnerships, limited liability companies, private real estate investment trusts, or similar entities that will, in turn, invest in office, retail, industrial and other commercial real estate properties, as well as in select residential properties, or in real estate-related securities.

The following tables present a roll-forward of the fair value of Level 3 (significant unobservable inputs) plan assets for the years ended June 30, 2014 and 2013:

	June 30, 2014							
	Hedge Fund	Natural Resource Funds	Real Estate Funds	Private Equity	Emerging Markets	Equity	Fixed Income	Total
Beginning balance as of June 30, 2013	$ 143,130	5,491	2,565	11,355	12,838	28,246	2,826	206,451
Total gains or losses:								
Realized and unrealized gains and losses:								
Relating to assets held at end of year	(1,442)	385	329	2,902	2,901	8,730	254	14,059
Relating to assets sold during the year	379	—	—	—	—	—	—	379
Purchases, issuances, sales, and settlements:								
Purchases	28,000	30	—	2,144	5,000	3,500	585	39,259
Sales	(7,365)	(819)	(416)	(1,644)	—	—	(481)	(10,725)
Ending balance as of June 30, 2014	$ 162,702	5,087	2,478	14,757	20,739	40,476	3,184	249,423

(In thousands)

	June 30, 2013								
		Hedge Fund	Natural Resource Funds	Real Estate Funds	Private Equity	Emerging Markets	Equity	Fixed Income	Total
Beginning balance as of June 30, 2012	$	89,843	5,275	2,492	9,798	8,866	15,758	2,678	134,710
Total gains or losses:									
Realized and unrealized gains and losses:									
Relating to assets held at end of year		14,317	475	276	990	472	4,488	201	21,219
Relating to assets sold during the year		(457)	—	—	—	—	—	—	(457)
Purchases, issuances, sales, and settlements:									
Purchases		40,750	134	48	1,504	3,500	8,000	668	54,604
Sales		(1,323)	(393)	(251)	(937)	—	—	(721)	(3,625)
Ending balance as of June 30, 2013	$	143,130	5,491	2,565	11,355	12,838	28,246	2,826	206,451

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

As of June 30, 2014 and 2013, the plans had accumulated benefit obligations (ABO) of $765,305 and $657,150, respectively. At June 30, 2014 and 2013, the fair value of plan assets falls short of the ABO by $206,382 and $182,314, respectively.

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $(11,978) and $(11,058), respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2014 are as follows:

Year(s) ending June 30:		
2015	$	22,736
2016		25,809
2017		28,879
2018		32,059
2019		35,037
2020–2024		223,090

(In thousands)

(b) Defined Contribution Plans

The FMOLHS Affiliates also sponsor 403(b) and 401(k) plans. These defined contribution plans are available to substantially all employees. No contributions are made to the plans by the FMOLHS Affiliates.

The defined benefit pension plans were closed to new entrants in 2006 and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan. The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates. Contribution expense of $9,596 and $7,100 was recorded for the years ended June 30, 2014 and 2013, respectively.

(c) Retiree Medical Plan

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder. The healthcare plan is funded on a pay-as-you-go basis. Lourdes retains the right to modify or terminate the benefits and/or cost sharing provisions. The accrued liability for such benefits was approximately $663 and $823 at June 30, 2014 and 2013, respectively, and is included in other long-term liabilities.

(18) Functional Expense

The FMOLHS Affiliates provide healthcare and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Healthcare services	$ 1,069,128	976,031
General and administrative	484,987	393,276
Educational services	21,250	21,255
Fund-raising	6,230	3,132
	$ 1,581,595	1,393,694

(Continued)

(In thousands)

(19) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2014 and 2013.

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2014 and 2013 are summarized as follows:

	2014		2013	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
Liabilities – long-term debt	$ 597,104	665,392	613,429	642,446

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

(In thousands)

(b) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2014 and 2013:

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets category:				
Equity securities:				
U.S. companies	$ 84,802	—	—	84,802
International companies	76,847	—	—	76,847
Real assets	36,168	26,661	—	62,829
Fixed income securities:				
U.S. government guaranteed	9,509	—	—	9,509
U.S. agency	—	32,631	—	32,631
Corporate	—	33,035	—	33,035
Municipal	—	9,633	—	9,633
Other	55,614	5,097	—	60,711
Emerging markets	—	28,306	—	28,306
Alternative asset funds:				
Hedge funds	—	81	—	81
Private equity	—	73	—	73
Interest rate swaps	—	5,536	—	5,536
Total – categorized	$ 262,940	141,053	—	403,993
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				502,496
				$ 906,489
Liabilities:				
Interest rate swaps	$ —	16,640	—	16,640

(In thousands)

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets category:				
Equity securities:				
U.S. companies	$ 90,223	—	—	90,223
International companies	60,884	—	—	60,884
Real assets	28,059	22,901	—	50,960
Fixed income securities:				
U.S. government guaranteed	8,575	—	—	8,575
U.S. agency	—	29,372	—	29,372
Corporate	—	30,705	—	30,705
Municipal	—	11,507	—	11,507
Other	55,332	6,388	—	61,720
Emerging markets	—	19,034	—	19,034
Alternative asset funds:				
Hedge funds	—	109	—	109
Interest rate swaps	—	7,453	—	7,453
Total – categorized	$ 243,073	127,469	—	370,542
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				469,808
				$ 840,350
Liabilities:				
Interest rate swaps	$ —	17,541	—	17,541

The fair values of the following investments have been estimated using the net assets value per share as of June 30, 2014 and 2013:

	2014	**2013**	**Redemption terms****	**Notice period (days)**	**Remaining life****
Asset category:					
International emerging markets (a)	$ 28,306	19,034	Monthly	30	—
Real asset funds (b)	26,661	22,901	Monthly	24	—

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

(a) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S., emerging market equities.

