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OUR LADY OF THE LAKE HOSPITAL, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements and Supplemental Schedule

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Franciscan Missionaries of
Our Lady Health System, Inc.
and
The Board of Directors
Our Lady of the Lake Hospital, Inc.:

We have audited the accompanying consolidated balance sheets of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) as of June 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Our Lady of the Lake Hospital, Inc. and affiliated organizations as of June 30, 2010 and 2009, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2011, on our consideration of Our Lady of the Lake Hospital, Inc. and affiliated organizations' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information included in the supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such schedule has not been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, accordingly, we express no opinion on it.

KPMG LLP

February 9, 2011

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Balance Sheets

June 30, 2010 and 2009

(In thousands)

Assets		2010	2009
Current assets:			
Cash and cash equivalents	$	19,347	12,098
Short-term investments		20,176	17,188
Patient accounts receivable, net of allowance for uncollectible accounts of $27,062 and $24,077 in 2010 and 2009, respectively		96,981	89,190
Other current assets		43,908	59,671
Total current assets		180,412	178,147
Assets limited as to use, net of current portion		403,664	349,526
Property and equipment, net		433,931	401,526
Other assets		32,227	40,513
Total assets	$	1,050,234	969,712
Liabilities and Net Assets			
Current liabilities:			
Lines of credit	$	—	42,500
Current installments of long-term debt		48,130	8,306
Current portion of capital lease obligations		2,117	1,858
Accounts payable		33,629	36,796
Other current liabilities		74,745	49,086
Total current liabilities		158,621	138,546
Professional and general liabilities, excluding current portion		3,482	3,466
Long-term debt, excluding current installments		181,222	204,497
Capital lease obligations, excluding current installments		2,556	2,427
Accrued pension cost		149,527	107,265
Other long-term liabilities		546	591
Total liabilities		495,954	456,792
Minority interest in consolidated subsidiaries		3,801	4,051
Commitments and contingencies			
Net assets:			
Unrestricted		527,954	487,338
Temporarily restricted		17,225	16,631
Permanently restricted		5,300	4,900
Total net assets		550,479	508,869
Total liabilities and net assets	$	1,050,234	969,712

See accompanying notes to consolidated financial statements.

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations

Years ended June 30, 2010 and 2009

(In thousands)

		2010	2009
Changes in unrestricted net assets:			
Unrestricted revenues:			
Net patient service revenue	$	667,146	595,577
Other revenue		60,073	56,347
Equity in income from equity investees, net		5,233	5,198
Total unrestricted revenues		732,452	657,122
Net assets released from restrictions used for operations:			
Satisfaction of program restrictions		6,038	6,681
Expiration of time restrictions		118	110
Total net assets released from restrictions used for operations		6,156	6,791
Total unrestricted revenues and other support		738,608	663,913
Operating expenses:			
Salaries and wages		235,239	225,180
Employee benefits		67,084	61,498
Total salaries, wages, and benefits		302,323	286,678
Provision for uncollectible accounts		66,515	55,490
Physician fees		10,257	9,411
Professional services		11,396	10,380
Other services		102,191	91,372
Leases, insurance, and utilities		18,088	23,453
Supplies and other		145,185	130,675
Depreciation and amortization		26,891	22,606
Interest		9,537	7,623
Total operating expenses		692,383	637,688
Operating income		46,225	26,225
Nonoperating gains (losses):			
Investment return		46,847	(95,671)
Other		(2,758)	(1,870)
Loss on early extinguishment of debt		(453)	(683)
Total nonoperating gains (losses)		43,636	(98,224)
Minority interest in income of consolidated subsidiaries		(953)	(1,194)
Unrestricted revenues, gains, and other support in excess of (less than) expenses and losses		88,908	(73,193)
Pension related changes other than net periodic pension cost		(40,699)	(79,496)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		(7,593)	(22,629)
Increase (decrease) in unrestricted net assets	$	40,616	(175,318)

See accompanying notes to consolidated financial statements.

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

(In thousands)

		2010	2009
Net assets, beginning of year	$	508,869	685,069
Unrestricted revenues, gains, and other support in excess of (less than) expense and losses		88,908	(73,193)
Pension related changes other than net periodic pension cost		(40,699)	(79,496)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		(7,593)	(22,629)
Increase (decrease) in unrestricted net assets		40,616	(175,318)
Changes in temporarily restricted net assets:			
Contributions		6,750	5,309
Net assets released from restrictions		(6,156)	(6,791)
Increase (decrease) in temporarily restricted net assets		594	(1,482)
Change in permanently restricted net assets:			
Contributions		400	600
Change in net assets		41,610	(176,200)
Net assets, end of year	$	550,479	508,869

See accompanying notes to consolidated financial statements.

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

		2010	2009
Cash flows from operating activities:			
Increase (decrease) in net assets	$	41,610	(176,200)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization		26,891	22,606
Provision for uncollectible accounts		66,515	55,490
Loss on sale of property and equipment		457	144
Minority interest in income of consolidated subsidiaries		953	1,194
Net realized and unrealized (gains) losses on assets whose use is limited and investment securities		(43,377)	101,461
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		7,593	22,629
Pension related changes other than net periodic pension costs		40,699	79,496
Equity in income from equity investees, net		(230)	(5,198)
Contributions restricted for long-term purposes		(400)	(600)
Loss on early extinguishment of debt		453	683
Changes in operating assets and liabilities:			
Short-term investments		(2,988)	7,781
Receivables		(73,018)	(63,924)
Inventories		(125)	(619)
Prepaid expense and other assets		5,811	(1,297)
Due from affiliates		20,221	13,871
Accounts payable, accrued expenses, and other current liabilities		17,041	20,039
Professional and general liabilities		16	(3,331)
Net cash provided by operating activities		108,122	74,225
Cash flows from investing activities:			
Decrease in cash and government securities held as collateral under securities lending transactions		194	4,847
Capital expenditures		(54,890)	(95,890)
Proceeds from sale of property and equipment		85	200
Distributions and other changes in investment in equity investees		387	4,149
Change in assets limited as to use		(9,487)	30,428
Acquisition of Surgical Specialty Center of Baton Rouge		—	(25,304)
Net cash used in investing activities		(63,711)	(81,570)

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OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

		2010	2009
Cash flows from financing activities:			
Decrease in liability under securities lending transactions	$	(194)	(4,847)
Repayment of long-term debt		(8,302)	(4,309)
Repayment of capital lease obligations		(2,121)	(1,874)
Proceeds from restricted contributions		400	600
Payment of bond issuance costs		—	(692)
Payment to extinguish bonds		—	(22,775)
Proceeds from issuance of bonds		25,000	23,382
Proceeds from (repayments on) lines of credit		(42,500)	42,500
Loans to affiliates		—	(15,750)
Net distributions to minority interest in consolidated subsidiaries		(1,852)	(929)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.		(7,593)	(12,033)
Net cash provided by (used in) financing activities		(37,162)	3,273
Net increase (decrease) in cash and cash equivalents		7,249	(4,072)
Cash and cash equivalents, beginning of year		12,098	16,170
Cash and cash equivalents, end of year	$	19,347	12,098
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	8,863	7,993

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Our Lady of the Lake Hospital, Inc. (d.b.a. Our Lady of the Lake Regional Medical Center – herein, "the Medical Center") is a not-for-profit, nonstock, membership corporation of which Franciscan Missionaries of Our Lady Health System, Inc. (FMOLHS) is the sole member and has sole voting control. The Medical Center is currently licensed for 734 beds and is located in Baton Rouge, Louisiana.

