LOUISIANA CHILDREN'S MEDICAL CENTER

Consolidated Financial Statements

December 31, 2013 and 2012

LAPORTE
CPAs & BUSINESS ADVISORS

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Independent Auditor's Report

To the Governing Board of Trustees
Louisiana Children's Medical Center

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Louisiana Children's Medical Center (LCMC) (the System) which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

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

Auditor's 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 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 auditor's 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 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 LCMC as of December 31, 2013 and 2012, and the results of operations, changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purposes of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedules of expenditures of federal awards as required by Office of Management and Budget *Circular A-33, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for Children's Hospital and University Medical Center Management Corporation, subsidiaries of LCMC, for the purposes of additional analysis and are 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 purposes of forming an opinion on the consolidated financial statements taken as a whole. The supplemental balance sheets, statements of operations, changes in net assets and cash flows, and consolidating schedules as of and for the years ended December 31, 2013 and 2012 are presented for the purposes of additional analysis and are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our reports dated April 22, 2014, on our consideration of Touro Infirmary, Children's Hospital and University Medical Center Management Corporation's, subsidiaries of LCMC, internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering each subsidiary's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 22, 2014

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets
December 31, 2013 and 2012 (in Thousands)

	2013	2012
Assets		
Current Assets		
Cash and Cash Equivalents	**$ 330,044**	$ 47,101
Assets Limited as to Use	**1,617**	2,219
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of $39,027 and $17,238, in 2013 and 2012, Respectively	**106,571**	66,478
Other Receivables	**249**	12,408
Inventories	**19,685**	12,255
Prepaid Expenses	**9,739**	5,299
Total Current Assets	**467,905**	145,760
Assets Limited as to Use		
Designated for Capital Projects and Specific Programs	**802,270**	746,936
Restricted by Bond Indenture, Debt Service Reserve	**10,144**	10,113
Donor-Restricted Long-Term Investments	**13,734**	13,466
Restricted Other	**3,375**	627
Less: Amount Required for Current Obligations	**(1,617)**	(2,219)
Assets Limited as to Use, Net	**827,906**	768,923
Property, Plant, and Equipment, Net	**275,786**	237,662
Other Assets	**257,295**	3,511
Total Assets	**$ 1,828,892**	$ 1,155,856

The accompanying notes are an integral part of these consolidated financial statements.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets (Continued)
December 31, 2013 and 2012 (in Thousands)

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	**$ 72,327**	$ 27,778
Accrued Salaries and Wages	**31,180**	20,792
Current Maturities of Bonds Payable	**2,110**	1,985
Current Portion of Estimated Employee Health and Workers' Compensation Claims	**6,714**	4,608
Current Portion of Estimated Professional Liabilities Claims	**3,903**	3,725
Estimated Third-Party Payor Settlements, Net	**15,578**	17,585
Deferred Revene	**91,593**	-
Other	**6,778**	12,189
Total Current Liabilities	**230,183**	88,662
Bonds Payable, Net of Current Portion	**70,514**	72,608
Notes Payable	**253,000**	-
Estimated Workers' Compensation Claims, Net of Current Portion	**1,725**	1,880
Estimated Professional Liabilities Claims, Net of Current Portion	**6,762**	5,828
Employee Benefits, Net of Current Portion	**14,589**	20,397
Total Liabilities	**576,773**	189,375
Minority Interest	**683**	761
Net Assets		
Unrestricted	**1,235,192**	949,703
Temporarily Restricted	**8,407**	8,180
Permanently Restricted	**7,837**	7,837
Total Net Assets	**1,251,436**	965,720
Total Liabilities and Net Assets	**$ 1,828,892**	$ 1,155,856

The accompanying notes are an integral part of these consolidated financial statements.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Operations
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Unrestricted Revenues, Gains and Other Support		
Net Patient Service Revenues	$ 918,419	$ 512,063
Provision for Doubtful Accounts	30,965	16,122
Net Patient Service Revenues Less Provision for Doubtful Accounts	887,454	495,941
Other Operating Revenues	39,000	28,711
Total Operating Revenues	926,454	524,652
Operating Expenses		
Employee Compensation and Benefits	319,703	243,636
Purchased Services	99,615	83,245
Professional Fees	87,508	21,033
Supplies and Other Expenses	158,619	97,631
Depreciation and Amortization	29,865	27,864
Impairment Loss	2	42
Interest	2,028	2,237
Total Operating Expenses	697,340	475,688
Income from Operations	229,114	48,964
Investment Income	77,198	82,501
Other Nonoperating Income	535	91
Community Support, Net	(26,693)	(36,108)
Excess of Revenues over Expenses	$ 280,154	$ 95,448

The accompanying notes are an integral part of these consolidated financial statements.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Unrestricted Net Assets		
Excess Revenues over Expenses	**$ 280,154**	$ 95,448
Noncontrolling Interests in Income of Consolidated Subsidiaries	**(49)**	(261)
Adjustment to Additional Minimum Pension Liability	**5,385**	1,184
Ownership Revisions	**(2)**	-
Increase in Unrestricted Net Assets	**285,488**	96,371
Temporarily Restricted Net Assets		
Contributions and Grants	**2,991**	5,505
Investment Income	**1,526**	1,199
Net Assets Released from Restriction	**(4,290)**	(5,395)
Increase in Temporarily Restricted Net Assets	**227**	1,309
Change in Permanently Restricted Net Assets	**-**	(80)
Increase in Net Assets	**285,715**	97,600
Net Assets, Beginning of Year	**965,721**	868,120
Net Assets, End of Year	**$ 1,251,436**	$ 965,720

The accompanying notes are an integral part of these consolidated financial statements.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Cash Flows from Operating Activities		
Increase in Net Assets	**$ 285,715**	$ 97,600
Adjustments to Reconcile Increase in Net Assets		
to Net Cash Provided by Operating Activities		
Adjustment to Pension Liability	**(5,385)**	(1,184)
Ownership Revisions	**2**	-
Noncontrolling Interest in Income of Consolidated		
Subsidiaries	**49**	261
Depreciation and Amortization	**31,435**	29,509
Net Loss (Gain) on Disposal/Sale of Assets	**139**	(1,043)
Impairment Losses	**2**	42
Provision for Doubtful Accounts	**30,965**	16,122
Change in Operating Assets and Liabilities		
Increase in Patient Accounts Receivable	**(71,059)**	(29,318)
Decrease (Increase) in Other Receivables	**37,967**	(26,613)
Increase in Inventories	**(7,429)**	(1,629)
Decrease (Increase) in Other Current Assets	**655**	(304)
Increase in Other Assets	**(258,935)**	(502)
Increase in Trade Accounts Payable	**44,440**	1,370
Increase in Accrued Salaries and Wages	**12,803**	1,054
(Decrease) Increase in Third-Party Payor Settlements	**(2,007)**	5,592
Increase in Deferred Revenue	**91,593**	-
(Decrease) Increase in Other Liabilities	**(30,897)**	28,112
Net Cash Provided by Operating Activities	**160,053**	119,069
Cash Flows from Investing Activities		
Capital Expenditures	**(69,626)**	(31,062)
Change in Assets Limited as to Use	**(58,382)**	(48,210)
Proceeds from Sale of Assets	**-**	642
Net Cash Used in Investing Activities	**(128,008)**	(78,630)
Cash Flows from Financing Activities		
Proceeds from Issuance of Debt	**253,000**	-
Payments on Capital Lease Obligations	**-**	(1,139)
Repayments of Bonds Payable	**(1,985)**	(1,905)
Distributions Paid to Noncontrolling Interests	**(117)**	(122)
Net Cash Provided by (Used in) Financing Activities	**250,898**	(3,166)
Net Increase in Cash and Cash Equivalents	**282,943**	37,273
Cash and Cash Equivalents, Beginning of Year	**47,101**	9,828
Cash and Cash Equivalents, End of Year	**$ 330,044**	$ 47,101
Supplemental Disclosures of Cash Flow Information		
Cash Paid for Interest	**$ 5,942**	$ 4,494
Property, Plant and Equipment Purchases in Accounts Payable	**$ 4,746**	$ 1,753

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Organization

Louisiana Children's Medical Center (LCMC) is a Louisiana non-stock, not-for-profit corporation that was incorporated in 2009. Through a Health Care System Agreement (System Agreement) between LCMC, Children's Hospital (Children's), Touro Infirmary and its subsidiaries (Touro), and University Medical Center Management Corporation (UMCMC), these parties have determined that together they can provide a multi-hospital, not-for-profit community-based, system that will provide a continuum of care to the families of the Gulf South region.

Children's is Louisiana's only community-based, not-for-profit, full-service hospital operated exclusively for children. Children's together with its two affiliates, the Children's Hospital Medical Practice Corporation (CHMPC) and the Children's Hospital Anesthesia Corporation, are tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the Code). Located in New Orleans, Louisiana, Children's includes a 247-bed medical center providing care for infants, children and adolescents from birth to 21 years of age. It provides inpatient services in all pediatric, medical, surgical, and psychiatric subspecialties with a staff of more than 440 physicians. Outpatient services are provided in 58 subspecialties.

Children's provides a large array of community benefit and wellness programs including research activities, and special programs for the handicapped and medically underserved. CHMPC was incorporated to manage pediatric physician practices in a high-quality, cost-effective manner. Kids First, a division of CHMPC, provides pediatric care in medically underserved geographical areas. Children's Hospital Anesthesia Corporation was incorporated to provide high-quality, comprehensive, anesthesia services.

Touro Infirmary, and its 280 staffed beds, is New Orleans' only community based, not-for-profit, faith-based hospital, It is exempt from taxation under the Code. Touro Infirmary, is the sole member of Woldenberg Village, Inc. (Woldenberg), and Touro Infirmary Foundation (Foundation), both of which are non-stock, not-for-profit and tax exempt corporations. Touro Infirmary is the sole stockholder of Crescent City Physicians, Inc., a for-profit corporation; and holds a majority interest, together with Woldenberg, in TIJV, LLC, a for-profit limited liability company.

In 2013, the Articles of Incorporation of a corporation originally incorporated as Earl K. Long Medical Foundation, Inc. were restated, elements of which included changing the corporate name to University Medical Center Management Corporation, stipulating that the sole corporate member of UMCMC is LCMC.

Note 1. Organization (Continued)

UMCMC's purpose is to operate as a corporation affiliated with LSU as defined in LA R.S. 17:3390, principally supporting the programs, facilities and research and educational opportunities offered by LSU, and supporting research and educational opportunities, including, without limitation, medical training programs offered by the Administrators of the Tulane Educational Fund, including, without limitation :(i) operating the hospital currently known as Interim Louisiana Hospital in New Orleans (ILH) and upon its completion the new University Medical Center in New Orleans (UMC); (ii) operating in a manner consistent with the best practices of private, nonprofit institutions; (iii) being a provider of charity care for the uninsured and playing a pivotal role as a statewide referral center for patients in need of higher levels of care; (iv) providing medical and allied health training; and, (v) being recognized nationally as a leader in research, training, and excellence in transparent clinical and financial outcomes.

In May 2013, UMCMC and LCMC, entered into a Cooperative Endeavor Agreement (CEA) with the Board of Supervisors of Louisiana State University (LSU), the Louisiana Division of Administration, the State of Louisiana, through its Division of Administration (DOA), and the State of Louisiana Department of Health and Hospitals (DHH), collectively referred to as the Parties, to address the provisions of healthcare in and through ILH and UMC and to address the stability and preservation of academic medicine in Louisiana, especially New Orleans.

The Parties entered into the CEA for the public purpose of creating an academic medical center in which the parties continuously work in collaboration and are committed and aligned in their actions and activities, in a manner consistent with a sustainable business model and adequate funding levels, to serve the State and its citizens: (i) as a premier site for graduate medical education, capable of competing in the health care marketplace, comparable among its peers, with the goal of attracting the best faculty, residents and students, to enrich the State's health care workforce and their training experience; (ii) in fulfilling the State's historical mission of assuring access to Safety Net Services to all citizens of the State, including its medically indigent, high risk Medicaid and State inmate populations, and (iii) by focusing on and supporting the Core Services and Key Service Lines, as defined and agreed by the Parties, necessary to assure high quality GME programs and access to Safety Net Services.

The CEA provides that UMCMC will enter into academic affiliation agreements with LSU, Tulane, Xavier University, Dillard University, University of New Orleans, Delgado Community College and other academic institutions to strengthen and enhance medical education in the collaborative academic medical centers (the AMC) and the health care workforce in Louisiana.

Note 1. Organization (Continued)

The CEA also provides: (i) the terms and conditions with which UMCMC will assume responsibility for operating ILH; (ii) that LSU will lease ILH and UMC and certain furniture, fixtures and equipment used in connection with operating ILH to UMCMC; (iii) UMCMC will purchase certain consumable inventory and minor equipment; (iv) that LSU and the State of Louisiana will grant to UMCMC a right of use of the land upon which UMC is being constructed and will be operated and certain land improvements surrounding UMC pursuant to a Right of Use agreement; (v) that LSU will assist in transitioning ILH operations from LSU to UMCMC; and, (vi) that UMCMC and LCMC will commit to supporting the academic, clinical and research of the AMC, as defined within the CEA. Terms of the leases that result from the CEA are discussed further within these footnotes.

Lastly, the CEA promulgates reimbursement rules providing total funding obligations that will be paid to UMCMC or LCMC Affiliates, defined in the CEA as Required Program Funding. Failure to pay, or a reduction in the amount of funding, could constitute a Potential Elective Withdrawal Event, as defined, providing LCMC an option to initiate a Pre-Withdrawal Process, as defined, and, if applicable, effect a Member Withdrawal, as defined.

The CEA became effective June 24, 2013, at which time the System assumed operations of ILH and began incorporating the results of those operations into the consolidated financial statements.

LCMC functions as the System Parent and sole member of Children's, Touro Infirmary and any subsidiary of Touro Infirmary of which Touro Infirmary is the sole member, and UMCMC, with reserve powers to be exercised to promote the best interests of the system and its affiliates. LCMC, Children's, Touro and UMCMC are hereinafter collectively referred to as the System. All corporate powers of the System are vested in the Board of Trustees of LCMC.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements of the System include the activities of LCMC, Children's, Touro, and UMCMC. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

Note 2. Summary of Significant Accounting Policies (Continued)

Use of Estimates (Continued)

The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient revenue, which includes contractual allowances, discounts, provisions for bad debts and charity care; losses and expenses related to the self-insured workers' compensation, professional liabilities and employee health claims; and risks and assumptions for measurement of pension and other postretirement liabilities. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular facts and circumstances. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with a remaining maturity of three months or less when purchased, excluding assets whose use is limited or restricted.

Inventories

Inventory policies are unique to the entities within the System. Inventories are stated at either the lower of first-in, first-out cost or market, or at its market value at the date of the consolidated balance sheets.