(b) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally.

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2014 or 2013.

The investments classified as Level 2 are as follows:

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

(c) Limitations

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

(20) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expenses provided by law.) FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer. As of June 30, 2014, FMOLHS has significant excess insurance coverage in place for general and professional liability risks, with a $2,000 self-insured retention for professional liability and a $1,000 layer of self-insurance for general liability. A $6,000 aggregate sits above these limits, covering general and professional liability. Incurred losses identified under FMOLHS's incident reporting system and incurred, but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The reserve for estimated professional and general liability, and worker's compensation costs is approximately $30,207 and $31,888 as of June 30, 2014 and 2013, respectively. Claims liabilities are estimated at a present value of future claims payments using a discount rate of 3%.

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries. FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2014. To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

FMOLHS is also self-insured with respect to employee health coverage (up to $500 limit per claim) and workers' compensation (up to a limit of $450 per individual claim). Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program. The employee health self-insured reserves are approximately $11,261 and $7,939 as of June 30, 2014 and 2013, respectively, and are included in other current liabilities in the consolidated balance sheets. The workers' compensation reserves are approximately $13,863 and $14,522 as of June 30, 2014 and 2013, respectively, and are included in professional and general liabilities in the consolidated balance sheets.

(In thousands)

(21) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities under operating leases. The terms of these leases range from month-to-month to 20 years. Assets held for lease at June 30, 2014 and 2013 consist of buildings and improvements with an original cost of $231,405 and $233,559, respectively, and fixed equipment with an original cost of $19,754 and $14,707, respectively. Total accumulated depreciation is $113,506 and $103,578 at June 30, 2014 and 2013, respectively. Future minimum lease payments to be received at June 30, 2014 are as follows:

Year ending June 30:		
2015	$	10,500
2016		7,734
2017		6,627
2018		5,466
2019		4,841
Thereafter		20,198
	$	55,366

(22) Commitments and Contingencies

(a) Investments

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

(b) Capital Leases

As of June 30, 2014, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year. Future minimum lease payments as of June 30, 2014 are as follows:

Year ending June 30:		
2015	$	10,008
2016		3,453
2017		1,581
2018		608
Total minimum lease payments		15,650
Less amounts representing interest (rates ranging from 6.0% to 14.5%)		737
Present value of future minimum lease payments		14,913
Less current portion of capital lease obligations		8,527
Capital lease obligations excluding current portion	$	6,386

(Continued)

(In thousands)

The net book value of assets under capital lease as of June 30, 2014 and 2013 was $19,914 and $19,754, respectively.

For the year ended June 30, 2013, FMOLHS entered into new capital leases for equipment in the amount of $1,382. No capital leases were entered into for the year ended June 30, 2014.

(c) Operating Leases – Lessee

Rental expense for all operating leases totaled $21,097 and $14,081 for the years ended June 30, 2014 and 2013, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2014 follow:

Year ending June 30:		
2015	$	17,107
2016		15,230
2017		13,263
2018		8,880
2019		8,501
Thereafter		24,131
	$	87,112

(d) Specialty Extended Care Hospital of Monroe

During the years ended June 30, 2014 and 2013, St. Francis had a leasing arrangement with Specialty Extended Care Hospital of Monroe, LLC (Extended Care), a distinct and separate long-term care hospital, with rates based on square footage. In addition to the lease arrangement, a separate services agreement existed for the provision of ancillary, clinical, and support services, based on fair market value rates. This lease and services agreement was effective November 1, 2009 between St. Francis and St. Francis Specialty Hospital (Specialty), and was subsequently assigned to Extended Care as a result of an asset purchase agreement between Specialty and Extended Care. The initial term was for five years, with automatic renewal of the lease for subsequent one-year terms unless written notice is given. Rental income and income related to the services agreement with Extended Care totaled $2,603 and $2,637 for the years ended June 30, 2014 and 2013, respectively. Amounts due from Extended Care at June 30, 2014 and 2013 were $693 and $785, respectively.

(e) Community Health Center Lease

An amended lease was executed by St. Francis for the Community Health Center (CHC) space during the year ended June 30, 1998. The amended lease provided for an expansion of the leased premises through construction of an addition to the CHC building by St. Francis Ambulatory Services, Inc. (SFASI) at the leased site. The building was completed during the year ended June 30, 1999, and SFASI took occupancy of the building. Concurrently, the lease has termed and is month to month, and annual rentals are the greater of $601 annually, or an increase based upon the CPI through termination of the lease.