Other significant controlled affiliates of FMOLHS include the corporations that operate Our Lady of Lourdes Regional Medical Center (Lourdes) in Lafayette, Louisiana, St. Francis Medical Center (St. Francis) in Monroe, Louisiana, and Our Lady of the Lake Ascension Community Hospital, Inc. (d.b.a. St. Elizabeth Hospital) in Gonzales, Louisiana. FMOLHS is a wholly owned subsidiary of Franciscan Missionaries of Our Lady in Baton Rouge, Louisiana (FMOL).

The consolidated financial statements include the accounts of the Medical Center, including Our Lady of the Lake Foundation (the Foundation), an entity that is organized exclusively for charitable, religious, scientific, and educational purposes, and the Medical Center's wholly owned and majority-owned subsidiaries and other controlled affiliates, which include the following:

- Our Lady of the Lake College, Inc., a not-for-profit entity that is organized as a health-service degree-granting institution;
- Our Lady of the Lake Assumption Community Hospital, Inc. (d.b.a. Assumption Hospital), a not-for-profit subsidiary of the Medical Center, currently licensed for 15 beds as a Critical Access Hospital;
- Perkins Plaza Medical Arts Development, LLC, a taxable, 51% owned subsidiary of the Medical Center, a property management company that rents facilities to an ambulatory surgery center;
- Nuclear Imaging, LLC, a taxable, 67% owned subsidiary of the Medical Center, a positron emission tomography (PET) imaging company;
- Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., entities organized to develop, construct, and manage the operations of living facilities for the elderly and handicapped of the Greater Baton Rouge area;
- Ollie Steele Burden Manor, Inc., an entity that operates two nursing homes in Baton Rouge;
- Perkins Plaza Imaging Development, LLC, a taxable, 61% owned subsidiary of the Medical Center, a property management company that rents facilities to an imaging center;
- Perkins Plaza Imaging Center, LLC, a taxable, 60% owned subsidiary of the Medical Center, a radiological imaging center; and
- St. Bernard Health Center, a wholly owned subsidiary of the Medical Center, a healthcare clinic.

In addition, the Medical Center also has ownership interests in the following organizations, the investments in which are accounted for using the equity method in recognition of the Medical Center's influence over operations and/or significant ownership interest:

- 50% investment in Convenient Care, LLC, an after-hours clinic;
- 13.75% investment in Regional Eye Surgery Center, an ambulatory center;
- 29% investment in Baton Rouge Physical Therapy-Lake, an outpatient rehabilitation center;
- 47% investment in Perkins Plaza Ambulatory Surgery Center (Perkins Plaza ASC), an outpatient surgery center;
- 49% investment in Surgical Specialty Center of Baton Rouge, a surgical specialty hospital; and
- 12% investment in Surgi-Center Limited Partnership, an outpatient surgery center that discontinued its operations in October 2009.

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

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Medical Center, its wholly owned and majority-owned subsidiaries, and other affiliates whose operations are significantly controlled by the Medical Center or its Board of Directors. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, useful lives of fixed assets, and actuarially determined benefit liability related to the Medical Center's pension plan. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

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(c) Cash Equivalents

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

(d) Investments and Investment Return

The Medical Center's investments, as outlined in note 2, are held in two distinct groups:

- The Medical Center's proportionate interest in the FMOLHS aggregate investment "pool." The Medical Center does not make individual investment decisions for these investments and relies on the centralized treasury functions of FMOLHS to make routine investment decisions consistent with FMOLHS's defined policies regarding credit risk, rate risk, maturity ladder, return-on-investment targets, and other criteria; and

- Investments held individually in the Medical Center's name, managed by the Medical Center's treasury function

Pooled investments held at FMOLHS are comprised of a diversified portfolio of debt securities, equity securities, and other investments. Current value of the Medical Center's share in the "pool" is equal to contributions to and withdrawals from the pool, plus the Medical Center's pro rata share of investment gains or losses.

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

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

(e) Inventories

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

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(f) Assets Limited As to Use

Assets limited as to use include:

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

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

(g) Components of Net Assets

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

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

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

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

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

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

(h) Bond Issuance Costs

Bond issuance costs are being amortized over the terms of the related bond issues using a method that approximates the interest method. The costs of letters of credit and standby purchase agreements are being amortized over the term of the related agreement using a method that approximates the interest method. Accumulated amortization was $1,929 and $1,702 at June 30, 2010 and 2009, respectively.

(i) Property and Equipment

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

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, unless explicit donor stipulations specify asset usage. Gifts of long-lived assets with explicit restrictions that specify asset usage and gifts of cash or other assets earmarked for long-lived assets are reported as restricted support. Absent explicit donor time stipulations addressing the long-lived assets, the Medical Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions restricted for the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in unrestricted net assets in the accompanying consolidated financial statements.

(j) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired (included in investment in equity investees), or goodwill, is the amount by which purchase price exceeds the fair value of assets acquired is amortized over the expected life of the underlying acquired assets using the straight-line method. Accumulated amortization was $2,778 and $1,223 at June 30, 2010 and 2009, respectively.

(k) Capitalization of Interest

The Medical Center capitalizes the interest cost of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. The Medical Center capitalized net interest expense of $1,433 and $1,346 for the years ended June 30, 2010 and 2009, respectively.

(l) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Medical Center

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first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party appraisals, as considered necessary.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the asset and liability sections of the accompanying consolidated balance sheets.

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

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

(n) Consolidated Statements of Operations

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

The consolidated statements of operations include unrestricted revenues, gains, and other support in excess of (less than) expenses and losses, which is an indicator of financial performance.

Changes in unrestricted net assets that are excluded from unrestricted revenues, gains, and other support in excess of (less than) expenses and losses include permanent transfers of assets to and from affiliates for other than goods and services, pension related changes other than net periodic pension cost, the cumulative effects of accounting changes, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets).

(o) Net Patient Service Revenue

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

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

(p) Charity Care

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

The Medical Center maintains records to identify and monitor the level of charges forgone that are associated with the charity care it provides. Charges forgone, based on established rates, totaled $13,814 and $9,843 for the years ended June 30, 2010 and 2009, respectively.

(q) Income Taxes

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

The Medical Center recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(r) Asset Retirement Obligations

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

(s) Fair Value Measurements

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

(t) Fair Value Option

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

(u) New Accounting Pronouncements

Effective July 1, 2009, the Medical Center adopted ASC Topic 815, *Derivatives and Hedging.* ASC Topic 815 requires enhanced disclosures about an entity's derivative and hedging activities. ASC Topic 815 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The Medical Center's adoption did not have a significant impact on its consolidated financial statements.