Assets Limited as to Use

Assets whose use is limited primarily include assets held by trustees indenture agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees (Board) for future capital improvements and commitments, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Restricted other assets consist of certificates of deposit held by the Workers' Compensation Fund as collateral against the self-insured portion of claims and cash held in trust for residents at Woldenberg. See Notes 4 and 10 for further details.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost, except for assets donated to the System. Donated assets are recorded at their estimated fair value at the date of donation.

Depreciation and amortization, which includes amortization of assets under capital lease, are computed on the straight-line basis over the estimated useful lives, or shorter of useful life or lease term for capital leases, as follows:

Land Improvements	10 - 20 Years
Buildings	15 - 40 Years
Fixed Equipment	10 - 20 Years
Major Moveable Equipment	3 -10 Years

Note 2. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

The System reviews its long-lived assets, including property and equipment and other intangibles, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable.

The System determines recoverability of the assets by comparing their carrying amount to the net future undiscounted cash flows that the asset is expected to generate or estimated fair values in the case of nonrevenue generating assets. The impairment loss recognized is the amount by which the carrying amount exceeds the fair market value of the asset. Impairment losses of approximately $2,000 and $42,000 were recognized for the years ended December 31, 2013 and 2012, respectively.

Prepaid Rent, Long-Term

In accordance with the CEA described in Notes 1 and 18, advance rent payments, in the amount of $253,000,000, were made on the UMC lease. Of this total, $110,000,000 represents a prepayment of a portion of the future UMC facility, with the exception of its Ambulatory Care Center and its Garage, while $143,000,000 represents all future rent payments for the Ambulatory Care Building and Garage. Due to the notes payable, described in Note 8, being directly related to funding the advance rent payments, interest of $1,560,388, that was paid through December 31, 2013, is being deferred and is included with the advance rent payments classified as other assets on the consolidated balance sheets. These advance payments together with the deferral of interest payments will be applied to the annual rental requirements of UMC as further described in Note 18.

Deferred Financing Costs

Deferred financing costs, which are included in other assets, are amortized over the period the obligation is outstanding, using a method that approximates the interest method. Deferred financing costs total approximately $2,500,000 at December 31, 2013 and 2012, and are presented net of accumulated amortization of approximately $1,301,000 and $1,225,000, respectively.

Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

The System records the provisions for estimated medical, professional and general liability and workers' compensation claims based upon actual claims incurred, combined with an estimate of claims incurred but not reported based upon past experience. Claims expense is reduced by amounts recoverable through stop-loss insurance purchased by the System. Estimates recorded for these self-insured liabilities incorporate the System's past experience, as well as other considerations including the nature of claims, industry data, relevant trends and/or the use of actuarial information.

The System follows ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability.

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred Revenue

In accordance with the CEA described in Note 1, Required Program Funding, as defined, was received in advance of services associated with the Required Program Funding being provided in full by December 31, 2013. As such, the balance attributable to services to be provided in the year ended December 31, 2014 is deferred and will be recognized as revenue ratably throughout the year ended December 31, 2014. See Note 3 and the details for UMCMC for the revenue recognized in the year ended December 31, 2013.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short-term. The fair value of assets limited as to use, pension plan assets, swap agreements and debt are disclosed within their respective notes.

Derivatives and Financial Instruments

The System uses interest rate swap and basis swap agreements to manage interest costs and the risk associated with changing interest rates. While the System's primary objective for the use of these instruments is to manage its cash flow requirements, unrealized gains and losses in the fair value of such instruments are reflected in investment income or loss in the consolidated statement of operations in accordance with the *Accounting for Derivative Instruments and Hedging Activities* Topic of the FASB ASC.

Net Patient Service Revenues and Related Receivables

Net patient service revenues and receivables are 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. The System provides care to patients even if they lack adequate insurance coverage or are covered by contractual payment arrangements that do not pay full charges. The payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations are based on per diem rates or discounts from established charges.

Patient accounts receivables are reduced by an allowance for doubtful accounts. In establishing its estimate of collectability of accounts receivable, each entity within the System analyzes its past history and collection patterns of its major payor sources of revenue. These allowances are adjusted monthly for volume and service mix, and annually for rate increases.

Note 2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenues and Related Receivables (Continued)

For receivables associated with self-pay patients (which includes patients without insurance who are not covered by the charity care program of each entity within the System and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted are charged off against the allowance for doubtful accounts.

The provision for bad debts, at the System level, increased to a total of approximately $30,965,000 for the year ended December 31, 2013, from a total of approximately $16,122,000 for the year ended December 31, 2012. The overall increase is attributable to the increased volume of self-pay patients through the addition of the ILH operations effective June 24, 2013.

Advertising Expenses

The System expenses advertising costs as incurred. Advertising expense was approximately $2,198,000 and $855,000, for the years ended December 31, 2013 and 2012, respectively.

Grants, Contributions and Donor-Restricted Gifts

From time to time, the System receives grants from individuals or private and public entities. Revenues from grants (including contributions of capital assets) are recognized when all of the eligibility requirements, including time requirements, are met, and when there is reasonable assurance that the grants will be received. Grants may be restricted for either specific operating purposes or for capital purposes. Amounts are recorded as either operating or non-operating revenue based upon the nature of its cash flow. Cash flows that do not meet the reporting criteria for investing or financing within the consolidated statements of cash flows are reported as operating activities, and their associated revenue reported as operating revenue within the consolidated statements of operations.

The System records contributions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, *Accounting for Contributions Received and Contributions Made*, which requires the System to distinguish between contributions received for each net asset category in accordance with or without donor-imposed restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met or the gift is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When an externally-imposed 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.

Note 2. Summary of Significant Accounting Policies (Continued)

Grants, Contributions and Donor-Restricted Gifts (Continued)

Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Temporarily restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Temporarily restricted gifts greater than $100,000 used to purchase a depreciable asset are reclassified as unrestricted net assets over the same period of time that the related asset is being depreciated. In accordance with the Louisiana Uniform Prudent Management of Institutional Funds Act (UPMIFA), permanently restricted gifts are reclassified as either unrestricted or temporarily restricted if (i) the value of the gift does not exceed $100,000; (ii) twenty or more years have elapsed since the gift was received; and (iii) the purpose of the restriction is unlawful, impracticable, impossible, or wasteful.

Contributions for which the restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue in the accompanying consolidated financial statements.

Excess Revenues over Expenses

Excess of revenues over expenses includes all changes in unrestricted net assets except for the effect of changes in accounting principles, net assets released from restrictions used for purchase of property and equipment, change in funded status of pension obligations, change in the non-controlling interest in health-related activities, change in accumulated unrealized derivative gains and losses, and funds donated from unconsolidated sources for purchases of property and equipment.

Community Benefit

In the furtherance of its charitable purpose, the System provides a wide variety of benefits to the community which it serves. Such benefits include health screenings, in-home caregiver services, and seminars on a variety of health topics such as healthy eating, diabetes management, healthy aging, cancer support and survivorship programs, sexual abuse awareness and smoking cessation. The System has a robust trauma prevention program including but not limited to, tourniquet training, Sudden Impact (targeting high school sophomores), safety belt programs and baby carrier programs. The System offers counseling for patients and families, pastoral care, the donation of space for use by community groups, health enhancement and wellness programs, classes on specific medical conditions, and telephone information services. Clinical training for allied health programs is provided for various metropolitan colleges, together with rehabilitative therapy training to students from colleges across the country, and training in other specialties for medical students, including post-graduate. The System participated in providing dental care for the indigent during the National Dental Association meeting held in New Orleans.

Note 2. Summary of Significant Accounting Policies (Continued)

Community Benefit (Continued)

The System's Governing Board and management work closely with local civic leaders and other healthcare providers to address the health care needs of the community and provide specialty care, including federally qualified health centers. The System's staff supports area nonprofits and community groups in offering health information and health screenings at community events.

The System provides a broad range of clinical services to economically disadvantaged patients, both inpatient and outpatient. A significant amount of care is provided to patients from whom no collections are expected. One such vehicle is the Children's Healthcare Assistance Plan (CHAP). These costs are not included in the System's operating income, but rather as community support on the consolidated statements of operations. See Note 19.

During the years ended December 31, 2013 and 2012, estimated costs associated with charity care services provided, throughout the System, were approximately $60,084,000 and $10,897,000, respectively. The entities within the System have their unique charity care policy which includes either determining costs by assigning direct costs to charity care programs and by complementing those direct costs with estimates determined from Medicare and Medicaid cost reporting methodologies or by calculating a ratio of cost to usual and customary charges and applying that ratio to the usual and customary uncompensated charges associated with providing care to patients that qualify for charity care.

New Accounting Pronouncements

Effective January 1, 2012, the System adopted the provisions of Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provisions for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires the presentation of the provision for doubtful accounts related to patient service revenue as a deduction from patient service revenue and enhancing the disclosures of the System's policies related to uncollectible accounts. The provision for doubtful accounts for the subsidiaries is included within the total allowance for doubtful accounts.

Effective January 1, 2012, the Hospital adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The adoption of ASU 2010-24 did not have a material impact on the 2013 and 2012 consolidated financial statements.

Effective January 1, 2012, the Hospital adopted ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The adoption of ASU 2011-04 did not have a material impact on the 2013 and 2012 consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Income Taxes

LCMC, Children's, UMCMC, Touro Infirmary and certain of its subsidiaries are not-for-profit entities under Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxation. One subsidiary of Touro Infirmary is a for-profit entity. The operations of the for-profit subsidiary have resulted in cumulative net operating losses for federal income tax purposes at December 31, 2013, of approximately $30,000,000. These net operating loss carryforwards expire in varying amounts beginning in 2018 through 2033. No tax benefits related to these operating losses have been recognized in the accompanying consolidated financial statements.

Subsequent Events

The System has evaluated subsequent events occurring between December 31, 2013 and April 22, 2014, the date the financial statements were available to be issued. See Note 22.

Note 3. Net Patient Service Revenues

The System has arrangements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid

Touro:

Touro is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, Touro is paid prospectively for Medicare inpatient capital costs based on the federal specific rate.

Touro qualifies as a disproportionate share provider and a teaching hospital under the Medicare regulations. As such, Touro receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share and medical education reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

In the context of healthcare reform, effective February 1, 2012, Louisiana Medicaid introduced Bayou Health, a state-wide managed care Medicaid initiative. Medicaid recipients enroll in one of five available Bayou Health plans. The plans are all accountable to the Department of Health and Hospitals and to the State of Louisiana (State). There are differences between these plans, including their provider networks, referral policies, health management programs, services and incentives offered to participants. Medicaid recipients can choose which Bayou Health plan to enroll into.

Note 3. Net Patient Service Revenues (Continued)

Medicare and Medicaid (Continued)

Touro (Continued):
Touro's reimbursements from the Bayou Health plans follow the same methodology as Medicaid; that is, DHH's objective is to continue collecting all Medicaid hospital program services and costs through the annual cost report uniformly, whether the service is covered by traditional Medicaid fee for service, a Sharing Savings Plan, or a Prepaid Plan.

Medicare inpatient rehabilitation services are paid through the Inpatient Rehabilitation Facility Prospective Payment. Home health services rendered to Medicare program beneficiaries are reimbursed under a per-episode prospective payment system. Outpatient services rendered to Medicare program beneficiaries are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which Touro is paid a predetermined amount for these procedures. Medicare and Medicaid outpatient clinical lab, physical rehab services, and Medicaid ambulatory surgery services are reimbursed based upon the respective fee schedules.

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made. Touro's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2009. Touro's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2006.

Net revenues from government health care programs included in net patient service revenues approximated $171,838,000 and $142,100,000, in the years ended December 31, 2013 and 2012, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term.

Net patient service revenue increased in 2013 and 2012 by approximately $2,430,000 and $3,383,000, respectively, due to changes in estimates resulting from the removal of allowances previously estimated that are no longer necessary as a result of final settlements; years that are no longer subject to audits, reviews, and investigations; revision of allowance estimates recorded in prior years relating to expected retroactive adjustments; and revisions based on updated information from the fiscal intermediary.

During 2013 and 2012, the Hospital received approximately $499,000 and $431,000, respectively, from the State of Louisiana in the form of a Graduate Medical Education Supplement Payment.

Note 3. Net Patient Service Revenues (Continued)

Medicare and Medicaid (Continued)

Children's:
Children's participates primarily in the Medicaid program as a provider of medical services to program beneficiaries. Approximately 71% and 66% of Children's gross patient service revenues were derived from program beneficiaries for the years ended December 31, 2013 and 2012, respectively. Certain inpatient services rendered to Medicaid patients are paid based on a prospective per diem system. Other inpatient services paid at an interim per diem with final settlement determined after submission of annual costs reports and audits thereof performed by the Medicaid fiscal intermediary.

Outpatient services rendered to Medicaid patients are reimbursed under a cost reimbursement methodology subject to certain limitations. Children's is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by Children's and audits thereof performed by the Medicaid fiscal intermediary.

In the context of healthcare reform, effective February 1, 2012, Louisiana Medicaid introduced Bayou Health, a state-wide managed care Medicaid initiative. In Bayou Health, Medicaid recipients enroll in one of five available plans - Amerigroup, Community Health Solutions, LaCare, Louisiana Healthcare Connections or United Healthcare Community Plan (collectively, Bayou Health Plans). These plans are all accountable to the Department of Health and Hospitals and to the State of Louisiana (State). There are differences between these plans, including their provider networks, referral policies, health management programs, services and incentives offered to participants. Medicaid recipients can choose which Bayou Health Plan to enroll into.

Children's reimbursements from Bayou Health Plans follow the same methodology as Medicaid for the year ended December 2013. Children's reimbursements from Bayou Health Plans followed the same methodology as Medicaid for the year ended December 2012, with the exception of Louisiana Healthcare Connections, whose contractual arrangements included prospective reimbursements.

Since July 1, 1988, Children's has qualified as a disproportionate share provider in accordance with the State of Louisiana's Medicaid regulations and, as such, is entitled to additional payments.

The Medicaid disproportionate share regulations are established by the Louisiana Department of Health and Hospitals and are subject to review and approval by the Centers for Medicare and Medicaid Services. Children's has included approximately $232,000 for Medicaid disproportionate share revenues in net patient service revenues, for the year ended December 31, 2012. Effective January 1, 2013, Children's has discontinued to be a part of this program.

The Medicaid cost reports for the years 2004 through 2013 have not been final audited by the Medicaid fiscal intermediary.

Note 3. Net Patient Service Revenues (Continued)

Medicare and Medicaid (Continued)

Children's (Continued):
Management regularly evaluates the adequacy of the recorded settlements and does not anticipate significant adverse adjustments to the recorded settlements for these cost report years. Any changes in the estimated settlements are reported as adjustments to net patient service revenues in the year the final settlements are determined. For the year ended December 31, 2013 changes in the estimates resulted in an increase to net patient service revenue of approximately $600,000. No such significant changes in estimates were recorded in 2012.