(f) Perkins Plaza Ambulatory Surgery Center, L.L.C.

The Lake has a lease with Perkins Plaza Ambulatory Surgery Center, L.L.C., an equity investment of 70%, whereby Lake receives minimum rent of $690 per year subject to annual adjustments. Monthly rental installments were $62 from July 2013 to December 2013 and $57 from January 2014 through June 2014 and will increase by 2.5% each year.

(g) Asset Retirement Obligations

FMOLHS recognizes obligations associated with the future retirement of long-lived assets. Estimated asset retirement obligations of $1,918 and $3,379 for the years ended June 30, 2014 and 2013, respectively, are classified as a long-term liability.

(h) Contingent Liabilities

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

St. Francis, the Lake, and Lourdes received notice that each are included in a national investigation conducted by the Department of Justice concerning implantable cardioverter defibrillators. Each hospital is cooperating fully in the investigation. Although the results of the investigation cannot be predicted with certainty, management believes the outcome will not have a material adverse effect on the consolidated financial statements.

(i) Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The FMOLHS Affiliates are subject to these regulatory efforts and have corporate compliance committees that monitor and respond to regulatory changes and any issues that may arise. FMOLHS does not expect any matter to have a material adverse effect on its financial position, results of operations, or liquidity.

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

(j) Information Technology Contract

During fiscal year 2009, FMOLHS entered into a variety of contracts with a major information technology vendor. The agreements are generally for terms of seven years. The contracts generally commit FMOLHS to the purchase of a variety of information technology products and services from this vendor for defined payment streams over the terms of the contracts. Certain software license and related implicit maintenance costs were capitalized at the inception of the agreements in the amount of $17,621, with recognition of an associated liability related to FMOLHS's acquisition of these intangible assets. Capitalized software and implied maintenance costs are being amortized over the estimated useful life of the software licenses (generally seven years) and the implicit maintenance period (which varies depending on first date of productive use), respectively. Other contract costs are evaluated for capitalization or expense recognition under relevant accounting literature as associated products and/or services are provided.

(In thousands)

The following table summarizes FMOLHS's future payment commitments under the contract as of June 30, 2014:

	Capitalized software obligation	Other
2015	$ 3,420	10,872
2016	1,140	2,761
Total	4,560	$ 13,633
Less amounts representing interest at 6.74%	216	
Long-term obligation (included in other long-term liabilities)	$ 4,344	

(23) Cooperative Endeavor Agreements

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

- The Lake constructed a medical education building (MEB) to house LSU training programs (to be donated by the Lake to LSU at completion of construction), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center. The Lake recorded $19,000 in other current liabilities in the consolidated balance sheets as of June 30, 2014 and 2013 and an associated other expense was recorded in the consolidated statement of operations for the year ended June 30, 2012 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB. Within 60 days of final acceptance of work, OLOL will transfer the title to this building to LSU, which is projected to occur during fiscal year 2015.

- DHH provided payments under a reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that have occurred with the Lake's increased role in LSU's graduate medical education program. The supplemental hospital payments received through June 30, 2014 were based on estimated costs for Medicaid and uninsured patients. A reconciliation of all costs and payments for fiscal years ending June 30, 2014 and 2013 made pursuant to this agreement will occur in fiscal year 2015. For the years ended June 30, 2014 and 2013, the Lake recorded additional net patient service revenues less the estimated amounts for retroactive adjustments under the agreement of $101,982 and $25,234, respectively.

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

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities. Lease agreements were implemented for LSU Health outpatient facilities and equipment.
- GME program amendments were implemented for assignment of GME reimbursement caps.
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics.
- For the years ended June 30, 2014 and 2013, the amount paid to LSU for leased building and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $30,174 and $12,407, respectively.

Angels entered into an agreement with the DHH and LSU in January 2014. Angels receives disproportionate share payments and other supplemental payments from DHH to cover costs associated with higher Medicaid and uninsured patient volumes for this service area. The commencement date for patient care services for Angels was March 7, 2014. For the year ended June 30, 2014, Angels recorded additional net patient service revenue of $25,443.

The major components of the Angels' agreement includes:

- Angels leases facilities and equipment and manages the operations of the hospital and outpatient facilities.
- Angels agrees to continue the graduate medical education and training programs in Bogalusa, Louisiana.
- Angels established clinical services agreements, including the LSU School of Medicine, to provide professional services at the hospital and outpatient facilities.
- For the year ended June 30, 2014, the amount paid to LSU for leased buildings and equipment, GME faculty and resident expenses, and costs of clinical services associated with the Cooperative Endeavor Agreement was $5,026.

(24) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through October 29, 2014, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose.