In August 2008, the FASB issued ASC Topic 958; *Classification of Donor-Restricted Endowment Funds, Subject to UPMIFA* (ASC Topic 958). ASC Topic 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and requires expanded disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) when material, whether or not the organization is subject to UPMIFA. ASC Topic 958 is effective for fiscal years ending after December 15, 2008. The State of Louisiana adopted UPMIFA with an effective date of July 1, 2010. The Medical Center is currently evaluating what impact, if any, the adoption of ASC Topic 958 will have on its consolidated financial statements.

In April 2009, the FASB issued ASC Topic 958, *Not-for-Profits Entities.* ASC Topic 958 is effective for periods beginning on or after December 15, 2009 (The Medical Center's fiscal year 2011), and earlier adoption is prohibited. ASC Topic 958 establishes principles and requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, applies the carryover method in accounting for a merger, applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer, and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. ASC Topic 958 also amends SFAS No. 142, *Goodwill and Other Intangible Assets,* now ASC Topic 350, *Intangibles – Goodwill and Other*, to be fully applicable to not-for-profit entities. Under ASC Topic 350, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment annually, or more frequently if circumstances indicate potential impairment. Separable intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives. The Medical Center is currently

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evaluating what impact, if any, adopting ASC Topic 958 will have on its consolidated financial statements.

(v) Current Economic Environment

The U.S. economy continues to suffer in many respects from ongoing characteristics associated with the downturn of the past several years. The Medical Center monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. While the Medical Center was able to achieve certain objectives of importance in the current economic environment (including the fiscal year 2010 bond transaction described in note 9), management recognizes that economic conditions may continue to impact the Medical Center in a number of ways, including (but not limited to) uncertainties associated with U.S. financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care.

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

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

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

(w) Correction of Prior Period Financial Statements

During 2010, management identified an error in the classification of certain investment activity within the statement of cash flows for the year ended June 30, 2009. The error was the result of the incorrect adoption of SFAS 159, which requires an entity to classify cash receipts and cash payments related to items measured at fair value according to their nature and purpose. Specifically, changes in assets limited as to use resulting from purchases and sales of securities were inappropriately presented as operating cash flows when these items should have been reflected as investing activities. The immaterial error resulted in an overstatement of cash flows from operations and cash flows used in investing of $30,428 for the year ended June 30, 2009. Management has deemed the error to be immaterial to the consolidated financial statements; however 2009 amounts have been reclassified to be properly presented.

(In thousands)

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

Short-term investments consist of the following:

		2010	2009
Pooled investments held at FMOLHS	$	12,445	10,802
Marketable equity securities		7,730	6,385
Fixed income securities		1	1
	$	20,176	17,188

The composition of assets limited as to use at June 30, 2010 and 2009 is as follows:

		2010				
		Board designated for capital	Self-insurance trust funds	Trusteed bond funds	Other	Total
Pooled investments held at FMOLHS	$	356,880	—	—	—	356,880
Cash and cash equivalents		15,767	1,438	11,464	1,875	30,544
Marketable equity securities		—	—	—	3,223	3,223
Fixed income securities		—	—	20,460	2,262	22,722
Accrued interest receivable		271	1	—	—	272
		372,918	1,439	31,924	7,360	413,641
Less amounts classified as current		9,219	—	—	758	9,977
Noncurrent portion	$	363,699	1,439	31,924	6,602	403,664

(In thousands)

	2009				
	Board designated for capital	Self-insurance trust funds	Trusteed bond funds	Other	Total
Pooled investments held at FMOLHS	$ 328,533	—	—	—	328,533
Cash and cash equivalents	7,531	1,437	5,169	3,839	17,976
Marketable equity securities	6	—	—	2,232	2,238
Fixed income securities	—	—	8,757	1,726	10,483
Alternative assets	1,487	—	—	—	1,487
Accrued interest receivable	56	6	—	—	62
	337,613	1,443	13,926	7,797	360,779
Less amounts classified as current	9,018	—	—	2,235	11,253
Noncurrent portion	$ 328,595	1,443	13,926	5,562	349,526

(a) Board designated for Capital

In accordance with Board approval, the Medical Center has designated assets to fund future capital acquisitions and improvements.

Board designated for capital investments are held in a JP Morgan Chase Bank (the custodian) custodial account. Through usage of unitized accounting, these investments are segregated from those of Lourdes and St. Francis. Investments held as board designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments.

(b) FMOLHS Investments

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

The net asset value for alternative assets for which quoted market prices are not available is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through June 30. FMOLHS reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values.

(In thousands)

Therefore, the Medical Center believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

The composition of investments held at FMOLHS is as follows:

		2010	2009
Cash and equivalents	$	60,945	23,925
Marketable securities		145,598	167,546
Fixed income securities		78,651	5,075
Alternative investments		339,158	368,883
Total	$	624,352	565,429

The Medical Center has a 59% and 60% ownership in these investments for the years ended June 30, 2010 and 2009, respectively.

(c) *Self-insurance Trust Funds*

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (see note 18).

(d) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to the Medical Center's bond obligations. The trusteed bond funds consist of principal and interest funds in the amounts of $11,464 and $5,169 at June 30, 2010 and 2009, respectively. The trusteed bond funds included $20,460 and $8,757 at June 30, 2010 and 2009, respectively, of construction funds arising from the 2005 and 2009 bond issues (see note 9) for which the amounts will be used to fund costs of construction and installation of equipment and facilities to benefit the Medical Center.

The bond funds are used for the payment of principal and/or interest on the Series 1998, 2005, 2008, and 2009 bonds, as well as to fund new capital projects financed by that issue. Amounts classified as current represent funds deposited to pay related debt service costs classified as current liabilities.

(In thousands)

(e) Other

Other assets limited as to use as of June 30, 2010 and 2009 consist of cash on deposit held for the following purposes:

		2010	2009
Scholarships – limited by donor	$	229	316
Health care services – limited by donor		5,841	6,101
Resident deposits		109	121
Escrow, security deposits, and surplus cash		255	252
Capital improvement – limited by grantor agency		926	1,007
		7,360	7,797
Less amounts classified as current		758	2,234
Noncurrent portion	$	6,602	5,563

All investments are considered "trading" for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in unrestricted revenues, gains, and other support in excess of (less than) expenses and losses. The investment return for the years ended June 30, 2010 and 2009 is summarized as follows:

		2010	2009
Dividends and interest (net of expenses of $1,322 and $1,423, respectively)	$	3,470	5,790
Realized and unrealized gains (losses), net		43,377	(101,461)
Investment return	$	46,847	(95,671)

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

(In thousands)

(3) Other Current Assets

The composition of other current assets at June 30, 2010 and 2009 follows:

		2010	2009
Other receivables	$	12,063	7,177
Inventories		10,625	10,503
Prepaid expenses and other current assets		11,243	10,518
Due from affiliate		—	20,220
Assets limited as to use – required for current liabilities		9,977	11,253
	$	43,908	59,671

(4) Property and Equipment

A summary of property and equipment as of June 30, 2010 and 2009 follows:

		2010	2009	Estimated useful lives
Land	$	77,672	78,247	—
Land improvements		10,569	10,546	2 – 20 years
Buildings and building improvements		373,249	333,781	5 – 40 years
Fixed equipment		67,003	61,104	5 – 20 years
Movable equipment		156,103	153,830	3 – 20 years
Construction in progress		41,164	39,582	
		725,760	677,090	
Less accumulated depreciation		291,829	275,564	
	$	433,931	401,526	

At June 30, 2010, the Medical Center was obligated under purchase commitments of $14,345 relating to the completion of various construction projects. Included in accounts payable at June 30, 2010 and 2009, respectively, is $3,009 and $2,212 related to the completion of various construction projects and equipment purchases.