UMCMC:
UMCMC participates primarily in the Medicaid and Medicare programs as a provider of medical services to program beneficiaries. Approximately 53% of UMCMC's gross patient service revenues were derived from program beneficiaries for the year ended December 31, 2013.

UMCMC is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, UMCMC is paid prospectively for Medicare inpatient capital costs based on the federal specific rate.

Inpatient services rendered to Medicaid patients are paid on an interim basis on a prospective per diem system. Outpatient services rendered to Medicaid patients are reimbursed under a cost reimbursement methodology subject to certain limitations. Final settlement of UMCMC's reimbursement is determined after submission of its annual cost reports and audits thereof performed by the Medicaid fiscal intermediary.

UMCMC qualifies as a disproportionate share provider in accordance with the State of Louisiana's Medicaid regulations and, as such, is entitled to additional payments.

The Medicaid disproportionate share regulations are established by the Louisiana Department of Health and Hospitals and are subject to review and approval by the Centers for Medicare and Medicaid Services. UMCMC has included $77,443,000 for Medicaid disproportionate share revenues in net patient service revenues, for the year ended December 31, 2013. This represents the portion of revenues earned in relation to that portion of revenue that is deferred and described in Note 2.

The Medicaid cost reports for the year 2013 has not been final audited by the Medicaid fiscal intermediary. Management regularly evaluates the adequacy of the recorded settlements and does not anticipate significant adverse adjustments to the recorded settlements for these cost report years. Any changes in the estimated settlements are reported as adjustments to net patient service revenues in the year the final settlements are determined.

Note 3. Net Patient Service Revenues (Continued)

Medicare and Medicaid (Continued)

The System:

Managed Care
The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 4. Assets Limited as to Use

At December 31, 2013 and 2012, assets limited as to use consist of the following (in thousands):

	2013	2012
Cash	$ -	$ 75
U.S. Government Securities	1,685	1,709
Marketable Equity Securities	499,333	437,473
Other Fixed Income Securities	284,523	291,600
Mortgage-Backed Securities	2,226	3,019
State of Israel Bonds	500	500
Money Market Funds, Certificates of Deposit, and Commercial Paper	41,256	36,766
	$ 829,523	$ 771,142

Fair value estimates are made at a specific point in time, based on market conditions and information about the investments. 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.

The investments in marketable alternative investments are valued by management at their equity in the net assets of the investment, which approximates fair value, utilizing the net asset valuation provided by the underlying investment companies, unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties or redemption restrictions as the System does not intend to sell such investments before the expiration of the early redemption periods.

Note 4. Assets Limited as to Use (Continued)

The System has no future commitments to current or additional marketable alternative (hedge fund) managers. Some marketable alternative managers have withdrawal restrictions established upon entering their funds which limit an investor's ability to withdraw amounts as a protection for their investments. There also may be fees associated with early withdrawal that generally lapse over defined time periods. These restrictions generally allow for quarterly withdrawals; however, in no case does the withdrawal limitation extend beyond one year.

Investment income at December 31, 2013 and 2012, including both unrestricted and restricted activity, comprises the following (in thousands):

	2013	2012
Interest and Dividend Income	**$ 14,558**	$ 20,216
Net Gains		
Realized Gains on Securities	**28,287**	4,835
Unrealized Gains on Securities	**35,879**	58,649
	$ 78,724	$ 83,700

Investment income is reported net of investment fees on the consolidated statement of operations. Investment fees were approximately $1,189,000 and $1,175,000, for the years ended December 31, 2013 and 2012, respectively.

Note 5. Derivative Instruments

At December 31, 2013, derivative instruments consist of the following interest rate and basis swap agreements entered into by Touro:

Trade Date	Maturity	Notional Amount	Hedged Rate	Derivative Rate
August 15, 2005 (and amended September 29, 2011)	January 1, 2015	$ 27,970,000	6.125%	Variable rate based on SIFMA Index
September 29, 2011	January 1, 2015	$ 19,167,200	5.625%	Variable rate based on SIFMA Index
September 30, 2011	January 1, 2015	$ 20,200,000	82% of LIBOR	0.692%
September 30, 2011	January 1, 2015	$ 26,760,000	82% of LIBOR	0.625%

Note 5. Derivative Instruments (Continued)

In relation to the swap agreements, Touro's investment income included an unrealized (loss) gain of approximately ($989,000) and $3,306,000 in 2013 and 2012, respectively. Interest expense associated with the debt instruments was reduced by the realized gains and interest earnings from the swaps' effectiveness by approximately $2,327,000 and $2,240,000 in 2013 and 2012, respectively. At December 31, 2013, these agreements had a carrying value (which approximates fair value) of approximately ($760,000) and were recorded in other current liabilities. At December 31, 2012, these agreements had a carrying value of approximately $229,000 and were recorded in other receivables.

The System purchases and sells interest rate options to enhance the overall return on its investment portfolio. Interest rate options grant the purchaser, for a premium payment, the right to either purchase or sell to the writer a specified financial instrument under agreed-upon terms. The premium compensates the seller for bearing the risk of unfavorable interest rate changes. The System's options on Eurodollar futures, U.S. Treasury bond futures and U.S. Treasury notes settle in cash and generally expire within one year of inception.

Futures contracts are sold or purchased to provide incremental value and to hedge or reduce market price risks. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may either be settled in cash or through delivery. Futures contracts have little credit risk due to daily cash settlement of the net change of open contracts.

Futures on U.S. Treasury notes, U.S. Treasury bonds, and Eurodollar deposits are used due to their liquidity and credit risk advantages. Investments held by the System in the amount of $1,000,000 are pledged as collateral to secure the initial margins on futures contracts purchased.

With respect to the derivative instruments held at December 31, 2013 and 2012, the System's exposure to credit-related losses in the event of nonperformance by counterparties is minimized because investment managers for the System deal almost exclusively in exchange-traded futures and options. These securities are extremely liquid, are subject to rigorous exchange and government regulation, involve limited counterparty risk, have no hidden embedded risks, and have daily available public prices.

All derivative instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Exposure to market risk is managed in accordance with risk limits set by the finance committee of the LCMC Board of Trustees and by monitoring performance by investment managers in accordance with specified investment guidelines.

Note 6. Property, Plant and Equipment

At December 31st, property, plant and equipment consisted of the following (in thousands):

	2013	2012
Land and Land Improvements	$ 61,255	$ 37,609
Leasehold Improvements	471	144
Buildings	324,122	307,327
Fixed Equipment	146,172	143,508
Major Moveable Equipment	252,178	230,911
	784,198	719,499
Less: Accumulated Depreciation	(515,378)	(486,843)
Construction in Progress	6,966	5,006
Property, Plant and Equipment, Net	$ 275,786	$ 237,662

Depreciation expense on depreciable assets was $29,793,000 and $29,442,000 for the years ended December 31, 2013 and 2012, respectively.

All lease payments and buyout options were completed on all capital leases during the year ended December 31, 2013, and the assets are fully owned at December 31, 2013. The net book value of assets under capital lease arrangements was approximately $2,634,000 at December 31, 2012. Depreciation expense related to these assets was approximately $1,054,000 for the year ended December 31, 2012.

Note 7. Bonds Payable

At December 31st, bonds payable consist of the following tax-exempt revenue and refunding bonds issued by the Louisiana Public Facilities Authority on behalf of Touro (in thousands):

	2013	2012
Series 1993, Issued September 1993, due in Sinking Fund Installments through 2023, Annual Interest Rates of 6.125%.	$ 27,960	$ 29,945
Series 1999, Issued May 1999, due in Sinking Fund Installments through 2029, Annual Interest Rates of 5.625%.	45,295	45,295
	73,255	75,240
Less: Current Maturities	(2,110)	(1,985)
Less: Unamortized Original Issue Discount	(631)	(647)
Non-Current Portion of Bonds Payable	$ 70,514	$ 72,608

Note 7. Bonds Payable (Continued)

The Series 1993 bonds were issued in order to advance refund and redeem previously issued bonds, and to finance capital expenditures of Touro.

The Series 1999 bonds were issued in order to provide funds to finance the cost of the construction, furnishing, and equipping of a 120-bed nursing home and a 60-bed assisted living facility at Woldenberg; the addition of a private-room floor at Touro; and for the funding of routine capital improvements and equipment.

In July 2005, Touro distributed, to bondholders, notices of intent to engage in a Tender Offer and Redemption of $35,245,000 of Series 1993 bonds, which was the long-term portion of the $44,785,000 Series 1993 bonds outstanding. As interest rates declined significantly since the issuance of the bonds, this transaction was structured to reduce the borrowing cost of the existing fixed rate of approximately 6.1%. On August 15, 2005, there was a call for full redemption of the bonds (at 100%) remaining outstanding that were not tendered to Touro by August 1 (at 101%). This call for redemption resulted in $1,190,000 of the bonds being redeemed with the balance of $34,055,000 being tendered. The tendered bonds were concurrently placed with Merrill Lynch in exchange for an interest rate swap agreement, maturing January 1, 2015. See Note 5 for further details on the swap.

On September 28, 2011, Touro engaged in a tender offer of $56,040,000 of Series 1999 bonds which resulted in $3,385,000 of the bonds being tendered (at 100%). As discussed in Note 5, $20,200,000 of the remaining Series 1999 bonds were placed with Merrill Lynch in exchange for various interest rate and basis swap agreements, maturing January 1, 2015. On November 5, 2011, Touro called and repurchased $6,355,000 of these outstanding Series 1999 bonds.

Terms of the interest rate swap agreements obligate Touro to put aside collateral in favor of Merrill Lynch based on a predetermined formula. As of December 31, 2013 and 2012, the collateral account totaled approximately $573,000 and $543,000, respectively, and such amounts are included in assets limited as to use-restricted by bond indenture on the consolidated balance sheets. Children's is unconditionally guaranteeing the prompt payment of all liabilities associated with the interest rate swap agreements.

At December 31, 2013, scheduled repayments of principal and sinking fund installments to retire the bonds are as follows (in thousands):

2014	$ 2,110
2015	2,240
2016	2,375
2017	2,520
2018	2,675
Thereafter	61,335
Total	$ 73,255

Note 7. Bonds Payable (Continued)

The Series 1993 and 1999 bonds are general obligations of Touro, and future revenues are pledged to repayment of the bonds. Additionally, as mentioned above, under the terms of the indenture agreement, Touro is required to maintain certain deposits with a trustee. The related debt agreements also place limits on the incurrence of additional borrowings and require that Touro satisfy certain measures of financial performance as long as the bonds are outstanding. In 2013, Touro met all measures of financial performance as defined in the loan agreements.

Note 8. Notes Payable

On June 3, 2013, UMCMC entered into a trust indenture with the Bank of New York Mellon Trust Company relating to the issuance of the Series 2013 Notes $253,000,000 with a variable interest rate per annum equal to the index rate. In order to induce the purchase of these notes, a Guaranty Agreement was established with Children's Hospital, named as the Guarantor of the Series 2013 Notes. The Series 2013 Notes were scheduled to mature March 2014, but were converted into long-term notes that mature April 1, 2024, and are, therefore, classified as non-current on the consolidated balance sheets. See Note 22.

Note 9. Employee Retirement Plans

Defined Contribution Plans

Children's sponsors a Section 403(b) defined contribution employee benefit plan, which covers substantially all employees who meet age and length of service requirements. The plan allows for participating employees to make contributions ranging up to 7% of their before-tax annual compensation and provides for retirement and death benefits.

Children's makes matching contributions equal to 50 cents per dollar for the participating employee's annual contribution up to 7% of the before-tax employee contribution. In addition, Children's makes a core contribution equal to 5% of the participant's annual compensation. Employees of CHMPC participate in the plan and are eligible to receive a core contribution of 1.5% made by Children's. The match for the CHMPC participating employees equals 50 cents per dollar of employee's annual contributions up to 7% of the before-tax employee contribution.

In addition, Children's may elect to make an additional 3% discretionary contribution. No such discretionary contribution was made in 2013. Contributions by Children's to this plan during the years ended December 31, 2013 and 2012, were approximately $5,984,000 and $6,408,000, respectively. To comply with tax law changes, effective January 1, 2002, an employee becomes 100% vested in matching contributions after three full years of continuous service. Non-matching contributions and matching contributions made prior to January 1, 2002, will continue to vest after five full years of service.

Note 9. Employee Retirement Plans (Continued)

Defined Contribution Plans (Continued)

Touro and Woldenberg each sponsor a Section 403(b) defined contribution employee benefit plan. Employees who are at least 21 years of age and have completed 1,000 hours of service during a 12-month period are eligible to participate.

Employees of Touro who participate may make tax-deferred contributions up to the applicable IRS limitations. Touro will make qualified matching contributions of 50% of employee contributions up to 4% of the employee's eligible earnings. An employee of Touro wishing to contribute more may do so up to applicable Internal Revenue Service (IRS) limitations; however, Touro does not match any portion of these additional contributions. Participants fully vest in Touro's matched contributions immediately. During the years ended December 31, 2013 and 2012, Touro's matching contributions approximated $687,700 and $638,500, respectively.

Employees of Woldenberg who participate may make tax-deferred contributions up to the applicable IRS limitations. Woldenberg does not match any portion of their participants' contributions; therefore, there was no expense recorded for either 2013 or 2012.

CCPI sponsors a Section 401(k) defined contribution employee benefit plan. Employees who have completed thirty days of service are eligible to join the plan. Employees of CCPI may contribute to the plan through salary deferrals up to applicable IRS limitations.

Beginning in 2012, CCPI is making qualified matching contributions of 100% of salary deferral contributions up to 3% of pay, plus 50% of salary deferral contributions in excess of 4% of pay up to 5% of pay. CCPI recognized expense of approximately $442,000 in 2013 and $430,000 in 2012.

UMCMC sponsors a Section 403(b) defined contribution employee benefit plan, which covers substantially all employees who meet age and length of service requirements. The plan allows for participating employees to make contributions up to the applicable IRS limitations. UMCMC makes matching contributions equal to 100% of an employee's annual contribution up to 3% of the employee's eligible earnings. In addition, UMCMC will also make a matching contribution of 50% of the next 2% of employee annual earnings. UMCMC makes a core contribution equal to 2% of the participant's annual compensation. Contributions by UMCMC to this plan during the year ended December 31, 2013, were approximately $2,230,000.

Note 9. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan

Touro's defined benefit pension plan covers substantially all full-time employees. The plan is noncontributory and provides benefits that are based on the participants' years of service and level of compensation. Each participant is entitled to an account balance that grows each year with pay, transition, employer match, and interest credits. Touro's funding policy is based on the minimum contributions required under the Employee Retirement Income Security Act of 1974 as determined by its consulting actuaries. Touro contributed approximately $1,650,000 and $1,000,000, to the plan in 2013 and 2012, respectively.