SUPPLEMENTAL SCHEDULES

Schedule 1

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

Consolidating Schedule – Balance Sheet Information

June 30, 2014
(with comparative totals as of June 30, 2013)

(In thousands)

Assets	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2014	Total 2013
Current assets:									
Cash and cash equivalents	$ 17,053	50,596	17,780	7,750	27,852	10,185		131,216	131,937
Short-term investments	2,602	19,530	—	2	—	—	—	22,134	19,231
Receivables:									
Patients	247	393,877	34,257	54,013	53,836	12,555	—	548,785	382,929
Less allowance for uncollectible accounts	—	(267,233)	(19,281)	(17,105)	(20,579)	(10,190)	—	(334,388)	(146,255)
Net patient receivables	247	126,644	14,976	36,908	33,257	2,365	—	214,397	236,674
Other current assets	10,656	53,903	2,960	15,763	11,741	1,605	(1,311)	95,317	127,541
Total current assets	30,558	250,673	35,716	60,423	72,850	14,155	(1,311)	463,064	515,383
Assets limited as to use, net of current portion	33,437	623,780	8,015	176,711	17,027	—	—	858,970	754,249
Property and equipment, net	51,185	672,875	51,985	111,509	255,449	125	—	1,143,128	1,102,803
Other assets	16,509	88,278	6,259	29,023	32,210	5,153	(27,517)	149,915	152,382
Total assets	$ 131,689	1,635,606	101,975	377,666	377,536	19,433	(28,828)	2,615,077	2,524,817
Liabilities and Net Assets									
Current liabilities:									
Lines of credit	$ —	5,601	131	—	—	—	—	5,732	835
Current installments of long-term debt	—	8,081	1,129	2,719	2,463	—	—	14,392	13,822
Current portion of capital lease obligations	3,132	1,462	156	147	3,630	—	—	8,527	8,213
Accounts payable	8,175	51,111	3,461	8,978	11,022	3,536	—	86,283	88,205
Other current liabilities	20,900	86,589	11,377	31,083	17,868	3,910	(1,311)	170,416	202,967
Total current liabilities	32,207	152,844	16,254	42,927	34,983	7,446	(1,311)	285,350	314,042
Professional and general liabilities, excluding current portion	26,967	17,046	2,121	6,428	3,389	—	(25,744)	30,207	31,888
Long-term debt, excluding current installments	—	290,932	14,634	131,817	145,329	—	—	582,712	599,607
Capital lease obligations, excluding current portion	1,922	3,858	248	—	358	—	—	6,386	12,463
Accrued pension cost	—	190,558	—	49,795	57,711	—	—	298,064	264,952
Other long-term liabilities	19,926	153	—	2,023	738	—	—	22,840	24,220
Total liabilities	81,022	655,391	33,257	232,990	242,508	7,446	(27,055)	1,225,559	1,247,172
Net assets:									
Unrestricted	50,626	927,328	68,728	143,430	129,545	11,987	(1,773)	1,329,871	1,221,806
Temporarily restricted	41	29,807	208	1,246	1,454	—	—	32,756	27,227
Permanently restricted	—	5,300	—	—	—	—	—	5,300	5,300
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc.	50,667	962,435	68,936	144,676	130,999	11,987	(1,773)	1,367,927	1,254,333
Noncontrolling interests	—	17,780	(218)	—	4,029	—	—	21,591	23,312
Total net assets	50,667	980,215	68,718	144,676	135,028	11,987	(1,773)	1,389,518	1,277,645
Total liabilities and net assets	$ 131,689	1,635,606	101,975	377,666	377,536	19,433	(28,828)	2,615,077	2,524,817

See accompanying independent auditors' report.

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2014	Total 2013
Changes in unrestricted net assets:									
Unrestricted revenues:									
Net patient service revenue, net of contractual allowances and discounts	$ 9,391	1,024,991	110,438	241,308	248,765	32,545	—	1,667,438	1,469,958
Provision for uncollectible accounts	(380)	(140,825)	(18,347)	(13,814)	(13,188)	(3,760)	—	(190,314)	(161,838)
Net patient service revenue	9,011	884,166	92,091	227,494	235,577	28,785	—	1,477,124	1,308,120
Other revenue	115,954	83,693	2,112	12,148	9,076	37	(121,586)	101,434	93,689
Equity in income from equity investees, net	1,366	7,539	371	641	3,812	—	—	13,729	11,659
Total unrestricted revenues	126,331	975,398	94,574	240,283	248,465	28,822	(121,586)	1,592,287	1,413,468
Net assets released from restrictions used for operations:									
Satisfaction of program restrictions	47	2,772	111	235	287	—	—	3,452	2,044
Expiration of time restrictions	—	151	—	—	—	—	—	151	142
Total net assets released from restrictions used for operations	47	2,923	111	235	287	—	—	3,603	2,186
Total unrestricted revenues and other support	126,378	978,321	94,685	240,518	248,752	28,822	(121,586)	1,595,890	1,415,654
Operating expenses:									
Salaries and wages	47,221	341,303	40,806	107,451	76,706	6,078	—	619,565	550,375
Employee benefits	13,157	86,032	9,152	29,833	19,947	1,073	(1,733)	157,461	146,888
Total salaries, wages, and benefits	60,378	427,335	49,958	137,284	96,653	7,151	(1,733)	777,026	697,263
Physician fees	—	36,125	282	2,247	7,803	3,025	—	49,482	31,207
Professional services	1,093	14,684	849	3,685	795	196	—	21,302	17,463
Other services	49,102	193,315	19,567	49,387	47,205	2,469	(111,529)	249,516	207,870
Leases, insurance, and utilities	11,271	33,555	3,366	11,528	10,096	2,131	(8,281)	63,666	50,751
Supplies and other	395	186,543	11,055	46,627	54,154	1,806	—	300,580	276,443
Depreciation and amortization	22,676	37,821	4,067	11,131	16,331	—	—	92,026	84,098
Interest	462	11,123	733	5,832	6,788	—	(43)	24,895	25,821
Other	543	1,674	—	375	510	—	—	3,102	2,778
Total operating expenses	145,920	942,175	89,877	268,096	240,335	16,778	(121,586)	1,581,595	1,393,694
Operating income (loss)	(19,542)	36,146	4,808	(27,578)	8,417	12,044	—	14,295	21,960