(In thousands)

(5) Other Assets

The composition of other assets at June 30, 2010 and 2009 follows:

		2010	2009
Unamortized bond issuance costs, net of accumulated amortization	$	3,504	2,056
Investment in equity investees		27,524	29,306
Other		1,199	9,151
	$	32,227	40,513

(6) Investment in Equity Investees

The Medical Center's investment in equity investees at June 30, 2010 and 2009, included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2010 and 2009 are as follows:

2010	Ownership interest		Investment in equity investees	Equity in income from equity investees
Convenient Care, LLC	50%	$	1,788	1,386
Surgi-Center, Limited Partnership	12		—	70
Regional Eye Surgery Center	14		149	276
Baton Rouge Physical Therapy – Lake	33		450	176
Perkins Plaza ASC	47		896	221
Surgical Specialty Center of Baton Rouge	49		24,241	3,104
		$	27,524	5,233

(Continued)

(In thousands)

2009	Ownership interest		Investment in equity investees	Equity income from equity investees
Convenient Care, LLC	50%	$	1,519	926
Surgi-Center Limited Partnership	12		378	285
Regional Eye Surgery Center	14		141	290
Baton Rouge Physical Therapy – Lake	33		397	146
Perkins Plaza ASC	47		1,133	780
Orthopedic Surgery Center	—		—	340
Surgical Specialty Center of Baton Rouge	49		25,738	2,431
		$	29,306	5,198

(a) Surgical Specialty Center of Baton Rouge

The Medical Center has a 49% interest in Surgical Specialty Center of Baton Rouge, a specialty hospital located in Baton Rouge, Louisiana. At June 30, 2010 and 2009, its major assets were property and equipment, which had a net book value of $11,519 and $10,888, respectively, and goodwill, which has a gross book value of $22,015 at June 30, 2010 and 2009. Revenue consists primarily of fees for surgical services.

The cost of the Surgical Specialty Center investment in excess of the Medical Center's equity in the net assets at date of acquisition amounts to $22,015, and such excess is being amortized to operations over a 15-year period. Amortization expense for the year ended June 30, 2010 and 2009 was $1,468 and $1,233, respectively.

(7) Lines of Credit

At June 30, 2010 and 2009, the Medical Center had four unsecured working capital lines of credit with banks in the aggregate amount of $60,000, bearing interest at variable rates. The aggregate outstanding amounts on the lines of credit at June 30, 2009 were $42,500, with no outstanding amounts at June 30, 2010.

(In thousands)

(8) Other Current Liabilities

The composition of other current liabilities at June 30, 2010 and 2009 follows:

		2010	2009
Accrued salaries and related expenses	$	22,210	19,648
Due to third-party payors		29,912	17,563
Accrued interest		3,256	1,195
Accrued expenses and other current liabilities		17,381	10,419
Due to affiliates		1,986	261
	$	74,745	49,086

(In thousands)

(9) Long-term Debt

A summary of long-term debt at June 30, 2010 and 2009 follows:

		2010	2009
Obligated Group bonds:			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds due in varying installments through fiscal year 2026, with interest fixed at rates ranging from 5.50% to 5.75%	$	34,069	37,787
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998B, $31,050 tax-exempt bonds due in varying installments through fiscal year 2017, with interest fixed at rates ranging from 3.375% to 5.00%		31,050	35,300
Louisiana Public Facilities Authority Hospital Bonds Series 2005A, $80,000 tax-exempt bonds due in varying installments from fiscal year 2032 through fiscal year 2037, with interest fixed at rates ranging from 5.00% to 5.25%		37,534	37,535
Louisiana Public Facilities Authority Hospital Bonds Series 2005B, $50,000 tax-exempt bonds due in varying installments from fiscal year 2014 through fiscal year 2031, which bear interest at a variable rate (0.26% and 0.27% at June 30, 2010 and 2009, respectively)		39,453	39,453
Louisiana Public Facilities Authority Hospital Bonds Series 2005C, $50,000 tax-exempt bonds due in varying installments from fiscal year 2014 through fiscal year 2031, with interest fixed at rates ranging from 4.00% to 6.75%		22,193	22,193
Louisiana Public Facilities Authority Hospital Bonds Series 2005D, $88,325 bonds due in varying installments through fiscal year 2029, which bear interest at a variable rate (0.15% and 0.23% at June 30, 2010 and 2009, respectively)		6,115	6,319
Louisiana Public Facilities Authority Hospital Bond Series 2008A, $47,185 bonds due in varying installments through fiscal year 2026, which bear interest at a variable rate (0.27% and 0.23% at June 30, 2010 and 2009, respectively)		23,199	23,383

(Continued)

(In thousands)

		2010	2009
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2009A, $125,000 bonds due in varying installments from fiscal year 2029 through fiscal year 2040, with interest fixed at rates ranging from 6.625% to 6.75%		25,000	—
Total obligated group bonds, excluding premium		218,613	201,970
Add unamortized premium		1,411	1,204
Total obligated group bonds		220,024	203,174
Other debt:			
Mortgage payable in monthly installments of $23, including interest at 9%, through May 1, 2033, secured by land, building and equipment		2,646	2,679
Mortgage payable in monthly installments of $33, including interest at 6.8%, through December 2012, secured by land, building and equipment		3,375	3,531
Mortgage payable in monthly installments of $29, including interest at 6.9% through April 2016 with a lump sum due at this time, secured by land and building		3,307	3,419
Total other debt		9,328	9,629
Total long-term debt		229,352	212,803
Less current installments of long-term debt		48,130	8,306
	$	181,222	204,497

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directed the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the Trustee for each of the affiliates to support each affiliate's allocated portion of the bonds. However, as a member of the Obligated Group, the Medical Center is contingently liable for all debt outstanding under the Master Indenture. As of June 30, 2010 and 2009, the Medical Center was contingently liable for $220,024 and $203,174, respectively, which represents total system-wide indebtedness of $534,252 and $426,588, respectively, less the related amounts treated as direct obligations of the Medical Center.