The following table sets forth the plan's components of net periodic pension cost, change in projected benefit obligation, change in plan assets, funded status, and pension expense recognized by Touro as of and for the years ended December 31, 2013 and 2012, using the projected unit credit method with salary progression (in thousands):

	2013	2012
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	**$ 41,517**	$ 39,152
Service Cost	**2,787**	2,878
Interest Cost	**1,568**	1,623
Actuarial (Gain) Loss	**(5,199)**	465
Benefits Paid	**(2,437)**	(2,600)
Benefit Obligation at End of Year	**38,237**	41,518
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	**28,857**	27,705
Actual Return on Plan Assets	**1,467**	2,753
Benefits Paid	**(2,437)**	(2,600)
Employer Contributions	**1,650**	1,000
Fair Value of Plan Assets at End of Year	**29,537**	28,857
Funded Status (Underfunded)	**$ (8,700)**	$ (12,661)
Net Periodic Pension Cost		
Service Cost	**$ 2,787**	$ 2,878
Interest Cost	**1,568**	1,623
Actuarial Gain on Plan Assets	**(1,467)**	(2,753)
Net Amortization	**187**	1,649
Net Periodic Cost	**$ 3,075**	$ 3,397

Note 9. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

Included in net assets at December 31st, are the following amounts that have not yet been recognized in net periodic postretirement benefit cost but are expected to be amortized into net periodic postretirement cost during 2014 (in thousands):

	2013	2012
Unrecognized Net Actuarial Loss	$ 7,257	$ 12,794
Unrecognized Prior Service Cost	(220)	(371)
Total Accrued Benefit Cost	**$ 7,037**	$ 12,423

Weighted-average assumptions used to determine projected benefit obligations at December 31st were as follows:

	2013	2012
Discount Rate, Obligation	**4.80%**	3.90%
Discount Rate, Periodic Cost	**3.90%**	4.30%
Expected Return on Plan Assets	**7.00%**	7.00%
Rate of Compensation Increase	**2.30%**	3.00%
Cash Balance Interest Credit Rate	**4.00%**	4.00%

The defined benefit pension plan asset allocation as of the measurement date (January 1st) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2013	2012	Target Allocation
Equity Securities	**45%**	45%	50% - 60%
Debt Securities	**53%**	52%	35% - 50%
Cash and Cash Equivalents	**2%**	3%	0% - 5%

The plan invests in a diversified mix of traditional asset classes, including equities, government and corporate fixed income debt securities, and cash and cash equivalents. The plan's overall allocation is based on mean variance optimization modeling using certain assumptions regarding expected return, risk, and correlations among various asset classes. Asset allocation analysis considers various potential outcomes and probabilities of returns given current capital markets assumptions.

Note 9. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)
As mentioned in Note 16, the System uses a fair value hierarchy for valuation inputs. The following is a description of the valuation methodologies used for plan assets measured at fair value.

Level 1 - the fair values of the mutual funds and corporate stocks are based at quoted closing process of securities on the last business day of the Plan year.

Level 2 - the fair values of corporate bonds, U.S. government agency securities, and foreign bonds are based on inputs other than quoted prices that are observable for securities, either directly or indirectly. Examples of these inputs are values based on yields currently available on comparable securities of issuers with similar credit ratings, inputs derived from observable market data by correlation or other means.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2013 (in thousands):

December 31, 2013	Level 1	Level 2	Total
Cash	$ 587	$ -	$ 587
Mutual Funds			
Diversified Emerging Markets	1,459	-	1,459
Large Blend	6,015	-	6,015
Large Growth	-	-	-
Natural Resources	1,472	-	1,472
Corporate Stocks			
Foreign Large Blend	1,478	-	1,478
Foreign Large Growth	2,971	-	2,971
Corporate Bonds	-	12,301	12,301
U.S. Government Agency Securities	-	1,191	1,191
Foreign Bonds	-	2,063	2,063
Total	$ 13,982	$ 15,555	$ 29,537

Note 9. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2012 (in thousands):

December 31, 2012	Level 1	Level 2	Total
Cash	$ 820	$ -	$ 820
Mutual Funds			
Diversified Emerging Markets	930	-	930
Large Blend	4,060	-	4,060
Large Growth	2,277	-	2,277
Natural Resources	1,268	-	1,268
Corporate Stocks			
Foreign Large Blend	2,325	-	2,325
Foreign Large Growth	2,129	-	2,129
Corporate Bonds	-	11,781	11,781
U.S. Government Agency Securities	-	1,352	1,352
Foreign Bonds	-	1,915	1,915
Total	$ 13,809	$ 15,048	$ 28,857

In general, equity securities (both value and growth and active and passive) are utilized to provide expected returns above those of fixed income securities. Fixed income securities are utilized to provide a more stable and less volatile series of returns. The fixed income portfolio contains only securities considered investment grade by maintaining a rating of at least BAA/BBB by Moody's or Standard and Poor's rating agencies.

Professional money managers are delegated the day-to-day responsibility of managing individual portfolios within the context of certain diversification guidelines and to certain performance benchmark standards.

The plan's investment consultant provides quarterly performance reports to evaluate the achievement of overall return expectations of total investments as well as each manager's contribution, both on the basis of absolute and relative performance standards.

The plan's overall asset allocation is reviewed periodically to conform to current market conditions and expectations with regard to overall capital markets assumptions. Historical return patterns and correlations, expected return risk premium, and other multifactor considerations are utilized in the development of overall capital markets assumptions for the purpose of the plan's asset allocation determinations.

Note 9. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

Touro expects to make contributions of approximately $2,040,000 to the defined benefit pension plan in 2014.

At December 31, 2013 and 2012, Touro's plan had accumulated benefit obligations of approximately $36,307,000 and $39,248,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2013, are as follows (in thousands):

2014	$ 1,110
2015	1,150
2016	1,280
2017	1,340
2018	1,420
2019 - 2023	8,930
Total	$ 15,230

Supplemental Executive Retirement Plan

Touro has a supplemental executive retirement plan with a former Chief Executive Officer (CEO) in which an annual payment is made over ten years and investment return is credited to the base amount due each year. In addition, Touro has a deferred compensation plan with this former CEO under an employment contract. Amounts payable under these plans totaled approximately $936,000 and $1,643,000, at December 31, 2013 and 2012, respectively. An additional deferred compensation trust exists, which has been recorded with an offsetting asset and liability in the amount of approximately $944,000 and $1,033,000, as of December 31, 2013 and 2012, respectively.

Executive Benefit Plan

Children's sponsors an Executive Benefit Plan benefiting members of senior management, some of whom dedicate their time to the System. This plan includes a flexible benefit allowance account and an executive employment retention plan. These plans define specific vesting dates and provide the executive with tax deferral opportunities. Expenses related to the Executive Benefit Plan during the years ended December 31, 2013 and 2012, for all participants totaled approximately $1,294,000 and $1,218,000, respectively. In addition, in 2002, Children's established a 457(b) investment account that can be utilized by senior management. As of December 31, 2013 and 2012, the Hospital's total liability for these plans is $2,776,000 and $2,459,000, respectively, and is included in accrued compensation on the consolidated balance sheets. Related assets of $2,776,000 and $2,459,000, at December 31, 2013 and 2012, respectively, are recorded to fully settle these plan liabilities.

Note 10. Insurance Programs

Medical Professional Liability

The state of Louisiana enacted legislation that created a statutory limit of $500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance Fund) to provide professional liability insurance to participating health care providers.

The System participates in the State Insurance Fund, which provides up to $400,000 coverage for settlement amounts in excess of $100,000 per claim excluding litigation fees and expenses. The System is self-insured with respect to the first $100,000.

Workers' Compensation

Children's is self-insured for workers' compensation claims up to $750,000 in effect for fiscal periods beginning January 1, 2013. The loss limit for workers' compensation claims was $300,000 for fiscal periods starting January 1, 2000 through January 1, 2002, $350,000 for fiscal periods starting January 1, 2003 through January 1, 2004, $500,000 for fiscal periods beginning January 1, 2005 through January 1, 2012, and $600,000 for fiscal periods beginning January 1, 2012 through January 1, 2013. In addition, Children's maintains excess workers' compensation coverage on an occurrence basis up to a specific limit of $25,000,000 through an insurance carrier.

Touro is self-insured for workers' compensation claims up to $750,000 in effect for periods beginning February 1, 2009. The self-insured retention or loss limit for workers' compensation claims was $250,000 for fiscal periods starting January 1, 2002 through December 31, 2002 and $500,000 for periods starting January 1, 2003 through January 31, 2009. Insurance coverage exceeding these amounts is provided by a commercial carrier for claims up to a specific limit of $25,000,000 per occurrence. Touro accrues for self-insured claims, claims administration costs, and legal fees based on an actuarial study. The estimated liability for workers' compensation claims in the consolidated balance sheets, which was discounted at 6%, was approximately $1,963,500 and $1,918,000, at December 31, 2013 and 2012, respectively.

UMCMC is self-insured for workers' compensation claims up to $1,500,000 for the period beginning August 31, 2013. UMCMC's per occurrence retention was unlimited for claims occurring June 24, 2013 to August 30, 2013. In addition, UMCMC maintains excess workers' compensation coverage on an occurrence basis for statutory limits through an insurance carrier.

As mentioned in Note 2, certificates of deposit secure the self-insured portion.

Note 10. Insurance Programs (Continued)

Health Insurance

The System offers subsidized health insurance to its employees through an employer-sponsored health plan. The self-insured plan obligates System to pay the first $300,000 per claim. Insurance coverage exceeding these amounts is provided by a commercial carrier for claims up to $2,000,000 per occurrence. The health insurance reserves were approximately $5,431,000 and $3,509,000 at December 31, 2013 and 2012, respectively. The estimated reserve for employee health care claims is based on actual claims history and includes estimates for administrative costs.

In General

Children's has purchased additional umbrella coverage on a claims-made basis of $10,000,000 from an insurance carrier through July 31, 2010. Effective August 1, 2010, there is a claims-made policy for the System with a $20,000,000 annual aggregate limit from an insurance carrier. Hospital management believes all asserted claims are covered and will be settled within the limits of the Hospital's coverage. The recorded liability, based upon an actuarial study, totaled $3,741,000 and $3,342,000, discounted at 6%, at December 31, 2013 and 2012, respectively, for known claims and possible losses attributable to any workers' compensation, general, or professional liability incidents that may have occurred but that have not been identified under Children's incident reporting system.

Touro has excess insurance coverage with an annual aggregate limit of $30,000,000 that covers any settlement amounts that are in excess of $1,000,000 through July 31, 2010 and a System occurrence basis policy with a $20,000,000 annual aggregate limit from an insurance carrier effective August 1, 2010. Touro's management believes that all asserted claims are covered and will be settled within the limits of the Touro's coverage. Touro accrues for self-insured claims, claims administration costs, and legal fees based on an actuarial study and an additional internal assessment. The estimated liability for professional liability claims in the consolidated balance sheets, which was discounted at 6%, was approximately $6,349,000 and $7,272,000, at December 31, 2013 and 2012, respectively.

Through the System, UMCMC has purchased additional umbrella coverage on a claims-made basis of $25,000,000 from an insurance carrier. Hospital management believes all asserted claims are covered and will be settled within the limits of the Hospital's coverage. The estimated liability included in the consolidated balance sheets, which was discounted at 6%, totaled $1,619,000 at December 31, 2013, for known claims and possible losses attributable to any workers' compensation, general, or professional liability incidents that may have occurred but that have not been identified under UMCMC's incident reporting system.

The System has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying consolidated financial statements.

Note 11. Concentrations of Credit Risk

Patient accounts receivable are stated at estimated net realizable value. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors at December 31st, was as follows:

	2013	2012
Medicare	**18 %**	8 %
Medicaid	**34**	33
Managed Care	**41**	50
Patients	**6**	8
Workers' Compensation	**1**	1
Total	**100 %**	100 %

Receivables from government-related programs (i.e., Medicare and Medicaid) represent the only concentrated group of credit risk for the System, and management does not believe that there are any credit risks associated with these government programs. Commercial and managed care receivables consist of receivables from various payors involved in diverse activities and subject to differing economic conditions and do not represent any concentrated credit risks to the System.

The System maintains allowances for uncollectible accounts for estimated losses resulting from a payor's inability to make payments on accounts. The System uses a balance sheet approach to value the allowance account based on historical write-offs and the aging of the accounts. Accounts are written off when collection efforts have been exhausted. Management continually monitors and adjusts its allowances associated with its receivables.

The System periodically maintains cash in bank accounts in excess of insured limits. The System has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

Note 12. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31st, are available for the following purposes (in thousands):

	2013	2012
Specific Purpose Funds		
Research and Education	$ 1,988	$ 2,787
Patient Care (Including Elder Care)	1,907	1,319
Gumbel Building	1,480	1,272
Charity	1,214	934
Other	536	451
Nursing Education	547	447
Lectures and Medical Staff	381	348
Plant Funds		
Miscellaneous Renovation Projects	354	622
Total	$ 8,407	$ 8,180

Note 13. Permanently Restricted Net Assets (Endowment Funds)

The State of Louisiana enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective August 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. The Board has determined that the majority of the System's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

The System holds donor-restricted endowment funds established primarily to fund specified activities for and within the System and the medical community as a whole. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the State of Louisiana's UPMIFA as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed in UPMIFA.

Note 13. Permanently Restricted Net Assets (Endowment Funds) (Continued)

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the System, and (7) the System's investment policies.

Endowment Investment and Spending Policies - The System has adopted investment and spending policies for endowment assets to achieve a disciplined, consistent management philosophy that accommodates reasonable and probable events. Preservation of capital and return on investment are of primary importance. The primary investment objective is to preserve financial assets generated through donor gifts, so that the proceeds may be distributed for the purposes intended by the donors and to the benefit of the System, at a level of risk deemed acceptable by the LCMC Board of Trustees. To satisfy its long-term rate-of-return objectives, the System relies on a strategy outlined by its investment managers and includes purchases of bonds, stocks, and cash and cash equivalents. The System will consider adjusting the amounts of funds that each manager has to manage on an ongoing basis.