(Continued)

Schedule 2

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2014	Total 2013
Nonoperating gains (losses):									
Investment return	1,477	89,651	1,192	25,580	2,360	—	—	120,260	70,038
Other	3	(3,138)	—	—	—	—	—	(3,135)	(10,316)
Change in fair value of interest rate swap agreement	(1,016)	—	—	—	—	—	—	(1,016)	10,040
Total nonoperating gains (losses), net	464	86,513	1,192	25,580	2,360	—	—	116,109	69,762
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses	(19,078)	122,659	6,000	(1,998)	10,777	12,044	—	130,404	91,722
Noncontrolling interests	—	(3,322)	127	—	(983)	—	—	(4,178)	(2,569)
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	(19,078)	119,337	6,127	(1,998)	9,794	12,044	—	126,226	89,153
Pension-related changes other than net periodic pension cost	—	(14,706)	—	(2,266)	(321)	—	—	(17,293)	67,738
Other	26,696	(17,777)	(1,683)	(4,533)	(3,514)	(57)	—	(868)	(565)
Increase (decrease) in unrestricted net assets	$ 7,618	86,854	4,444	(8,797)	5,959	11,987	—	108,065	156,326

See accompanying independent auditors’ report.

Schedule 3

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

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc. and subsidiaries	Our Lady of the Lake Hospital, Inc. and Affiliated Organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Our Lady of the Angels Hospital	Eliminations	Total 2014	Total 2013
Changes in unrestricted net assets:									
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses attributable to FMOLHS	$ (19,078)	119,337	6,127	(1,998)	9,794	12,044	—	126,226	89,153
Pension-related changes other than net periodic pension cost	—	(14,706)	—	(2,266)	(321)	—	—	(17,293)	67,738
Other	26,696	(17,777)	(1,683)	(4,533)	(3,514)	(57)	—	(868)	(565)
Increase (decrease) in unrestricted net assets	7,618	86,854	4,444	(8,797)	5,959	11,987	—	108,065	156,326
Changes in temporarily restricted net assets:									
Contributions	—	6,717	(4)	273	1,162	—	—	8,148	8,297
Income from long-term investments, net	—	895	—	40	—	—	—	935	5
Net assets released from restrictions	(47)	(2,923)	(111)	(235)	(287)	—	—	(3,603)	(2,186)
Other	—	—	—	49	—	—	—	49	309
Increase (decrease) in temporarily restricted net assets	(47)	4,689	(115)	127	875	—	—	5,529	6,425
Changes in permanently restricted net assets	—	—	—	—	—	—	—	—	(210)
Changes in noncontrolling interest:									
Unrestricted revenues, gains, and other support in excess (less than) of expenses and losses attributable to FMOLHS	—	3,322	(127)	—	983	—	—	4,178	2,569
Distributions	—	(45)	—	—	(1,379)	—	—	(1,424)	(2,272)
Acquired controlling interest	—	(4,279)	—	—	—	—	—	(4,279)	—
Acquired noncontrolling interest	—	—	—	—	—	—	—	—	15,838
Other	—	(196)	—	—	—	—	—	(196)	12
Changes in noncontrolling interest	—	(1,198)	(127)	—	(396)	—	—	(1,721)	16,147
Increase (decrease) in net assets	7,571	90,345	4,202	(8,670)	6,438	11,987	—	111,873	178,688
Net assets, beginning of year	43,096	889,870	64,516	153,346	128,590	—	(1,773)	1,277,645	1,098,957
Net assets, end of year	$ 50,667	980,215	68,718	144,676	135,028	11,987	(1,773)	1,389,518	1,277,645

See accompanying independent auditors' report.

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

Service to the Community (Unaudited)

June 30, 2014 and 2013

FMOLHS and the FMOLHS Affiliates are active, caring members of the communities they serve. In carrying out its mission of meeting the health needs of the people of God, the Board of Directors has established a policy under which FMOLHS Affiliates provide care to needy members of their communities. Following that policy, healthcare services costing $43,089 and $13,734 were provided without charge during the years ended June 30, 2014 and 2013, respectively. Charges foregone, based on established rates, totaled $118,259 and $38,576 for the years ended June 30, 2014 and 2013, respectively.