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

In 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain 1998A and 1998C bonds and providing additional capital by issuing four series of revenue bonds. The following bond series were issued by the Authority: $80,000 fixed rate Revenue Bonds (Series 2005A), $100,000 variable rate Revenue Bonds (Series 2005B and Series 2005C in the amounts of $50,000 each), and $89,350 in variable rate Revenue and Refunding bonds (Series 2005D). The variable rate bonds were issued as auction rate securities. The four bond issues total $269,350, of which approximately $83,000 represents refunding of existing bonds and the remainder of approximately $186,000 is designated for capital improvements, including facility modifications and additions and new equipment acquisitions. Of the $186,000 for construction and property additions, approximately $100,000 was allocated to the Medical Center.

In May 2008, FMOLHS tendered its 2005B and 2005C auction rate bonds and reissued 2005B and 2005C bonds at weekly variable interest modes. In July and August 2008, the Series 2005D and Convertible Hospital Revenue and Refunding Series 1998B (Series 1998B) auction rate bonds were tendered by FMOLHS and reissued at daily variable interest modes. In August 2008, the 2008A bonds, which were preapproved by the Authority, were issued by FMOLHS. These bonds, issued in the amount of $47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025. These bonds refunded $42,735 of the 1998A bonds and $3,225 of the 1998C bonds. The extinguishment of these bonds resulted in a loss on early extinguishment of debt of $683 in 2009 for the Medical Center related to the removal of the prior bond issuance costs.

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

In addition to the issuance of the 2009 Series, FMOLHS (i) converted the interest rate from the daily variable interest modes to a fixed rate on the Series 1998B and (ii) converted the interest rate from the weekly variable interest modes to a fixed rate on the Series 2005C. The Medical Center was allocated $25,000 of the proceeds under the 2009 bond issues described above.

The Medical Center and its affiliates made cash payments for interest of $8,863 and $7,993 during the years ended June 30, 2010 and 2009, respectively.

(In thousands)

Aggregate maturities of long-term debt, excluding premiums, at June 30, 2010 are as follows:

Year ending June 30:		
2011	$	48,002
2012		9,003
2013		12,298
2014		7,101
2015		8,176
Thereafter		143,361
Total	$	227,941

The 2005B Series are variable rate demand bonds, which are subject to periodic remarketing. The bonds are backed by letters of credit, which expire May 28, 2011. The Medical Center has included 39,453 of the 2005B Series in current maturities as the related letter of credit expires within one year, even though liquidation may not be expected within that period.

(10) Interest Rate Swaps

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

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

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

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

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advanced refund the approximately $48,000 of 1998A and 1998C bonds. In 2005, FMOLHS entered into a forward starting interest rate swap agreement with

(In thousands)

Goldman Sachs Capital Markets to effectively change FMOLHS' interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3.66%.

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

Because the swap agreements are the obligation of the entire Obligated Group, changes in the fair value of the interest rate swap agreements are reported in the consolidated financial statements of FMOLHS and are not measured at the individual affiliate level; however, the net settlement amount allocated to the Medical Center of $740 and $945 during 2010 and 2009, respectively, is included in interest expense in the consolidated statements of operations. The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements of FMOLHS and are marked to fair value through the consolidated statements of operations.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets, restricted by time and purpose, at June 30, 2010 and 2009 are available for the following purposes:

		2010	2009
Healthcare services	$	7,820	7,247
Elderly housing		8,162	8,279
Educational services		1,243	1,105
	$	17,225	16,631

Permanently restricted assets at June 30, 2010 and 2009 were $5,300 and $4,900, respectively, the income from which is restricted for educational services.

Net assets released from restrictions for the years ended June 30, 2010 and 2009 are as follows:

		2010	2009
Healthcare services	$	4,801	4,806
Educational services		1,237	1,875
Elderly housing		118	110
	$	6,156	6,791

(12) Net Patient Service Revenue

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

(a) Medicare

Substantially all acute care services are rendered to Medicare program beneficiaries at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive-determination methodologies. The Medical Center is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2005. Revenue from the Medicare program accounted for approximately 21% and 22% of the Medical Center's net patient service revenue for the years ended June 30, 2010 and 2009, respectively.

(b) Medicaid

Inpatient services rendered to Medicaid beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are paid for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Medical Center is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2004. Revenue from the Medicaid program accounted for approximately 7% and 8% of the Medical Center's net patient service revenue for the years ended June 30, 2010 and 2009, respectively.

The Medical Center has historically received incremental reimbursement from the State of Louisiana through its participation in the Louisiana Medicaid program. Amounts received by the Medical Center under this program were approximately $11,951 and $6,160 in 2010 and 2009, respectively. These amounts have been recognized as reductions in related contractual adjustments in the accompanying statements of operations. There can be no assurance that the Medical Center will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds has a correspondingly material adverse effect on the Medical Center's operations.

(In thousands)

(c) ***Blue Cross***

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are paid based on fee schedule. Revenue from the Blue Cross program accounted for approximately 20% and 19% of the Medical Center's net patient service revenue for the years ended June 30, 2010 and 2009, respectively

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

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

The Medical Center's net patient service revenue for the years ended June 30, 2010 and 2009 increased $1,546 and $5,018, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, resolution of reviews and investigations, and prior year retroactive adjustments.

Presented below is a summary for the years ended June 30, 2010 and 2009 of amounts comprising net patient service revenue:

		2010	2009
Inpatient revenue	$	739,867	649,756
Outpatient revenue		542,152	471,741
Gross patient service revenue		1,282,019	1,121,497
Less provisions for contractual and other adjustments		614,873	525,920
Net patient service revenue	$	667,146	595,577

(13) Business and Credit Concentrations

The Medical Center grants credit to its patients, substantially all of whom are local residents. The Medical Center generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, preferred provider arrangements, and commercial insurance policies).

(In thousands)

Gross accounts receivable from patients and third-party payers at June 30, 2010 and 2009 is as follows:

	2010	2009
Medicare	23%	25%
Medicaid	11	9
Blue Cross	17	16
Self-pay	13	16
Managed care/other	36	34
	100%	100%

(14) Related Party Transactions

(a) Franciscan Missionaries of Our Lady Health System

The Medical Center pays fees to FMOLHS for administrative support and oversight. Fees paid totaled $30,419 and $28,979 in 2010 and 2009, respectively, and are included in other services expenses in the consolidated statements of operations.

FMOLHS employees are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2010 and 2009, FMOLHS' share of the net pension costs was $1,886 and $373, respectively. Cumulative amounts due to the Medical Center for FMOLHS' share of net pension cost were $373 as of June 30, 2009 and no amounts were due to the Medical Center as of June 30, 2010.

During the year ended June 30, 2009, the Medical Center transferred net assets of $1,567 to fund its allocated share of capital contributions paid by FMOLHS to St. Elizabeth Hospital, one of the controlled affiliates. No future funding is expected to be necessary in assisting St. Elizabeth Hospital in meeting its capital needs.