The System's Endowment Net Asset Composition by fund type as of December 31, 2013, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ -	$ 7,651	$ 7,651
Undesignated Funds	-	121	-	121
Total	$ -	$ 121	$ 7,651	$ 7,772

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2013, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Beginning of Year	$ -	$ 109	$ 7,651	$ 7,760
Investment Return				
Investment Income	-	116	-	116
Net Appreciation (Realized and Unrealized)	-	796	-	796
Total Investment Return	-	912	-	912
Appropriation of Endowment Net Assets for Expenditure	-	(900)	-	(900)
Net Assets, End of Year	$ -	$ 121	$ 7,651	$ 7,772

Note 13. Permanently Restricted Net Assets (Endowment Funds) (Continued)

The System's Endowment Net Asset Composition by fund type as of December 31, 2012, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ -	$ 7,651	$ 7,651
Undesignated Funds	-	109	-	109
Total	$ -	$ 109	$ 7,651	$ 7,760

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2012, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Beginning of Year	$ -	$ -	$ 7,731	$ 7,731
Investment Return:				
Investment Income	-	181	-	181
Net Appreciation (Realized and Unrealized)	-	644	-	644
Total Investment Return	-	825	-	825
Change of Donor Intent	-	-	(80)	(80)
Appropriation of Endowment Net Assets for Expenditure	-	(716)	-	(716)
Net Assets, End of Year	$ -	$ 109	$ 7,651	$ 7,760

Permanently restricted net assets (endowment funds) at December 31st, are invested in perpetuity, the income from which is expendable to support the following purposes (in thousands):

	2013	2012
Nursing Education	**$ 1,444**	$ 1,444
Charitable Care	**2,186**	2,186
General Education and Purpose	**923**	923
Patient Care	**374**	374
Lectures and Medical Staff	**301**	301
Research	**299**	299
Elder Care	**2,000**	2,000
Other	**125**	125
Total	**$ 7,651**	$ 7,651

Note 14. Assets Held in Trust

Children's has been named the income beneficiary of a separate trust. Because the assets of the trust are not controlled by Children's and Children's does not have an irrevocable right to receive the income earned on the trust's assets, they are not included in Children's financial statements. The assets had a market value of approximately $4,362,000 and $4,223,000 at December 31, 2013 and 2012, respectively. Distributions of income are made at the discretion of the trustee. For the years ended December 31, 2013 and 2012, Children's recorded contribution income of approximately $92,000 and $101,000, respectively, received from the trust.

Note 15. Functional Expenses

The System provides general health care services, both inpatient and outpatient, to patients in the Gulf South region. For the years ended December 31, 2013 and 2012, expenses related to providing these services are as follows (in thousands):

	2013	2012
Health Care Services	**$ 554,261**	$ 359,146
Fiscal and Administrative Services	**147,938**	116,542
Total	**$ 702,199**	$ 475,688

Note 16. Fair Value of Financial Instruments

The System accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets in this category primarily include listed equities.

Level 2 - Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and for which all significant inputs are observable, either directly or indirectly, as of the measurement date. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds and interest rate swaps.

Note 16. Fair Value of Financial Instruments (Continued)

Level 3 - Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. Financial assets in this category generally include alternative investments.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2013, are summarized below (in thousands):

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash	$ -	$ -	$ -	$ -
U.S. Government Securities	1,594	91	-	1,685
Marketable Equity Securities	328,853	147,930	22,550	499,333
Other Fixed Income Securities	24,625	259,770	128	284,523
Mortgage-Backed Securities	-	2,226	-	2,226
Money Market Funds	11,479	29,777	-	41,256
Other	-	500	-	500
Total	$ 366,551	$ 440,294	$ 22,678	$ 829,523

Liabilities	Level 1	Level 2	Level 3	Total Fair Value
Interest Rate and Basis Swaps	$ -	$ 760	$ -	$ 760
Total	$ -	$ 760	$ -	$ 760

The changes in investments measured at fair value for which the System has used Level 3 inputs to determine fair value for the year ended December 31, 2013, are as follows (in thousands):

	Level 3 Beginning Balance January 1, 2013	Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Level 3 Ending Balance December 31, 2013
Marketable Equity Securities	$ 21,912	$ 2,668	$ -	$ (2,030)	$ 22,550
Other Fixed Income Securities	147	(2)	12	(29)	128
Total	$ 22,059	$ 2,666	$ 12	$ (2,059)	$ 22,678

Note 16. Fair Value of Financial Instruments (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2012, are summarized below (in thousands):

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash	$ 75	$ -	$ -	$ 75
U.S. Government Securities	1,592	117	-	1,709
Marketable Equity Securities	307,227	108,334	21,912	437,473
Other Fixed Income Securities	45,835	245,618	147	291,600
Mortgage-Backed Securities	-	3,019	-	3,019
Money Market Funds	20,715	16,051	-	36,766
Other	-	500	-	500
Interest Rate and Basis Swaps	-	229	-	229
Total	$ 375,444	$ 373,868	$ 22,059	$ 771,371

Liabilities	Level 1	Level 2	Level 3	Total Fair Value
None	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -

The changes in investments measured at fair value for which the System has used Level 3 inputs to determine fair value for the year ended December 31, 2012, are as follows (in thousands):

	Level 3 Beginning Balance January 1, 2012	Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Level 3 Ending Balance December 31, 2012
Marketable Equity Securities	$ 19,902	$ 1,745	$ (3,573)	$ 3,838	$ 21,912
Other Fixed Income Securities	3,716	3	2	(3,574)	147
Total	$ 23,618	$ 1,748	$ (3,571)	$ 264	$ 22,059

Note 16. Fair Value of Financial Instruments (Continued)

The System's measurements of fair value are made on a recurring basis and their valuation techniques for assets and liabilities recorded at fair value are as follows:

Investments - The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

Interest Rate and Basis Swap Agreements - The fair values of these agreements represent the estimated amount the System would pay to terminate these agreements at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the System.

Note 17. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors (in thousands):

	2013	2012
Purpose Restrictions Accomplished		
Research and Education	**$ 3,515**	$ 4,967
Other	**201**	176
Gumbel Building	**140**	-
Cancer	**138**	-
Elder Care	**109**	25
Funding of Nursing Educators	**71**	142
OBGYN	**70**	25
Charity Care	**21**	13
Pastoral Care	**11**	10
Surgery	**7**	10
Rehabilitation	**5**	24
Cardiology	**2**	3
Total Restrictions Released	**$ 4,290**	$ 5,395

Net assets released from restrictions are included as other operating revenue or other non-operating income, depending upon the nature of the restriction, within unrestricted revenue on the consolidated statements of operations.

Note 18. Commitments and Contingencies

The System has 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 System's recorded reserves or insurance coverage, and will not materially affect the consolidated financial position, results of operations, changes in net assets, or cash flows of the System.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with fraud and abuse, as well as other applicable government, laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a so-called Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis. The programs use RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC or MIC identifies a claim it believes to be improper, it notifies the Hospital to formally begin an assessment process. Upon completion of the assessment and appeal process, it makes a deduction from the provider's Medicare and Medicaid reimbursement in an amount estimated to equal the overpayment.

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits after the assessment and appeals process is complete until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments against the Hospital are anticipated; however, the outcome of such assessments are unknown and cannot be reasonably estimated. Management has determined RAC and MIC assessments to be insignificant to date.

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. The PPACA is creating sweeping changes across the healthcare industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms.

Note 18. Commitments and Contingencies (Continued)

To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Management of the System is studying and evaluating the anticipated effects and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other consultants to optimize available reimbursement.

Settlement of Certain Claims by the Government Related to Dr. Palazzo
In April of 2008, Touro signed an agreement with the United States Department of Justice acting on behalf of the Office of Inspector General (OIG) of the Health and Human Services (HHS) agreeing to settle certain false claims related to charges submitted to the government by Dr. Carmen Palazzo. The terms of the settlement included a payment to the government of $1,750,000 in addition to reopening several prior year cost reports to ensure that all unallowed costs have been removed.

At the same time, Touro also entered into a five-year Corporate Integrity Agreement (CIA) with the HHS OIG. This agreement obligated Touro to strengthen the current compliance program, and implement certain management practices and initiatives to ensure greater oversight of Touro's operations.

Additional terms of this agreement included engaging an independent third party to act as an Independent Review Organization, enhancing the contract management policies and procedures, and expanding employee education. Touro has also implemented further internal controls with respect to Medicare and Medicaid billing, reporting, and claims submission processes.

During the year ended December 31, 2013, Touro completed its fifth year under the CIA and it filed its compliance report. The OIG responded with a favorable evaluation of Touro's report and concluded the agreement; thus, releasing Touro from the CIA.

Electronic Health Records (EHR) Incentive Payments
The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that adopt and meaningfully use certified EHR technology. These incentive payments are determined based on a formula, including inputs such as charity charges and total discharges. The revenue associated with EHR incentive payments is recognized by the System when management can provide reasonable assurance that the System will be able to demonstrate compliance with the meaningful use objectives for that reporting period and that the incentive payments will be received by the System. Because these incentive payments are based on management's best estimate, the amounts recognized are subject to change. Any changes resulting from a change in estimate would be recognized within operations in the period in which they occur. In addition, these payments and the related attestation of compliance with meaningful use objectives are subject to audit by the federal government or its designee.

Note 18. Commitments and Contingencies (Continued)

Electronic Health Records (EHR) Incentive Payments (Continued)

For the year ended December 31, 2013, the System recognized approximately $3,942,000 and $3,270,000 of revenue related to Medicare and Medicaid incentive payments for EHR, respectively. For the year ended December 31, 2012, the System recognized $2,319,000 of revenue related to Medicare incentive payments for EHR. These amounts were recognized in full at the date of attestation and are included within other operating revenues on the consolidated statements of operations.

Leases with ILH and UMC

As mentioned in Note 1, UMCMC entered into a Cooperative Endeavor Agreement, from which multiple lease agreements were agreed to.

Effective May 29, 2013, UMCMC entered into a Master Hospital Lease Agreement with LSU for the leasing of ILH and UMC. For the term of leasing ILH, UMCMC shall pay an annual rent of $24,101,208, payable in quarterly installments of $6,025,302. Upon the completion of the construction of UMC and UMCMC taking occupancy of UMC, UMCMC is obligated to minimum annual rental payments of $69,409,750, payable in quarterly installments of $17,352,437.

The term of the ILH lease is not expected to exceed two years. The term of the UMC lease will be forty years with options to extend for three fifteen-year periods. The quarterly rent payments for leasing both ILH and UMC are subject to increase annually; however, that increase is limited to no more than 5% than the rent in the previous year. The quarterly rent payments for UMC will be reviewed and adjusted to the Fair Market Rental Value, as defined, every twenty years.

The Master Lease Agreement required UMCMC to make advance lease payments towards it facility rental. Of this total, $110,000,000 is a prepayment of a portion of the future UMC rent payments, excluding the UMC's Ambulatory Care building and its Garage. UMCMC will receive an annual credit of approximately $5,500,000 against its quarterly rent obligation for UMC, for each of the first twenty years of the UMC lease term. The remaining $143,000,000 represents all future rent payments for UMC's Ambulatory Care building and its Garage. This will be amortized over the forty year term of the UMC lease.

These advance payments are included within other assets on the consolidated balance sheets and are classified as non-current. These payments were funded by the Series 2013 Notes mentioned in Note 8.

LCMC is guaranteeing the future rent payments prescribed by the Master Lease agreement.

Note 18. Commitments and Contingencies (Continued)

Leases with ILH and UMC (Continued)

In relation to the Master Lease agreement, UMCMC entered into a Right of Use, Possession and Occupancy agreement whereby UMCMC is granted the right to use and occupy the land and surface improvements for allowing the leased buildings and future buildings and other improvements to be located on the land, together with vehicular and pedestrian access to and from the leased buildings and future improvements, parking and related uses. This agreement commences on the date that the UMC facility lease commences and shall only terminate and expire when the UMC facility lease expires.

Effective May 29, 2013, UMCMC also entered into an Equipment Lease for an initial term of ten years with two separate and successive options to renew for a period of five years. The annual consideration for this lease shall be $9,878,000 and shall be paid quarterly. UMCMC is responsible for lost and stolen equipment that is being leased and the cost associated with either replacing that equipment or reimbursing the lessor for the fair market value of that equipment. UMCMC has substantial reporting requirements to the Louisiana Property Assistance Agency and the State of Louisiana's Legislative Auditor under this equipment lease.

Rent expense under the above Master Lease and Equipment Lease totaled approximately $17,460,000 for the year ended December 31, 2013.

In projecting minimum annual lease payments, a growth factor of 3% of its annual rents was used in calculating rent for the UMC lease for only the first twenty years of its lease due to the provision of that rent being reviewed and adjusted to the Fair Market Rental Value. The projected annual rents were then offset by the application of the advance lease payment mentioned above. Minimum annual lease payments as of December 31, 2013 for the above mentioned leases are projected as follows (in thousands):

2014	$ 35,148
2015	54,885
2016	74,743
2017	76,343
2018	78,337
Thereafter	1,521,495
Total	$ 1,840,951

Note 18. Commitments and Contingencies (Continued)

Other Leases

Rent expense for the System not related to the leases with ILH and UMC, which relates primarily to operating leases for medical and office equipment, was approximately $4,884,000 and $5,372,000 for the years ended December 31, 2013 and 2012, respectively. The future minimum rentals under these leases for the next five years range from approximately $2,376,000 to $4,044,000 per year.

Gross rental income earned in the System's operation of medical office buildings in 2013 and 2012, was approximately $3,187,000 and $4,429,000, respectively. The future minimum rental payments to be received by the System on non-cancelable operating lease agreements for the next five years range from approximately $291,000 to $4,206,000 per year.

Note 19. Community Support

During the year ended December 31, 2012, the System collaborated with other healthcare providers (the Hospitals) to ensure the availability of, and to more cost effectively provide, quality healthcare services to low income and needy residents in the community. In order to best address the needs in the community, the collaborative Hospitals became members of four non-profit organizations, Louisiana Clinical Services, Inc. (LCS), Southern Louisiana Clinical Services, Inc. (SLCS), Eastern Louisiana Clinical Services, Inc. (ELCS), and Natchitoches Clinical Services, Inc. (NCS), (collectively, the Non-Profits).

The Hospitals contributed funds to the Non-Profits, which were then used to support the provisions of the hospital and clinical physician services, physician in-training services, physician assistant/nurse practitioner services, specialty physician services and other healthcare services. The System officially withdrew from these collaborative agreements July 27, 2012.

Effective November 1, 2011, the System entered into a contract with Louisiana Health Sciences Center (LSUHSC) to cover costs of providing physician services to low income and needy patients at the LSU Interim Hospital in New Orleans (LSU-IH). This contract terminated June 30, 2012.

Effective July 1, 2012, the System entered into multiple contracts with LSUHSC, Tulane University School of Medicine, and Van Meter and Associates to cover costs of providing physician services to low income and needy patients at LSU-IH.

For the years ended December 31, 2013 and 2012, the System contributed approximately $9,716,000 and $18,868,000, respectively, to provide healthcare services to low income and needy residents in the community. These expenses are included within the community support line item on the consolidated statements of operations.

Note 19. Community Support (Continued)

There is support and participation in numerous activities and programs that benefit the community. These activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

One such program is CHAP, as mentioned in Note 2. CHAP is designed to assist families with income too high to qualify for Medicaid, but whose lack of resources limit their access to quality health care. Through CHAP, Children's provides health care services without charge to patients whose family income is between 200% (Medicaid Limit) and 350% of the Federal Poverty Income Guidelines. In addition to CHAP, CHMPC increases the accessibility of health care to the indigent and underinsured through its Kids First pediatric primary care physician practices.

Supporting the advancement of medical knowledge through research is a continual focus. Children's Hospital's Research Institute for Children has completed its seventeenth year of operation in 2013.