The FMOLHS Affiliates also participate in government programs including Medicare, Medicaid, and the TriCare program. Under these programs, the FMOLHS Affiliates provide care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. In some cases, these programs pay the FMOLHS Affiliates at amounts, which are less than their cost of providing services. The following table summarizes the amount of charges foregone (i.e., contractual adjustments) and the estimated losses incurred by the FMOLHS Affiliates due to inadequate payments by these programs and for charity for the years ended June 30, 2014 and 2013:

	2014		2013	
	Charges foregone	Estimated unreimbursed costs	Charges foregone	Estimated unreimbursed costs
Medicare	$ 926,571	87,991	850,192	72,837
Medicaid	217,212	52,257	319,104	66,635
Other	5,764	1,219	8,322	2,332
Charity	118,259	43,089	38,576	13,734
	$ 1,267,806	184,556	1,216,194	155,538

In addition to community services directly associated with providing hospital-based care, FMOLHS Affiliates serve their communities in numerous other ways. Although the FMOLHS Affiliates have estimated the cost of each of these efforts to serve their communities, management and the Boards of Directors believe that such costs represent only some of the many ways FMOLHS Affiliates serve their communities. The estimated costs for the years ended June 30, 2014 and 2013 are as follows:

	Net community benefit expense 2014	Net community benefit expense 2013
Subsidized health services	$ 5,180	11,154
Community health improvement services	3,169	2,590
Health professions education	4,673	6,849
Community building activities	954	610
Donations or in-kind contributions	2,432	4,449
Total	$ 16,408	25,652

(Continued)

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

Service to the Community (Unaudited)

June 30, 2014 and 2013

Subsidized health services – Includes the discount provided, at cost, to all patients that have no form of insurance coverage. Programs such as St. Elizabeth Community Clinic, Scott Family Clinic, and St. Bernadette's Clinic. Outreach programs include Franciscan House, an adult day healthcare facility. Mental health services and palliative care are also provided to the community.

Community health improvement services – Includes activities carried out to improve community health and costs, which are underwritten by FMOLHS Affiliates. These services include Camp Bluebird, Lafayette Community Healthcare Clinic, a medication program, Congregational Health Services, Northside High School Health Center, community seminars, immunological support, parish nurse program, LakeLine Direct, St. Martha Activity Center, Care Bus health services to students, ALS Clinic, Health Teacher School based program, and depression/anxiety screening.

Health professions education – Includes assistance to future healthcare professionals, nursing students, and pharmacy students. Clinical setting for undergraduate, vocational training, internships, clerkships, and residencies. Collaboration with local colleges for supervision and clinical training in pharmacy, respiratory therapy, health information management, and medical technology. Registered nurse recruitment activities, OLOL College, and participation in Medicare's Graduate Medical Education through affiliation with Louisiana Medical School and Medical Center of Louisiana at New Orleans will continue to support availability of future healthcare professionals.

Community building activities – Includes leadership development and training for community members such as emergency preparedness programs; community health education such as classes on breast feeding, childbirth basics, sibling class, and ABC's of childcare; community support with Meals on Wheels; community-based clinical services, including health screenings, discounted services provided to Louisiana Baptist Children's Home, Veteran's Administration, Rural Hospitals, ULM Athletic Department, MDA, Wellspring, and Handicap Children; workforce development, including Area Health Education Center; and provides community clinics, St. Vincent DePaul Charitable Pharmacy and Mary Bird Perkins use of land and buildings.

Donations and in kind contributions – Includes donations to various area community organizations such as United Way. Families Helping Families, Children's Coalition, Wellspring, YMCA, Haiti Project, Prevent Child Abuse, Komen Foundation, Alzheimer's Foundation, March of Dimes, Junior Achievement, Cystic Fibrosis, Community Fund for the Arts, and Miles Perret Cancer Foundation, , as well as employee costs associated with board and community involvement in various community organizations.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated subsidiaries (the System), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Baton Rouge, Louisiana
October 29, 2014

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations as of June 30, 2014 and 2013, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information included in Schedule 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014, on our consideration of Franciscan Missionaries of Our Lady Health System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franciscan Missionaries of Our Lady Health System, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Baton Rouge, Louisiana
October 29, 2014

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

Report on Federal Awards in Accordance with OMB Circular A-133

Year ended June 30, 2014

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

Table of Contents

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of our Lady Health System, Inc. and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Baton Rouge, Louisiana
October 29, 2014

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

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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

Report on Compliance for Each Major Federal Program

We have audited Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations' (the System) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2014. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively received $12,129,741 in federal awards, which is not included in the System's accompanying schedule of expenditures of federal awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the System as of and for the year ended June 30, 2014, and have issued our report thereon dated October 29, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baton Rouge, Louisiana
January 15, 2015