During the year ended June 30, 2009, FMOLHS centralized Information Services (IS) and transferred the associated assets, at a net book value of $10,504, from the Medical Center to FMOLHS. Beginning in fiscal year 2010, FMOLHS issued capital calls to the Medical Center to provide funds to acquire additional IS capital resources. The equity transfer required to fund capital calls totaled $7,593 for the year ended June 30, 2010.

(b) Franciscan Missionaries of Our Lady-North American Province, Inc.

FMOLHS' members include the members of the Council of the Franciscan Missionaries of Our Lady-North American Province, Inc. (Province). Certain members of the Province are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2010 and 2009, the Province's share of the net pension cost was $15 and $36, respectively.

(c) ***St. Elizabeth Hospital***

The Medical Center transferred its investment in St. Elizabeth Hospital to FMOLHS during 2005. For the 2010 and 2009 plan years, employees of St. Elizabeth Hospital are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2010 and 2009, St. Elizabeth Hospital's share of the net pension cost was $1,624 and $729, respectively. No amounts were due to the Medical Center for St. Elizabeth Hospital's share of the net pension cost at June 30, 2010.

(d) ***Franciscan Fund***

The FMOL Sisters formed the Franciscan Fund (Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive monies back for supporting its community programs. Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund. During 2010 the Medical Center made no contributions to the fund, and recorded no revenues from grants to the fund. During 2009, the Medical Center provided no contributions to the Fund, and recorded $618 in grant revenues from the Fund.

There were no other significant transactions between the Medical Center and other FMOLHS affiliates during the years ended June 30, 2010 and 2009, except for the contingent liability related to the systemwide bond debt (see note 9) and participation in the joint insurance program (see note 18).

(In thousands)

(15) Retirement Plans

(a) Defined Benefit Plan

The following table at June 30, 2010 and 2009 sets forth the Plan's changes in benefit obligations, changes in plan assets, and the funded status of the Plan:

		2010	2009
Change in benefit obligation:			
Benefit obligation, beginning of year	$	276,038	231,415
Service cost		13,192	12,770
Interest cost		17,691	15,395
Plan amendments		393	—
Actuarial loss		58,920	22,903
Benefits paid		(6,638)	(6,445)
Benefit obligation, end of year	$	359,596	276,038
Change in plan assets:			
Fair value of plan assets, beginning of year	$	168,774	209,019
Actual gain (loss) on plan assets		27,795	(40,139)
Contributions made		20,138	6,339
Benefits paid		(6,638)	(6,445)
Fair value of plan assets, end of year	$	210,069	168,774
Funded status	$	(149,527)	(107,265)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension cost – noncurrent		(149,527)	(107,265)
Unrestricted net assets		109,114	68,808
Prior service cost		393	—
Amounts recognized in unrestricted net assets – net actuarial gain	$	109,507	68,808

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2010 and 2009 were as follows:

	2010	2009
Weighted average discount rate	5.50%	6.50%
Rate of compensation increase	4.00	4.00

(Continued)

(In thousands)

Net periodic pension cost for the years ended June 30, 2010 and 2009 includes the following components:

		2010	2009
Service cost – benefits earned during the period	$	13,192	12,770
Interest cost on projected benefit obligation		17,691	15,395
Expected return on plan assets		(13,193)	(16,454)
Loss		4,012	—
Net periodic pension cost	$	21,702	11,711

Other changes in plan assets and benefit obligations recognized in unrestricted net assets are as follows:

		2010	2009
Net actuarial loss	$	44,318	79,496
Prior service cost		393	—
Net gain amortized during the period		(4,012)	—
	$	40,699	79,496

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Weighted average discount rate	6.50%	6.75%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00

The defined benefit pension plan asset allocation as of the measurement date (June 30, 2010 and 2009) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2010	2009	Target allocation
Equity securities	21%	31%	35 – 55%
Alternative investments	49	68	15 – 40%
Fixed income	17	—	20 – 30%
Cash	13	1	0 – 5%

(In thousands)

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

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

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

The following is a summary of the levels within the fair value hierarchy as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Pooled investments held at FMOLHS	$ —	201,650	—	201,650
Cash and cash equivalents	8,419	—	—	8,419
Total assets	$ 8,419	201,650	—	210,069

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Medical Center's interest therein, its classification in Level 2 is based on the Medical Center's ability to redeem its interest at or near the date of the consolidated balance sheet. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(In thousands)

- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

For 2010 and 2009, the Medical Center's defined benefit pension plan had an accumulated benefit obligation (ABO) of $301,868 and $234,497, respectively.

The prior service cost for the defined benefit pension plan that will be amortized from net periodic benefit cost over the next fiscal year is approximately $39. The net actuarial loss that will be amortized from net assets to periodic benefit cost over the next fiscal year is $7,207.

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 June 30, 2010 are as follows:

Year ending June 30:		
2011	$	8,972
2012		10,429
2013		11,627
2014		13,035
2015		14,388
2016 – 2020		98,406

(b) *Defined Contribution Plans*

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

Effective July 1, 2006, the defined benefit pension plan was closed to new entrants and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the Medical Center meeting eligibility requirements may participate in the FMOL Plan. The Medical Center may annually elect to make a contribution on behalf of those participants in an amount determined by the Medical Center. Contribution expense of $2,489 and $2,330 was recorded for the years ended June 30, 2010 and 2009, respectively.

(In thousands)

(16) Functional Expenses

The Medical Center provides health care and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2010 and 2009 are as follows:

		2010	2009
Healthcare services	$	516,763	464,334
General and administrative		151,529	150,411
Educational services		21,058	21,073
Fund raising		3,033	1,870
	$	692,383	637,688

(17) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments, reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2010 and 2009.

The Medical Center's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2010 and 2009 are summarized as follows:

		2010		2009	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Liabilities – long-term debt	$	229,352	234,655	212,803	201,795

(b) Fair Value Hierarchy

ASC Topic 820, *Fair Value Measurements and Disclosures* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Medical Center has the ability to access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

(In thousands)

- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a summary of the levels within the fair value hierarchy as of June 30, 2010 and 2009:

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Pooled investments held at FMOLHS	$ —	369,325	—	369,325
Cash and cash equivalents	30,545	—	—	30,545
Marketable equity securities	10,953	—	—	10,953
Fixed income securities	22,722	—	—	22,722
Accrued interest receivable	272	—	—	272
Total	$ 64,492	369,325	—	433,817

	June 30, 2009			
	Level 1	Level 2	Level 3	Total
Pooled investments held at FMOLHS	$ —	339,335	—	339,335
Cash and cash equivalents	17,977	—	—	17,977
Marketable equity securities	8,623	—	—	8,623
Fixed income securities	10,483	—	—	10,483
Alternative assets	1,487	—	—	1,487
Accrued interest receivable	62	—	—	62
Total	$ 38,632	339,335	—	377,967

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Medical Center's interest therein, its classification in Level 2 is based on the Medical Center's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) Limitations

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

(18) Insurance Programs

The Medical Center is qualified under the State of Louisiana medical malpractice program and is self-insured for the first $100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expense provided by law). Coverage in excess of such primary coverage is provided by a self-insurance trust fund, which protects the Medical Center against professional and general liability with limits of $2,000 per claim for professional liability and $1,000 per claim for general liability and $6,000 aggregate per year.