Additionally, there is support for the following programs: Mobile Dental Program, Children At Risk Evaluation ("CARE") Center, Inpatient Behavioral Health Program, Limited Intervention Program, the Parenting Center, Ventilator Assisted Care Program, Safe Kids Coalition, Greater New Orleans Immunization Network, Ambulatory Clinical and Nutritional Support Services, the Miracle League, Cochlear Implant Program, and Autism Center.

The revenues and expenses associated with these programs for the years ended December 31, 2013, are detailed as follows (in thousands):

2013	Research Institute	CHAP	Mobile Dental	CARE Center	Behavioral Health	Other	Total
Patient Revenues	$ -	$ 15,955	$ 1,808	$ 1,254	$ 30,953	$ 13,246	$ 63,216
Revenue Deductions	-	(15,955)	(1,562)	(1,008)	(24,159)	(8,930)	(51,614)
Other Revenues	1,171	-	5	87	-	1,376	2,639
Total Revenues	1,171	-	251	333	6,794	5,692	14,241
Total Expenses	5,932	4,867	1,568	1,741	8,281	13,686	36,075
Community Support, Net	$ (4,761)	$ (4,867)	$ (1,317)	$ (1,408)	$ (1,487)	$ (7,994)	$ (21,834)

Note 19. Community Support (Continued)

The revenues and expenses associated with these programs for the years ended December 31, 2012, are detailed as follows (in thousands):

	2012						
	Research Institute	CHAP	Mobile Dental	CARE Center	Behavioral Health	Other	Total
Patient Revenues	$ -	$ 18,273	$ 2,092	$ 948	$ 28,883	$ 13,815	$ 64,011
Revenue Deductions	-	(18,273)	(1,825)	(703)	(22,307)	(10,449)	(53,557)
Other Revenues	1,488	-	-	285	-	1,275	3,048
Total Revenues	1,488	-	267	530	6,576	4,641	13,503
Total Expenses	7,617	5,557	1,570	1,240	6,864	17,329	40,177
Community Support, Net	$ (6,128)	$ (5,557)	$ (1,303)	$ (710)	$ (288)	$ (12,688)	$ (26,674)

For the years ended December 31, 2013 and 2012, expenses of the community support programs included direct expenses and an allocation of indirect expenses as follows (in thousands):

	2013	2012
Direct Expenses	**$ 22,253**	$ 28,011
Indirect Expenses	**13,822**	12,165
Total Expenses	**$ 36,075**	$ 40,177

Indirect expenses represent estimates of patient care cost and allocated overhead using Medicare cost reporting methodologies.

These net revenues and expenses are included within the community support line item on the consolidated statements of operations.

In addition to the above community support activities, Children's provides further benefits to Medicaid patients in the form of uncompensated patient care costs. Children's also emphasizes the importance of higher education and funds the teaching of students and health professionals through a comprehensive graduate medical education program. See Note 1 for further information on charity care costs.

Note 20. Accounting for Uncertainty in Taxes

The System follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC. The System recognizes a threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The System's tax filings are subject to audit by various taxing authorities. The System's open audit periods are 2010 through 2012. There are currently no returns under examination. Management evaluated the System's tax positions and considered that the System had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance.

Note 21. Upper Payment Limit Program

The System and other health care providers have collaborated with the State and units of local government in Louisiana, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population. The provision for this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. As of December 31, 2013 and 2012, the System has received UPL payments of approximately $284,044,000 and $66,126,000, respectively, which are recognized in net patient service revenue on the consolidated statements of operations.

Note 22. Subsequent Events

On February 20, 2014, Children's signed an act of cash sale on property, "the NOAH property", that was evidenced by a lease purchase agreement that Children's signed in 2013. This property was appropriately capitalized in 2013 on the consolidated balance sheets.

On April 1, 2014, LCMC and Children's Hospital entered into a Master Trust Indenture in which they are named as the members of the Obligated Group. Under this Master Trust Indenture, the obligations and all other payment obligations under this Indenture are the joint and several obligations of the Obligated Group. These obligations shall be secured by the general credit of the Obligated Group together with a lien on the Pledged revenues, as defined, of the Obligated Group.

Note 22. Subsequent Events (Continued)

In connection with the Master Trust Indenture, the Obligated Group is a party to a First Supplemental Indenture that further provides multiple Ancillary Obligation Agreements, collectively the Authorized Ancillary Obligations. One of those Ancillary Obligations, UMCMC 2014-A Series Notes TRS Ancillary Obligation, relates to the further described UMCMC Series 2014-A Notes.

Pursuant to a Trust Indenture dated April 2, 2014, UMCMC authorized the issuance of $253,000,000 aggregate principal amount of notes. The notes are being issued in two series: (i) Series 2014-A1 Notes in the principal amount of $125,000,000 and (ii) Series 2014-A2 Notes in the principal amount of $128,000,000. These notes are the general obligations of UMCMC and shall be secured by the Trust Estate, as defined below.

The issuance of these notes, together with the payment of interest accrued on its Series 2013 Notes, cancels any and all obligations of the Series 2013 Notes.

The Series 2014-A Notes mature on April 1, 2024 and bear interest at a rate of 7.25%. Interest only is payable on these Notes on April 1 and October 1, beginning October 1, 2014. UMCMC will establish a Debt Service Fund (the Indenture Funds) for holding funds sufficient to support the Debt Service on the Notes.

As security for payment of these Notes, UMCMC pledges and assigns: (i) a security interest in their Indenture Funds mentioned above, (ii) Pledged Revenues that includes all receipts, income, rents, royalties, benefits and other revenue from the operation of UMCMC's facilities, exclusive of revenue from donors that have a restriction as to the use of the revenue and exclusive of revenues where applicable law precludes the granting of a security interest in those revenues, and (iii) any and all property of every kind that may be subjected to the lien of the Indenture. Collectively, these three elements define the Trust Estate.

On April 8, 2014, a cooperative endeavor agreement has been entered into between Parish Hospital Service District for Parish of Orleans (the District) , Louisiana Children's Medical Center and Touro Infirmary. Louisiana Children's Medical Center and Touro are collectively referred to as LCMC throughout the CEA. The CEA provides that LCMC will manage and be responsible for the day-to-day operations of an 80 bed public hospital and emergency department currently under construction in Eastern New Orleans (Hospital). Touro will serve in the primary role of managing and being responsible for the day-to-day operations of the Hospital and to provide supplemental operational support for the Hospital to support and enhance the continuity and viability of Hospital operations for the citizens of Eastern New Orleans.

Note 22. Subsequent Events (Continued)

Under the CEA, LCMC is obligated for: employing or contracting with those required to operate the Hospital, providing comprehensive administrative, professional, operational, revenue cycle and financial management of the Hospital, obtaining and maintaining the appropriate licenses, software and hardware and corresponding support services related to those technology systems, and assisting the Hospital in recruiting medical staff. The term of the agreement shall commence on the Effective Date, as defined, and will expire June 30, 2029, with an option to renew for up to 10 years. The District shall pay to LCMC a Fee that is comprised of annual management, revenue cycle management, and direct and indirect operating components. The District and LCMC have agreed that Operating Revenues of the Hospital shall be the only source of funds for paying the Fee.

Note 23. Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

SUPPLEMENTARY INFORMATION

LOUISIANA CHILDREN'S MEDICAL CENTER (PARENT ONLY)
Balance Sheets
December 31, 2013 and 2012 (in Thousands)

	2013	2012
Assets		
Current Assets		
Due From Related Parties	$ 1,211	$ 5,727
Total Assets	$ 1,211	$ 5,727
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	$ 110	$ 3,306
Accrued Salaries and Wages	211	-
Due to	770	2,421
Total Current Liabilities	1,091	5,727
Employee Benefits, Net of Current Portion	120	-
Total Liabilities	1,211	5,727
Net Assets	-	-
Total Liabilites and Net Assets	$ 1,211	$ 5,727

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER (PARENT ONLY)
Statements of Operations
For the Year Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Unrestricted Revenues, Gains and Other Support		
Management Fee Revenue	$ 13,737	$ 18,304
Total Operating Revenues	13,737	18,304
Operating Expenses		
Employee Compensation and Benefits	2,272	-
Purchased Services	10,830	18,304
Professional Fees	569	-
Supplies and Other Expenses	66	-
Total Operating Expenses	13,737	18,304
Income from Operations	-	-
Excess Revenues over Expenses	$ -	$ -

See independent auditor's report.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2013 and 2012 (in Thousands)

	2013	2012
Assets		
Current Assets		
Cash and Cash Equivalents	$ 77,469	$ 38,032
Assets Limited as to Use	1,617	2,219
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of $11,166 and $9,567 in 2013 and 2012, Respectively	31,606	30,769
Other Receivables	3,064	2,951
Inventories	5,467	5,323
Prepaid Expenses	1,820	2,150
Total Current Assets	121,043	81,444
Assets Limited as to Use		
Designated for Capital Projects and Specific Programs	46,254	47,518
Restricted by Bond Indenture, Debt Service Reserve	10,144	10,113
Donor-Restricted Long-Term Investments	11,560	10,493
Restricted Other	625	627
Less: Amount Required for Current Obligations	(1,617)	(2,219)
Assets Limited as to Use, Net	66,966	66,532
Property, Plant, and Equipment, Net	145,903	137,032
Other Assets	2,735	3,511
Total Assets	$ 336,647	$ 288,519

See independent auditor's report.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Balance Sheets (Continued)
December 31, 2013 and 2012 (in Thousands)

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	$ 17,541	$ 14,214
Accrued Salaries and Wages	10,505	9,457
Current Maturities of Bonds Payable	2,110	1,985
Current Portion of Estimated Employee Health and Workers' Compensation Claims	2,448	2,948
Current Portion of Estimated Professional Liabilities Claims	2,661	2,870
Estimated Third-Party Payor Settlements, Net	3,147	4,298
Other	5,248	34,357
Total Current Liabilities	43,660	70,129
Bonds Payable, Net of Current Portion	70,514	72,608
Estimated Employee Health and Workers' Compensation Claims, Net of Current Portion	1,143	1,229
Estimated Professional Liabilities Claims, Net of Current Portion	3,688	4,401
Employee Benefits	10,668	15,924
Total Liabilities	129,673	164,292
Noncontrolling Interest	683	761
Net Assets		
Unrestricted	192,221	110,422
Temporarily Restricted	6,419	5,393
Permanently Restricted	7,651	7,651
Total Net Assets	206,291	123,466
Total Liabilities and Net Assets	$ 336,647	$ 288,519

See independent auditor's report.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Unrestricted Revenues, Gains and Other Support		
Net Patient Service Revenues	**$ 341,754**	$ 302,114
Provision for Doubtful Accounts	**7,261**	9,707
Net Patient Service Revenues Less Provision for Doubtful Accounts	**334,493**	292,407
Other Operating Revenues	**14,215**	13,682
Net Assets Released from Restrictions, Operating	**250**	105
Total Operating Revenues	**348,958**	306,194
Operating Expenses		
Employee Compensation and Benefits	**136,459**	132,219
Purchased Services	**62,392**	92,925
Supplies and Other	**53,246**	47,695
Depreciation and Amortization	**17,794**	16,379
Impairment Losses	**2**	42
Interest	**2,028**	2,237
Total Operating Expenses	**271,921**	291,497
Income from Operations	**77,037**	14,697
Investment Income	**3,752**	7,958
Other Nonoperating Income	**10**	16,125
Community Support, Net	**(4,859)**	(9,434)
Net Assets Released from Restrictions, Nonoperating	**525**	585
Excess of Revenues over Expenses	**$ 76,465**	$ 29,931

See independent auditor's report.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Unrestricted Net Assets		
Excess of Revenues over Expenses	$ 76,465	$ 29,931
Noncontrolling Interest in Income of Consolidated Subsidiaries	(49)	(261)
Adjustment to Pension Liability	5,385	1,184
Ownership Revisions for Noncontrolling Interest in TIJV	(2)	-
Increase in Unrestricted Net Assets	81,799	30,854
Temporarily Restricted Net Assets		
Contributions	275	519
Investment Income	1,526	1,199
Net Assets Released from Restrictions	(775)	(690)
Increase in Temporarily Restricted Restricted Net Assets	1,026	1,028
Change in Permanently Restricted Net Assets	-	(80)
Increase in Net Assets	82,825	31,802
Net Assets, Beginning of Year	123,466	91,664
Net Assets, End of Year	$ 206,291	$ 123,466

See independent auditor's report.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Cash Flows from Operating Activities		
Increase in Net Assets	$ 82,825	$ 31,802
Adjustments to Reconcile Increase in Net Assets		
to Net Cash Provided by Operating Activities		
Adjustment to Pension Liability	(5,386)	(1,184)
Ownership Revisions for Noncontrolling Interest in TIJV	2	-
Noncontrolling Interest in Income of		
Consolidated Subsidiaries	49	261
Depreciation and Amortization	17,794	16,379
Gain on Sale of Assets	-	(1,085)
Impairment Losses	2	42
Provision for Doubtful Accounts	7,261	9,707
Change in Operating Assets and Liabilities:		
Increase in Patient Accounts Receivable	(8,099)	(15,793)
Increase in Other Receivables	(113)	(474)
Increase in Inventories	(143)	(1,104)
Decrease in Prepaid Expenses	330	66
Decrease (Increase) in Other Assets	718	(502)
Increase (Decrease) in Trade Accounts Payable	3,327	(817)
Increase in Accrued Salaries and Wages	1,048	739
(Decrease) Increase in Third-Party Payor Settlements	(1,151)	1,495
(Decrease) Increase in Other Liabilities	(30,500)	27,133
Net Cash Provided by Operating Activities	67,966	66,665
Cash Flows from Investing Activities		
Capital Expenditures	(26,594)	(21,698)
Change in Assets Limited as to Use	167	(6,811)
Proceeds from Sale of Asset	-	642
Net Cash Used in Investing Activities	(26,427)	(27,867)
Cash Flows from Financing Activities		
Payments on Capital Lease Obligations	-	(1,139)
Repayments of Bonds Payable	(1,985)	(1,905)
Distributions Paid to Noncontrolling Interests	(117)	(122)
Net Cash Used in Financing Activities	(2,102)	(3,166)
Net Increase in Cash and Cash Equivalents	39,437	35,632
Cash and Cash Equivalents, Beginning of Year	38,032	2,400
Cash and Cash Equivalents, End of Year	$ 77,469	$ 38,032
Supplemental Disclosures of Cash Flow Information		
Cash Paid for Interest	$ 4,382	$ 4,494
Property, Plant and Equipment Purchases in Accounts Payable	$ 4,163	$ 1,170

See independent auditor's report.