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM
AND AFFILIATED ORGANIZATIONS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal sponsor/Program title	Federal CFDA number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster*:						
U.S. Department of Education:						
Our Lady of the Lake College – Federal Work-Study (FWS)	84.033			$ 100,452	—	100,452
Our Lady of the Lake College – Federal Supplemental Education Opportunity Grant (FSEOG)	84.007			74,919	—	74,919
Our Lady of the Lake College – Federal Pell Grant Program (PELL)	84.063			2,209,339	—	2,209,339
Our Lady of the Lake College – Federal Direct Student Loans (Direct Loan)	84.268			17,399,429	—	17,399,429
Total Student Financial Aid Cluster				19,784,139	—	19,784,139
Other Financial Assistance:						
U.S. Department of Education:						
Our Lady of the Lake College – Strengthening Institutions Program (Title III)*	84.031			373,960	—	373,960
U.S. Department of Transportation:						
Pace – Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	L16-X-004/L16-X-006	La Dept of Transportation	—	233,992	233,992
U.S. Department of Housing and Urban Development:						
Our Lady of the Lake Hospital – Supportive Housing Program (SHP)	14.235	LA0100L6H041205	City of Baton Rouge	—	30,667	30,667
Our Lady of the Lake Hospital – Housing Opportunities for Persons with AIDS	14.241	HOPWA-12-0003	City of Baton Rouge	—	147,730	147,730
Total U.S. Department of Housing and Urban Development				—	178,397	178,397
U.S. Department of Health and Human Services:						
Our Lady of the Lake College – Nurse Anesthetist Traineeships	93.124			35,364	—	35,364
Our Lady of the Lake Hospital – Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Ryan White Part D)	93.153			221,386	—	221,386
Assumption Community Hospital – State Rural Hospital Flexibility Program (FLEX)	93.241			1,100	—	1,100
Assumption Community Hospital – Small Rural Hospital Improvement Grant Program (SHIP)	93.301			4,900	—	4,900
Health Information Technology Regional Extension Centers Program	93.718	90RC0049/01	Louisiana Health Care Quality Forum (LHCQF)	—	140,566	140,566
Our Lady of Angels Hospital – Ryan White Title IV Woman, Infants, Children, Youth and Affected Family Members AIDS Healthcare	93.859	H12HA24808	Louisiana State University Health System	—	206,476	206,476
Our Lady of the Lake Hospital – Grants for Primary Care Training and Enhancement	93.884			244,201	—	244,201
St. Elizabeth – National Bioterrorism Hospital Preparedness Program	93.889	059583	Louisiana Hospital Association	—	20,878	20,878
Our Lady of the Lake Hospital – National Bioterrorism Hospital Preparedness Program	93.889	059583	Louisiana Hospital Association	—	45,192	45,192
Our Lady of Lourdes Regional Medical Center – National Bioterrorism Hospital Preparedness Program	93.889	059583	Louisiana Hospital Association	—	10,517	10,517
Assumption Community Hospital – National Bioterrorism Hospital Preparedness Program	93.889	059583	Louisiana Hospital Association	—	4,025	4,025
St. Francis Medical Center – National Bioterrorism Hospital Preparedness Program	93.889	059583	Louisiana Hospital Association	—	149,748	149,748
Heart Hospital -National Bioterrorism Hospital Preparedness Program	93.889	not available	Louisiana Hospital Association	—	6,949	6,949
Total CFDA				—	237,309	237,309
Our Lady of the Lake Hospital – HIV Emergency Relief (Ryan White Part A)*	93.914	H89HA11432	City of Baton Rouge	—	796,803	796,803
Our Lady of the Lake Hospital – Early Intervention (Ryan White Part C)*	93.918			411,485	—	411,485
Total U.S. Department of Health and Human Services				918,436	1,381,154	2,299,590
U.S. Department of Homeland Security:						
Ollie Steele Burden Manor – Hazard Mitigation Grant	97.039			115,991	—	115,991
St Clare – Hazard Mitigation Grant	97.039			126,536	—	126,536
Total U.S. Department of Homeland Security				242,527	—	242,527
Corporation for National and Community Service:						
Our Lady of the Lake Hospital – Senior Companion Program (SCP)	94.016			194,572	—	194,572
Total federal expenditures				$ 21,513,634	1,793,543	23,307,177

* Denotes a major program

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

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Franciscan Missionaries of Our Lady Health System, Inc. and affiliated organizations (the System) under programs of the federal government for the year ended June 30, 2014. The System's consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., which collectively received $12,129,741 in federal awards, which is not included in the Schedule. The amounts reported as federal expenditures were obtained from the System's general ledger. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the System.

For purposes of the Schedule, federal expenditures include all grants, contracts, and similar agreements entered into directly between the System, the agencies and departments of the federal government, and all subawards to the System by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the Schedule is presented in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures of federal award programs are recognized on the accrual basis of accounting.

(3) Federal Direct Student Loans

The System's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by students during fiscal year 2014, which were not made by the System. The System is responsible only for the performance of certain administrative duties with respect to its Federal Direct Student Loan Program, and, accordingly, these loans are not included in its financial statements. The System is not required to maintain the balance of the loans outstanding to students and former students of the System under these programs. Such balances are maintained and administered by the lenders and guarantors of these loans.