The Medical Center participates together with the other hospitals within FMOLHS in a captive insurance company, Louise Insurance Company, Ltd. (Louise), which is wholly owned by FMOLHS. Louise underwrites the self-insured portion of professional and general liability claims on a claims-made basis. In addition, the Medical Center accrues additional amounts for incurred but not yet reported claims liabilities at each fiscal year-end. Effective July 1, 2004, Louise also underwrites the self-insured portion of workers' compensation claims on an occurrence basis.

The Medical Center, like other hospitals throughout Louisiana, is a defendant in cases where the plaintiff has developed Hepatitis C, allegedly through blood transfusions administered at the Medical Center prior to the 1976 Medical Malpractice Act. Thus, no $500,000 statutory cap exists relating to these claims, and damages could be significant. The Medical Center and the insurer that was in place during the period the transfusions occurred continue to closely monitor the progress of these cases. Management has assessed the risk associated with these cases and believes that the probable resolution of this contingency will not exceed the Medical Center's self-insurance reserves or insurance coverage and will not materially affect the financial position or results of operations of the Medical Center.

The Medical Center's reserve for estimated professional and general liability costs was $3,482 and $3,466 as of June 30, 2010 and 2009, respectively. Claim liabilities are estimated at the present value of future claim payments using a discount rate.

Prior to July 1, 2004, the Medical Center was self-insured for workers' compensation liability for the first $200 per claim. The workers' compensation self-insured reserves related to this run out were $992 and $669 as of June 30, 2010 and 2009, respectively, and are included in other current liabilities in the consolidated balance sheets. Effective July 1, 2004, the Medical Center was insured by Louise for workers' compensation claims for the first $350 per claim on an occurrence basis and have excess coverage through a third-party insurer. In July 2006, the coverage was increased to $400. Such amounts are included in noncurrent assets limited as to use in the accompanying consolidated balance sheets as of June 30, 2010 and 2009.

(In thousands)

The Medical Center also offers subsidized health insurance to its employees through one point of sale plan that is a self-administered plan. The Medical Center contracts with an outside third-party administrator to process claims. Effective January 1, 2009, the Medical Center is obligated to pay the first $500 per claim. The health insurance self-insured reserves were $5,262 and $5,504 as of June 30, 2010 and 2009, respectively, and are included in other current liabilities in the consolidated balance sheets.

The Medical Center has reflected its estimate of the ultimate liability for known and incurred but not reported claims, including its share of claims to be paid by the captive insurance company, in the accompanying consolidated financial statements. The estimated reserves for workers' compensation and professional and general liability are based on actuarial studies. The estimated reserve for employee healthcare claims is based on actual claim history.

(19) Commitments and Contingencies

(a) Investments

As it relates to alternative assets, held by FMOLHS in the investment "pool", the Medical Center is obligated under certain limited partnership agreements for advance funding up to specific levels upon the request of the general partner. See note 2(b).

(b) Lease Commitments

The Medical Center leases equipment under various rental agreements. Rental expense was $3,636 and $3,824 for the years ended June 30, 2010 and 2009, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2010 follow:

Year ending June 30:		
2011	$	1,198
2012		331
2013		147
2014		—
2015		—
	$	1,676

(In thousands)

At June 30, 2010, the Medical Center was obligated under various capital leases. Future minimum lease payments as of June 30, 2010 are as follows:

Year ending June 30:		
2011	$	2,328
2012		1,687
2013		915
2014		66
2015		—
Total minimum lease payments		4,996
Less amounts representing interest		323
Present value of future minimum lease payments		4,673
Less current portion of capital lease obligations		2,117
Obligations under capital leases excluding current portion	$	2,556

The net book value of assets recorded under capital leases as of June 30, 2010 and 2009 consists of the following:

		2010	2009
Equipment	$	11,515	16,423
Less accumulated depreciation		7,611	12,488
	$	3,904	3,935

For the years ended June 30, 2010 and 2009, the Medical Center entered into new capital leases for the purchase of equipment with a fair value of $2,513 and $118, respectively.

(In thousands)

(c) ***Operating Leases – Lessor***

The Medical Center and its affiliates lease office space and clinical facilities, generally to members of its medical staff, under operating leases. The terms of these leases range from month-to-month to 10 years. Assets held for lease consist of buildings and improvements with an original cost of $112,894 and $106,442 at June 30, 2010 and 2009, respectively, and fixed equipment with an original cost of $11,715 and $11,622 at June 30, 2010 and 2009, respectively. Total accumulated depreciation was $41,577 and $37,015 at June 30, 2010 and 2009, respectively. Future minimum lease payments to be received at of June 30, 2010 are as follows:

Year ending June 30:		
2011	$	4,027
2012		3,826
2013		3,590
2014		3,464
2015		3,460
Thereafter		9,753
	$	28,120

(d) ***Perkins Plaza ASC***

The Medical Center's subsidiary, Perkins Plaza Medical Arts Development (PPMAD), has a lease with Perkins Plaza ASC, an equity investment, whereby PPMAD receives minimum rent of $798 per year subject to annual adjustments. Monthly rental installments were $66 from January 2009 through December 2009 and $67 beginning in January 2010. The lease expires in January 2015.

(e) ***Contingent Liabilities***

The Medical Center 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 Medical Center's self-insurance reserves or insurance coverage, and will not materially affect the financial position of the Medical Center or the results of operations.

(f) ***Regulatory Compliance***

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

In consultation with legal counsel, management is not aware of other issues that could have a material effect on the Medical Center's financial position or results of operations.

(20) Subsequent Events

The Medical Center has evaluated subsequent events from the consolidated balance sheet date through February 9, 2011, the date the consolidated financial statements were issued.

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

- The Medical Center will construct a medical education building (MEB) to house LSU training programs (to be donated to LSU at completion of construction), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center; and
- DHH will provide payments under a new reimbursement structure to the Medical Center, which are intended to compensate the Medical Center for incremental costs associated with higher Medicaid and uninsured patient volumes that themselves are generally expected to accompany the Medical Center's increased role in LSU's graduate medical education programs.

The net economic impact of the Medical Center's participation in the agreement described above cannot be precisely determined at this date, but management is confident that the Medical Center's participation in the agreement is consistent with its mission as a leading healthcare system in the region.

SUPPLEMENTAL SCHEDULE

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Supplemental Schedule of Service to the Community

Years ended June 30, 2009 and 2008

Unaudited – See accountants independent auditor's report

The Medical Center participates in government programs, including Medicare, Medicaid, and the TriCare program. Under these programs, the Medical Center provides care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. In some cases, these programs pay the Medical Center at amounts that are less than its cost of providing services.