CHILDREN'S HOSPITAL
Balance Sheets
December 31, 2013 and 2012 (in Thousands)

	2013	2012
Assets		
Current Assets		
Cash and Cash Equivalents	**$ 206,127**	$ 9,069
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of $8,120 and $7,671 in 2013 and 2012, Respectively	**31,894**	35,709
Other Receivables	**5,518**	34,054
Inventories	**7,080**	6,932
Prepaid Expenses and Other Assets	**2,824**	3,149
Total Current Assets	**253,443**	88,913
Assets Limited as to Use		
Designated for Capital Projects and Specific Programs	**756,016**	699,418
Donor-Restricted Long-Term Investments	**2,174**	2,973
Total Assets Limited as to Use	**758,190**	702,391
Property, Plant and Equipment, Net	**125,719**	100,630
Total Assets	**$ 1,137,352**	$ 891,934

See independent auditor's report.

CHILDREN'S HOSPITAL
Balance Sheets (Continued)
December 31, 2013 and 2012 (in Thousands)

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	$ 15,791	$ 13,564
Accrued Salaries and Wages	12,691	11,335
Current Portion of Estimated Employee Health and Workers' Compensation Claims	1,638	1,660
Current Portion of Estimated Professional Liabilities Claims	1,242	855
Estimated Third Party Payor Settlements, Net	20,943	13,287
Other	3,355	2,428
Total Current Liabilities	55,660	43,129
Estimated Employee Health and Workers' Compensation Claims, Net of Current Portion	582	651
Estimated Professional Liabilities Claims, Net of Current Portion	1,455	1,427
Employee Benefits	3,801	4,473
Total Liabilities	61,498	49,680
Net Assets		
Unrestricted	1,073,680	839,281
Temporarily Restricted	1,988	2,787
Permanently Restricted	186	186
Total Net Assets	1,075,854	842,254
Total Liabilities and Net Assets	$ 1,137,352	$ 891,934

See independent auditor's report.

CHILDREN'S HOSPITAL
Statements of Operations
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Unrestricted Revenues, Gains and Other Support		
Net Patient Service Revenues	**$ 394,502**	$ 213,934
Provision for Doubtful Accounts	**3,743**	6,415
Net Patient Service Revenues Less Provision for Doubtful Accounts	**390,759**	207,519
Other Operating Revenues	**16,159**	44,255
Total Operating Revenues	**406,918**	251,774
Operating Expenses		
Employee Compensation and Benefits	**117,814**	115,159
Purchased Services	**23,217**	21,264
Professional Fees	**18,924**	21,033
Supplies and Other Expenses	**52,379**	49,185
Depreciation and Amortization	**11,797**	11,485
Total Operating Expenses	**224,131**	218,126
Income from Operations	**182,787**	33,648
Investment Income	**73,446**	74,543
Other Nonoperating Loss	**-**	(16,000)
Community Support, Net	**(21,834)**	(26,674)
Excess Revenues over Expenses	**$ 234,399**	$ 65,517

See independent auditor's report.

CHILDREN'S HOSPITAL
Statements of Changes in Net Assets
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Unrestricted Net Assets		
Excess of Revenues over Expenses	**$ 234,399**	$ 65,517
Temporarily Restricted Net Assets		
Contributions	**2,716**	4,986
Net Assets Released from Restrictions	**(3,515)**	(4,705)
(Decrease) Increase in Temporarily Restricted Net Assets	**(799)**	281
Change in Permanently Restricted Net Assets	**-**	-
Increase in Net Assets	**233,600**	65,798
Net Assets, Beginning of Year	**842,254**	776,456
Net Assets, End of Year	**$ 1,075,854**	$ 842,254

See independent auditor's report.

CHILDREN'S HOSPITAL
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012 (in Thousands)

	2013	2012
Cash Flows from Operating Activities		
Increase in Net Assets	$ 233,600	$ 65,798
Adjustments to Reconcile Change in Net Assets		
to Net Cash Provided by Operating Activities		
Depreciation and Amortization	13,367	13,130
Net Loss on Disposal/Sale of Assets	139	42
Provision for Doubtful Accounts	3,743	6,415
Change in Operating Assets and Liabilities		
Decrease (Increase) in Patient Accounts Receivable	72	(13,525)
Decrease (Increase) in Other Receivables	28,536	(26,139)
Increase in Inventory	(148)	(525)
Decrease (Increase) in Other Current Assets	325	(370)
Increase in Trade Accounts Payable	2,227	2,187
Increase in Accrued Salaries and Wages	1,356	315
Increase in Third-Party Payor Settlements	7,656	4,097
Increase in Other Liabilities	579	979
Net Cash Provided by Operating Activities	291,452	52,404
Cash Flows from Investing Activities		
Capital Expenditures	(38,595)	(9,364)
Change in Assets Limited as to Use	(55,799)	(41,399)
Net Cash Used in Investing Activities	(94,394)	(50,763)
Net Increase in Cash and Cash Equivalents	197,058	1,641
Cash and Cash Equivalents, Beginning of Year	9,069	7,428
Cash and Cash Equivalents, End of Year	$ 206,127	$ 9,069
Supplemental Disclosures of Cash Flow Information		
Cash Paid for Interest	$ -	$ -
Property, Plant and Equipment Purchases in Accounts Payable	$ 583	$ 583

See independent auditor's report.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
Balance Sheet
December 31, 2013 (in Thousands)

Assets		
Current Assets		
Cash	$	46,448
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of $19,741		43,071
Inventories		7,138
Prepaid Expenses		5,095
Total Current Assets		101,752
Assets Limited as to Use		
Restricted Other		2,750
Property, Plant and Equipment, Net		4,164
Other Assets		254,560
Total Assets	$	363,226
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	$	38,885
Accrued Salaries and Benefits		7,773
Current Portion of Estimated Employee Health abd Workers' Compentation Claims		2,628
Estimated Third-Party Payor Settlements, Net		(8,512)
Deferred Revenue		91,593
Due to Related Party		1,980
Other Current Liabilities		4,969
Total Current Liabilities		139,316
Notes Payable		253,000
Estimated Professional Liabilities Claims, Net of Current Portion		1,619
Total Liabilities		393,935
Net Assets		
Unrestricted		(30,709)
Total Liabilities and Net Assets	$	363,226

See independent auditor’s report.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
Statement of Operations
For the Year Ended December 31, 2013 (in Thousands)

Unrestricted Revenues, Gains and Other Support	
Net Patient Service Revenues	$ 187,236
Provision for Doubtful Accounts	19,961
Net Patient Service Revenues less Provision for Doubtful Accounts	167,275
Other Revenues	8,907
Total Operating Revenues	176,182
Operating Expenses	
Employee Compensation and Benefits	67,487
Purchased Services	26,479
Professional Fees	53,610
Supplies and Other Expenses	59,042
Depreciation and Amortization	274
Total Operating Expenses	206,892
Loss from Operations	(30,710)
Excess of Revenues over Expenses	$ (30,710)

See independent auditor's report.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
Statement of Changes in Net Assets
For the Year Ended December 31, 2013 (in Thousands)

Unrestricted Net Assets	
Excess of Expenses over Revenues	$ (30,710)
Decrease in Net Assets	(30,710)
Net Assets, Beginning of Year	1
Net Assets, End of Year	$ (30,709)

See independent auditor's report.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2013 (in Thousands)

Cash Flows from Operating Activities		
Decrease in Net Assets	$	(30,710)
Adjustments to Reconcile Decrease in Net Assets		
to Net Cash Used in Operating Activities		
Depreciation		274
Provision for Doubtful Accounts		19,961
Changes in Operating Assets and Liabilities		
Increase in Patients Accounts Receivable		(63,032)
Increase in Inventories		(7,138)
Increase in Estimated Third-Party Payor Settlements		(8,512)
Increase in Prepaid Expenses		(5,095)
Increase in Other Assets		(254,560)
Increase in Accounts Payable		38,885
Increase in Accrued Expenses		7,772
Increase in Due to Related Party		1,980
Increase in Deferred Revenue		91,593
Increase in Other Current Liability		4,969
Increase Estimated Insurance Claims		4,247
Net Cash Used in Operating Activities		(199,366)
Cash Flows from Investing Activities		
Capital Expenditures		(4,437)
Chage in Assets Limited as to Use		(2,750)
Net Cash Used in Investing Activities		(7,187)
Cash Flows from Financing Activities		
Proceeds from Issuance of Debt		253,000
Net Cash Provided by Investing Activities		253,000
Net Change in Cash		46,447
Cash, Beginning of Year		1
Cash, End of Year	$	46,448
Supplemental Disclosures of Cash Flow Information		
Cash Paid for Interest	$	1,560

See independent auditor’s report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets
December 31, 2013 (in Thousands)

	LCMC	Touro	Children's	UMCMC	Eliminations	Consolidated
Assets						
Current Assets						
Cash and Cash Equivalents	$ -	$ 77,469	$ 206,127	$ 46,448	$ -	$ 330,044
Assets Limited as to Use	-	1,617	-	-	-	1,617
Patient Accounts Receivable, Net of Allowance	-	31,606	31,894	43,071	-	106,571
Other Receivables	-	3,064	5,518	-	(8,333)	249
Inventories	-	5,467	7,080	7,138	-	19,685
Prepaid Expenses	-	1,820	2,824	5,095	-	9,739
Due From Related Parties	1,211	-	-	-	(1,211)	-
Total Current Assets	1,211	121,043	253,443	101,752	(9,544)	467,905
Assets Limited as to Use						
Designated for Capital Projects and Specific Programs	-	46,254	756,016	-	-	802,270
Restricted by Bond Indenture, Debt Service Reserve	-	10,144	-	-	-	10,144
Donor-Restricted Long-Term Investments	-	11,560	2,174	-	-	13,734
Restricted Other	-	625	-	2,750	-	3,375
Less: Investments Whose Use is Limited Required for Current Obligations	-	(1,617)	-	-	-	(1,617)
Assets Limited as to Use, Net	-	66,966	758,190	2,750	-	827,906
Property, Plant, and Equipment, Net	-	145,903	125,719	4,164	-	275,786
Other Assets	-	2,735	-	254,560	-	257,295
Total Assets	$ 1,211	$ 336,647	$ 1,137,352	$ 363,226	$ (9,544)	$ 1,828,892

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets (Continued)
December 31, 2013 (in Thousands)

	LCMC	Touro	Children's	UMCMC	Eliminations	Consolidated
Liabilities and Net Assets						
Current Liabilities						
Trade Accounts Payable	$ 110	$ 17,541	$ 15,791	$ 38,885	$ -	$ 72,327
Accrued Salaries and Wages	211	10,505	12,691	7,773	-	31,180
Current Maturities of Bonds Payable	-	2,110	-	-	-	2,110
Current Portion of Estimated Employee Health and Workers' Compensation Claims	-	2,448	1,638	2,628	-	6,714
Current Portion of Estimated Professional Liabilities Claims	-	2,661	1,242	-	-	3,903
Estimated Third-Party Payor Settlements, Net	-	3,147	20,943	(8,512)	-	15,578
Due To Related Parties	770	-	-	1,980	(2,750)	-
Deferred Revenue	-	-	-	91,593	-	91,593
Other	-	5,248	3,355	4,969	(6,794)	6,778
Total Current Liabilities	1,091	43,660	55,660	139,316	(9,544)	230,183
Bonds Payable, Net of Current Portion	-	70,514	-	-	-	70,514
Notes Payable	-	-	-	253,000	-	253,000
Estimated Employee Health Workers' Compensation Claims, Net of Current Portion	-	1,143	582	-	-	1,725
Estimated Professional Liability Claims, Net of Current Portion	-	3,688	1,455	1,619		6,762
Employee Benefits, Net of Current Portion	120	10,668	3,801	-	-	14,589
Total Liabilities	1,211	129,673	61,498	393,935	(9,544)	576,773
Minority Interest	-	683	-	-	-	683
Net Assets						
Unrestricted	-	192,221	1,073,680	(30,709)	-	1,235,192
Temporarily Restricted	-	6,419	1,988	-	-	8,407
Permanently Restricted	-	7,651	186	-	-	7,837
Total Net Assets	-	206,291	1,075,854	(30,709)	-	1,251,436
Total Liabilities and Net Assets	$ 1,211	$ 336,647	$ 1,137,352	$ 363,226	$ (9,544)	$ 1,828,892

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets
December 31, 2012 (in Thousands)

	LCMC	Touro	Children's	Eliminations	Consolidated
Assets					
Current Assets					
Cash and Cash Equivalents	$ -	$ 38,032	$ 9,069	$ -	$ 47,101
Assets Limited as to Use	-	2,219	-	-	2,219
Patient Accounts Receivable, Net of Allowance	-	30,769	35,709	-	66,478
Other Receivables	-	2,951	34,054	(24,597)	12,408
Inventories	-	5,323	6,932	-	12,255
Prepaid Expenses	-	2,150	3,149	-	5,299
Due From Related Parties	5,727	-	-	(5,727)	-
Total Current Assets	5,727	81,444	88,913	(30,324)	145,760
Assets Limited as to Use					
Designated for Capital Projects and Specific Programs	-	47,518	699,418	-	746,936
Restricted by Bond Indenture, Debt Service Reserve	-	10,113	-	-	10,113
Donor-Restricted Long-Term Investments	-	10,493	2,973	-	13,466
Restricted Other	-	627	-	-	627
Less: Investments Whose Use is Limited Required for Current Obligations	-	(2,219)	-	-	(2,219)
Assets Limited as to Use, Net	-	66,532	702,391	-	768,923
Property, Plant, and Equipment, Net	-	137,032	100,630	-	237,662
Other Assets	-	3,511	-	-	3,511
Total Assets	$ 5,727	$ 288,519	$ 891,934	$ (30,324)	$ 1,155,856

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets (Continued)
December 31, 2012 (in Thousands)

	LCMC	Touro	Children's	Eliminations	Consolidated
Liabilities and Net Assets					
Current Liabilities					
Trade Accounts Payable	$ 3,306	$ 14,214	$ 13,564	$ (3,306)	$ 27,778
Accrued Salaries and Wages	-	9,457	11,335	-	20,792
Current Maturities of Long-Term Debt	-	1,985	-	-	1,985
Current Portion of Estimated Employee Health and Workers' Compensation Claims	-	2,948	1,660	-	4,608
Current Portion of Estimated Professional Liabilities Claims	-	2,870	855	-	3,725
Estimated Third-Party Payor Settlements, Net	-	4,298	13,287	-	17,585
Due To Related Parties	2,421	-	-	(2,421)	-
Other	-	34,358	2,428	(24,597)	12,189
Total Current Liabilities	5,727	70,130	43,129	(30,324)	88,662
Long-Term Debt, Net of Current Portion	-	72,608	-	-	72,608
Estimated Workers' Compensation Claims, Net of Current Portion	-	1,229	651	-	1,880
Estimated Professional Liability Claims, Net of Current Portion	-	4,401	1,427	-	5,828
Employee Benefits, Net of Current Portion	-	15,924	4,473	-	20,397
Total Liabilities	5,727	164,292	49,680	(30,324)	189,375
Minority Interest	-	761	-	-	761
Net Assets					
Unrestricted	-	110,422	839,281	-	949,703
Temporarily Restricted	-	5,393	2,787	-	8,180
Permanently Restricted	-	7,651	186	-	7,837
Total Net Assets	-	123,466	842,254	-	965,720
Total Liabilities and Net Assets	$ 5,727	$ 288,519	$ 891,934	$ (30,324)	$ 1,155,856