During the year ended June 30, 2014, the System expended the following amount of new loans under the Direct Loan Program:

	CFDA number		Amount expended
Unsubsidized direct loans	84.268	$	8,995,795
Subsidized direct loans	84.268		3,888,804
Parents' loans for undergraduate students	84.268		461,402
Parents' loans for graduate students	84.268		4,053,428
Total		$	17,399,429

(4) Relationship to Consolidated Financial Statements

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

		2014
Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the System	$	3,588,126
Federal Supplemental Education Opportunity Grant – agency transactions		74,919
Federal Pell Grant Program – agency transactions		2,209,339
Federal Direct Student Loans (Direct Loan) – agency transactions		17,399,429
Nurse Anesthetists Traineeships – agency transactions		35,364
Federal expenditures per the Schedule	$	23,307,177

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	______	yes	x	no
• Significant deficiency(ies) identified not considered to be material weaknesses?	______	yes	x	none reported
Noncompliance material to the financial statements noted?	______	yes	x	no

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?	______	yes	x	no
• Significant deficiency(ies) identified not considered to be material weaknesses?	______	yes	x	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	______	yes	x	no

Identification of Major Programs

Name of federal program or cluster	CFDA numbers
Student Financial Aid Cluster/U.S. Department of Education	84.033, 84.007, 84.063, and 84.268
Strengthening Institutions Program (Title III)/ U.S. Department of Education	84.031
HIV Emergency Relief (Ryan White Part A)/ U.S. Department of Health and Human Services	93.914
Early Intervention (Ryan White Part C)/ U.S. Department of Health and Human Services	93.918

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
Auditee qualified as low-risk auditee?	x	yes	______	no

(2) Findings Related to the Consolidated Financial Statements Reported in Accordance with Government Auditing Standards

There were no findings relating to the consolidated financial statements reported in accordance with Government Auditing Standards for the year ended June 30, 2014.

(3) Findings and Questioned Costs Related to Federal Awards

There were no findings or questioned costs relating to the federal awards reported in accordance with OMB Circular A-133 for the year ended June 30, 2014.

Finding No. 2013-001 – Cash Management: Federal Direct Student Loans Draws

Federal Program
Federal Direct Student Loans

CFDA #
84.268

Federal Agency
U.S. Department of Education

Federal Award Year
July 1, 2012 through June 30, 2013

Criteria
The advance payment method permits, but does not require, institutions to draw down Title IV funds prior to disbursing funds to eligible students. The institution's request must not exceed the amount immediately needed to disburse funds to students. A disbursement of funds occurs on the date an institution credits a student's account or pays a student directly with either Student Financial Aid funds or its own funds. The institution must make the disbursements as soon as administratively feasible, but no later than 3 business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the Department of Education (34 CFR section 668.166(a)(1)). Excess cash includes any funds received from the Department of Education that are deposited or transferred to the institution's Federal account as a result of an award adjustment, cancellation, or recovery. However, an excess cash balance tolerance is allowed if that balance (1) is less than one percent of its prior-year drawdowns; and (2) is eliminated within the next 7 calendar days (34 CFR sections 668.166(a) and (b)). Interest earnings greater than $250 must be returned to the Department of Education (34 CFR section 668.163(c)(4)).

Condition
During June 2013 the System drew direct loan funds from the U.S. Department of Education totaling $590,523, which were not properly disbursed nor refunded within the 3 business day requirement for excess cash. The funds drawn down on June 26, 2013 were refunded on July 17, 2013. There was no interest earned on these funds.

Questioned Costs
None.

Context
Due to an oversight, Direct Loan funding was drawn in excess of disbursements to students. The System’s reconciliation process identified the error and the funds were refunded to the U.S. Department of Education. Due to the lapse of time between the draw and the reconciliation the funding was not returned within the 3 business days following the receipt of funds as required.

Effect
The System did not comply with the requirements over drawing down loan funds.

Recommendation

We recommend that management strengthen the System's policies and procedures to ensure that draws reflect immediate student disbursement requirements.

Finding Status

Management has since remediated the deficiency by revising the reconciliation process prior to the draw request. A reserve amount was also established and these funds are not drawn until the middle of the school semester after possible adjustments have occurred. Both controls were implemented to prevent future overdraws.

Finding No. 2013-002 – Federal Direct Student Loans – Disbursement Notification Letters

Federal Program
Federal Direct Student Loans

CFDA #
84.268

Federal Agency
U.S. Department of Education

Federal Award Year
July 1, 2012 through June 30, 2013

Criteria
Per 34 CFR Section 668.165(a), if an institution credits a student's account at the institution with a direct loan, the institution must notify the student, or parent in writing of (1) the date and amount of the disbursement; (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan.

Institutions that implement an affirmative confirmation process (as described in 34 CFR section 668.165 (a)(6)(i)) must make this notification to the student or parent no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution with Direct Loan, FPL, or TEACH Grants.

Condition
During our test work related to notifications for direct loan participants, we noted 32 notification letters were not promptly sent within the 30-day timeframe for 17 students of the 25 tested. Of the 32 notification letters, 30 letters were sent out 32 days after crediting the student's account and 2 were sent 46 days after crediting to the student's account.

Questioned Costs
No questioned costs are associated with this finding.

Context
A process lag caused the listing of students requiring notifications to be delayed. As a result, there were 32 loan disbursement notification letters that were not sent in a timely manner to 17 students.

Effect
The System did not comply with the time requirements over notifications for certain students receiving direct loans.

Recommendation
We recommend that management strengthen the System's policies and procedures to ensure that future notifications are sent timely.

Finding Status

Management has since remediated the deficiency by amending the procedures to ensure disbursement notifications are sent within the required timeframe. The College sends the notifications weekly to meet these requirements.