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Operations
For the Year Ended December 31, 2013 (in Thousands)

	LCMC	Touro	Children's	UMCMC	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support						
Net Patient Service Revenues	$ -	$ 341,754	$ 394,502	$ 187,236	$ (5,073)	$ 918,419
Provisions for Doubtful Accounts	-	7,261	3,743	19,961	-	30,965
Net Patient Service Revenues Less Provision for Doubtful Accounts	-	334,493	390,759	167,275	(5,073)	887,454
Other Operating Revenues	-	14,215	16,159	8,907	(281)	39,000
Management Fee Revenue	13,737	-	-	-	(13,737)	-
Net Assets Released from Restriction, Operating	-	250	-	-	(250)	-
Total Operating Revenues	13,737	348,958	406,918	176,182	(19,341)	926,454
Operating Expenses						
Employee Compensation and Benefits	2,272	136,459	117,814	67,487	(4,329)	319,703
Purchased Services	10,830	46,521	23,217	26,479	(7,432)	99,615
Professional Fees	569	15,871	18,924	53,610	(1,466)	87,508
Supplies and Other Expenses	66	53,246	52,379	59,042	(6,114)	158,619
Depreciation and Amortization	-	17,794	11,797	274	-	29,865
Impairment Loss	-	2	-	-	-	2
Interest	-	2,028	-	-	-	2,028
Total Operating Expenses	13,737	271,921	224,131	206,892	(19,341)	697,340
Income (Loss) from Operations	-	77,037	182,787	(30,710)	-	229,114
Investment Income	-	3,752	73,446	-	-	77,198
Other Nonoperating Income	-	10	-	-	525	535
Community Support, Net	-	(4,859)	(21,834)	-	-	(26,693)
Net Assets Released from Restrictions, Nonoperating	-	525	-	-	(525)	-
Excess of Revenues over Expenses	$ -	$ 76,465	$ 234,399	$ (30,710)	$ -	$ 280,154

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Operations
For the Year Ended December 31, 2012 (in Thousands)

	LCMC	Touro	Children's	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support					
Net Patient Service Revenues	$ -	$ 302,114	$ 213,934	$ (3,985)	$ 512,063
Provision for Doubtful Accounts	-	9,707	6,415	-	16,122
Net Patient Service Revenues Less Provision for Doubtful Accounts	-	292,407	207,519	(3,985)	495,941
Other Operating Revenues	-	13,682	44,255	(29,226)	28,711
Management Fee Revenue	18,304	-	-	(18,304)	-
Net Assets Released from Restriction, Operating	-	105	-	(105)	-
Total Operating Revenues	18,304	306,194	251,774	(51,620)	524,652
Operating Expenses					
Employee Compensation and Benefits	-	132,219	115,159	(3,742)	243,636
Purchased Services	18,304	92,925	21,264	(49,248)	83,245
Professional Fees	-	-	21,033	-	21,033
Supplies and Other Expenses	-	47,695	49,185	751	97,631
Depreciation and Amortization	-	16,379	11,485	-	27,864
Impairment Loss	-	42	-	-	42
Interest	-	2,237	-	-	2,237
Total Operating Expenses	18,304	291,497	218,126	(52,239)	475,688
Income from Operations	-	14,697	33,648	619	48,964
Investment Income (Loss)	-	7,958	74,543	-	82,501
Other Nonoperating Income (Loss)	-	16,125	(16,000)	(34)	91
Community Support, Net	-	(9,434)	(26,674)	-	(36,108)
Net Assets Released from Restrictions, Nonoperating	-	585	-	(585)	-
Excess of Revenues over Expenses	$ -	$ 29,931	$ 65,517	$ -	$ 95,448

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Changes in Net Assets
For the Year Ended December 31, 2013 (in Thousands)

	LCMC	Touro	Children's	UMCMC	Eliminations	Consolidated
Unrestricted Net Assets						
Excess of Revenues over Expenses	$ -	$ 76,465	$ 234,399	$ (30,710)	$ -	$ 280,154
Noncontrolling Interests in Income of Consolidated Subsidiaries	-	(49)	-	-	-	(49)
Adjustment to Additional Minimum Pension Liability	-	5,385	-	-	-	5,385
Ownership Revisions	-	(2)	-	-	-	(2)
Increase (Deacrease) in Unrestricted Net Assets	-	81,799	234,399	(30,710)	-	285,488
Temporarily Restricted Net Assets						
Contributions and Grants	-	275	2,716	-	-	2,991
Investment Income	-	1,526	-	-	-	1,526
Net Assets Released from Restriction	-	(775)	(3,515)	-	-	(4,290)
Increase (Decrease) in Temporarily Restricted Net Assets	-	1,026	(799)	-	-	227
Change in Permanently Restricted Net Assets	-	-	-	-	-	-
Increase (Decrease) in Net Assets	-	82,825	233,600	(30,710)	-	285,715
Net Assets, Beginning of Year	-	123,466	842,254	1	-	965,721
Net Assets, End of Year	$ -	$ 206,291	$ 1,075,854	$ (30,709)	$ -	$ 1,251,436

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Changes in Net Assets
For the Year Ended December 31, 2012 (in Thousands)

	LCMC	Touro	Children's	Eliminations	Consolidated
Unrestricted Net Assets					
Excess of Revenues over Expenses	$ -	$ 29,931	$ 65,517	$ -	$ 95,448
Noncontrolling Interests in Income of Consolidated Subsidiaries	-	(261)	-	-	(261)
Adjustment to Additional Minimum Pension Liability	-	1,184	-	-	1,184
Increase in Unrestricted Net Assets	-	30,854	65,517	-	96,371
Temporarily Restricted Net Assets					
Contributions and Grants	-	519	4,986	-	5,505
Investment Income	-	1,199	-	-	1,199
Net Assets Released from Restriction	-	(690)	(4,705)	-	(5,395)
Increase in Temporarily Restricted Net Assets	-	1,028	281	-	1,309
Change in Permanently Restricted Net Assets	-	(80)	-	-	(80)
Increase in Net Assets	-	31,802	65,798	-	97,600
Net Assets, Beginning of Year	-	91,664	776,456	-	868,120
Net Assets, End of Year	$ -	$ 123,466	$ 842,254	$ -	$ 965,720

See independent auditor's report.

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Independent Auditor's 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*

To the Governing Board of Directors
Touro Infirmary and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Touro Infirmary and subsidiaries (Touro) which comprise the consolidated balance sheet as of December 31, 2013, 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 financial statements, and have issued our report thereon dated April 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Touro'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Touro's internal control. Accordingly, we do not express an opinion on the effectiveness of Touro'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Touro's consolidated financial statements are free of 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 Touro's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Touro's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information of the Board of Directors, management, the Legislative Auditor of the State of Louisiana and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 22, 2014

Part I - Summary of Auditor's Results

Financial Statement Section

Type of Auditor's Report Issued	Unmodified
Internal Control over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified not Considered to be Material Weaknesses?	No
Noncompliance Material to Financial Statements Noted?	No

Federal Awards Section - Not applicable

Part II - Financial Statement Findings Section

No findings were noted.

TOURO INFIRMARY

Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2013

None.

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Independent Auditor's 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*

To the Board of Directors
Children's Hospital
New Orleans, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Children's Hospital (the Hospital) which comprise the balance sheet as of December 31, 2013, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Hospital's financial statements are free of 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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information of the Board of Directors, management, the Legislative Auditor of the State of Louisiana and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 22, 2014

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Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
Children's Hospital
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited Children's Hospital's (the Hospital) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2013. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major 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 Hospital'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 Hospital's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hospital 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 December 31, 2013.

Report on Internal Control Over Compliance

Management of the Hospital 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 Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 Hospital'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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor of the State of Louisiana and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 22, 2014

CHILDREN'S HOSPITAL

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity No.	Federal Revenue/ Expenditures Recognized
U.S. Department of Health and Human Services			
Research and Development Cluster			
National Institutes of Health direct programs:			
Microbial Correlates of Bacterial Vaginosis Treatment Failure and Recurrence in H	93.855		$ 258,456
Synthetic Glycopeptide Vaccines that Enhance Resistance to Candidasis	93.855	1R03AI107536-01	34,622
Impact of Biological Variation in A1c on Mortality, Cardiovascular Event and Hypoglycemia in the ACCORD Study	93.837		145,445
ARRA - Atypical G Protein Signaling in Cryptococcus Neoformans	93.701		227
Pass-through programs from:			
The University of Texas Health Science Center at Houston- Safety and Effect of L. Reuteri on Biomarkers of Inflammation in Healthy Infants	93.213	5R34AT006727	24,421
Louisiana State University Agricultural and Mechanical College on behalf of Louisiana State University Health Sciences Center - Minority-Based Community Clinical Oncology Program	93.395	5U10CA063845	68,901
The Administrator of the Tulane Education Funds d/b/a Tulane University Health Sciences Center - Potential of Urinary AGT as a Novel Biomarker intrarenal RAS activity in T1DM	93.847	R21DK094006-02	25,831
The Board of Supervisors of Louisiana State University and Agricultural and Mechanical College - Louisiana Clinical and Translational Sciences Center	93.859	GM104940-50346-S6	100,590
University of Kansas Medical Center - A Randomized Controlled Trial of Amitriptyline for Chronic Oral Food Refusal	93.865	QD851460, Q QD851461	1,120
Louisiana State University Health Sciences Center - Host Defense Against HIV-Related Pulmonary Infections	93.838	2P01HL076100-07A1	21,170
Total Research and Development Cluster			680,783

CHILDREN'S HOSPITAL

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity No.	Federal Revenue/ Expenditures Recognized
Health Resources and Services Administration direct programs:			
Ryan White Title IV Program	93.153		1,039,618
Pass-through programs from:			
City of New Orleans:			
Ryan White Medical Case Management	93.914	K12-466	66,283
Ryan White Mental Health Therapy	93.914	K12-466	25,590
Ryan White Medical Transportation	93.914	K12-466	521
Ryan White Non Medical Case Management	93.914	K12-466	14,868
State of Louisiana:			
HHS Emergency Preparedness	93.889		19,811
Community Based Family Resources Support Grant	93.590	705945	7,891
Louisiana State University Health Sciences Center-New Orleans:			
Enhancing Cancer Registries for Early Case Capture of Pediatric and Young Adults	93.283	5U58DP003805-02	3,671
Louisiana Public Health Institute:			
Crescent City Beacon Community Qi Funding Subaward	93.727	90BC0014	258,456
Total U.S. Department of Health and Human Services			**2,117,492**
U.S. Department of Education			
Passed through from Louisiana Department of Education:			
Children's Hospital, Ventilator Assisted Care Project	84.027A	714496	177,597
U.S. Department of Justice			
Passed through from Louisiana Commission on Law Enforcement:			
New Orleans Children's Advocacy Center	16.575	C12-9-006	62,038
U.S. Department of Homeland Security:			
Federal Emergency Management Assistance	97.036		493,107
Total Expenditures of Federal Awards			**$ 2,850,234**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Children's Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2013

Part I - Summary of Auditor's Results

Financial Statement Section

Type of Auditor's Report Issued:	Unmodified
Internal Control over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified not Considered to be Material Weakness?	No
Noncompliance Material to Financial Statements Noted?	No

Federal Awards Section

Internal Control over Major Programs:	
Material weakness(es) identified?	No
Significant Deficiency(ies) Identified not Considered to be Material Weakness?	No
Type of Auditor's Report Issued on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance with Circular A-133 (section .510(a))?	No

Identification of Major Programs:

Title	CFDA Number
Ryan White Title IV Program	93.153
Crescent City Beacon Community QI Funding Subaward	93.727

Dollar Threshold used to Determine Type A Programs:	$300,000
Auditee Qualified as Low-Risk Auditee?	Yes

Part II - Schedule of Financial Statement Findings Section

No findings were noted.

Part III - Federal Awards Findings and Questioned Costs Section

No findings were noted.

Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2013

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None.

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Independent Auditor's 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*

To the Board of Directors
University Medical Center Management Corporation
New Orleans, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Medical Center Management Corporation (the Corporation) which comprise the balance sheet as of December 31, 2013, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Corporation's financial statements are free of 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information of the Board of Directors, management, the Legislative Auditor of the State of Louisiana and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 22, 2014

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Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
University Medical Center Management Corporation
New Orleans, Louisiana

Report on Compliance For Each Major Federal Program

We have audited University Medical Center Management Corporation's (the Corporation) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2013. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major 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 Corporation'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 Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation 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 December 31, 2013.

Report on Internal Control Over Compliance

Management of the Corporation 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 Corporation'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 Corporation'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, as defined above. 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.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor of the State of Louisiana and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 22, 2014

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity No.	Federal Revenue/ Expenditures Recognized
U.S. Department of Transportation			
Passed through from Louisiana Highway Safety Commission:			
Highway Planning and Construction	20.205	726640	$ 30,500
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	721404	23,234
Occupation Protection Incentive Grants	20.602	722673	44,789
Alcohol Open Container Requirements	20.607	726664	5,509
Total U.S. Department of Transportation			104,032
U.S. Department of Health and Human Services			
Health Resources and Services Administration direct programs:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		322,859
Pass-through programs from:			
City of New Orleans:			
HIV Emergency Relief Project	93.914	K13-894	696,410
Total U.S. Department of Health and Human Services			1,019,269
Total Expenditures of Federal Awards			$ 1,123,301

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2013

Part I - Summary of Auditor's Results

Financial Statement Section

Type of Auditor's Report Issued	Unmodified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified not Considered to be Material Weaknesses?	No
Noncompliance Material to Financial Statements Noted?	No

Federal Awards Section

Internal Control Over Major Programs:	
Material Weaknesses Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	No
Type of Auditor's Report on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance with OMB Circular A-133 (Section 510(a))?	No

Identification of Major Programs:

Title	CFDA Number
HIV Emergency Relief Project	93.914
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918

Dollar Threshold Used to Determine Type A Programs:	$300,000
Auditee Qualified as Low-Risk Auditee?	No

Part II - Financial Statement Findings Section

None noted.

Part III - Federal Awards Findings and Questioned Costs

None noted.

Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2013

Financial Statement Findings

2012-1 - Drafting of Financial Statements and Related Notes

Criteria: The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Corporation, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Internal control over financial reporting should also include policies and procedures that ensure that controls over the accounting function are segregated to serve as a check and balance.

Condition: As part of the audit process, we assisted management in drafting the financial statements and related note disclosures required for the year-end financial reporting. The fact that our role is a key part of the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) is an indication that the internal control over year-end GAAP financial statements by Corporation personnel is not sufficient. We also noted that one person was responsible for issuing the checks and compiling the financial information. This is a repeat finding from the prior year.

Current Status: Resolved

Federal Award Findings and Questioned Costs

None.