The following table summarizes the amounts of charges foregone (i.e., contractual allowances) and the estimated losses incurred by the Medical Center due to inadequate payments by these programs and for charity for the years ended June 30, 2010 and 2009. This table does not include discounts offered by the Medical Center under managed care or other such arrangements.

		2010		2009	
		Charges foregone	**Net community benefit expense**	**Charges forgone**	**Net community benefit expense**
Charity care and means-tested programs:					
Charity care	$	13,814	5,674	9,843	6,138
Unreimbursed Medicaid		113,144	12,040	101,125	14,467
Unreimbursed Medicare		230,925	14,778	200,586	21,261
Total	$	357,883	32,492	311,554	41,866

(Continued)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Supplemental Schedule of Service to the Community

Years ended June 30, 2009 and 2008

Unaudited – See accountants independent auditor's report

In addition to community services directly associated with providing hospital-based care, the Medical Center serves the community in numerous other ways. The following table for the years ended June 30, 2010 and 2009 summarizes estimated costs to the community services:

		2010	2009
Community benefit at cost:			
Community health improvement services:			
Immunological support	$	497	441
Community health		186	472
LakeLine Direct		1,226	1,194
St. Martha Activity Center		41	86
Elderly services		279	200
Elderly housing		2,246	2,555
Healthcare professions education:			
OLOL College		6,074	3,836
Interns and residents		2,373	2,655
Subsidized health services:			
Family education		1,396	1,433
OLOL neighborhood clinic		457	525
COPE		1,159	1,099
Palliative care		398	340
Research:			
Clinical research		645	624
Financial contributions:			
Cash contribution		585	541
Community-building activities:			
Elderly housing complex		462	325
Mary Bird Perkins		100	100
Community clinic		29	29
	$	18,153	16,455

Community Health Improvement Services

Immunological Support

The Medical Center organized, owns and operates a home which is designed to help the members of our community who have contracted acquired immune deficiency syndrome (AIDS) to deal with the very debilitating physical, social, and psychological problems associated with the disease.

Community Health

To assist in educating the community regarding health related issues, the Medical Center participates in numerous health fairs and sponsors talks to various schools and industry groups regarding such issues as drug abuse and safety in the workplace.

LakeLine Direct

The Medical Center operates a nurse call center, LakeLine Direct, offering complimentary 24-hour nurse advice, health information aid, and physician referral service to the community.

St. Martha Activity Center

The Medical Center provides an activity center located at the elderly housing facility for the residents of the housing facility as well as other elderly community meetings.

Elderly Services

The Medical Center sponsors and incurs the salary of the Director of the HUD housing facility, Pastoral Care Associate and Medical Director of Elderly Services.

Elderly Housing

Ollie Steel Burden Manor, a subsidiary of the Medical Center, operates St. Clare Manor which has 216 total beds, of which 120 are Medicaid licensed.

Health Care Professions Education

OLOL College

In an effort to ensure that an adequate supply of nurses are available for the Baton Rouge community, the Medical Center founded and organized Our Lady of the Lake College, Inc. The Medical Center subsidizes the operations of the College with grants.

Interns and Residents

The Medical Center participates in Medicare's Graduate Medical Education through affiliation with Louisiana Medical School and Medical Center of Louisiana at New Orleans to continue to support availability of physicians in future years.

Subsidized Health Services

Family Education

The Medical Center promotes a healthy environment for the family through it pediatric programs, which include Kid-Med Clinic, Pediatric Assessment Center and child life programs.

OLOL Neighborhood Clinic

The Medical Center operates a Scotlandville Clinic to provide walk-in care for minor illness and injury during evening and weekends.

COPE

The Medical Center provides crisis oriented psychiatric evaluation (COPE) to the community.

Palliative Care

The Medical Center provides palliative care service for patients in the final stage of life and their family members.

Research

Clinical Research

The Medical Center participates in clinical research projects to improve the health and care of patients and community members.

Financial Contributions

Cash Contributions

The Medical Center also organizes employee participation in fund raising for organizations such as Capital Area United Way, March of Dimes of America, Junior Achievement, Cystic Fibrosis and the Community Fund for the Arts. The Medical Center also makes corporate donations to various area community service organizations.

Community-Building Activities

Elderly Housing Complex

The Medical Center operates four elderly housing projects: Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc. and Chateau Louise, Inc. These projects are designed to promote the health, security and happiness of the elderly and handicapped persons of the Greater Baton Rouge area.

Mary Bird Perkins

The Medical Center also sponsors the charitable activities of other not-for-profit organizations in Baton Rouge. The Medical Center provides land adjoining the Medical Center to Mary Bird Perkins Cancer Center for its operations and forgoes all rental income for the use of this land.

Community Clinic

The Medical Center provides a building that sponsors a community clinic and foregoes all rental income related to the use of the building.

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OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

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

Year Ended June 30, 2010

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

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KPMG LLP
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188 East Capitol Street
Jackson, MS 39201-2127

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

The Board of Trustees
Our Lady of the Lake Hospital, Inc.:

We have audited the consolidated financial statements of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) as of and for the year ended June 30, 2010, and have issued our report thereon dated February 9, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

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

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center'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*.

We noted certain matters that we reported to management of the Medical Center in a separate letter dated February 9, 2011.

* * * * * * *

This report is intended solely for the information and use of the Board of Trustees, management, 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.

KPMG LLP

February 9, 2011

KPMG

KPMG LLP
Suite 1100
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Jackson, MS 39201-2127

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Our Lady of the Lake Hospital, Inc.:

Compliance

We have audited Our Lady of the Lake Hospital, Inc. and affiliated organization's (the Medical Center's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* (Circular A-133) that could have a direct and material effect on its major federal programs for the year ended June 30, 2010. The Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Medical Center's management. Our responsibility is to express an opinion on the Medical Center's compliance based on our audit.

The Medical Center's basic consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. which collectively received $12,567,613 in federal awards which is not included in the Medical Center's schedule of expenditures of federal awards for the year ended June 30, 2010. Our audit, described below, did not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with OMB Circular A-133.

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 described in the Compliance Supplement 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 Medical Center'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. Our audit does not provide a legal determination on the Medical Center's compliance with those requirements.

In our opinion, the Medical Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-01.

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Internal Control over Compliance

The management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Medical Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Medical Center'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.

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 deficiencies, 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, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-01. 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 changed with governance.

Schedule of Expenditures of Federal Awards

We have audited the basic consolidated financial statements of the Medical Center as of and for the year ended June 30, 2010, and have issued our report thereon dated February 9, 2011. Our report states that the consolidating information included in the schedules to the consolidated financial statements is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual organizations. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Medical Center's responses and, accordingly, we express no opinion on the responses.

* * * * * * *

KPMG

This report is intended solely for the information and use of the Board of Trustees, management, 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.

KPMG LLP

March 29, 2011, except as to the
paragraph relating to the schedule
of expenditures of federal awards,
which is as of February 9, 2011

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Federal sponsor/Program title	Federal CFDA number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures	Loan disbursement
Student Financial Aid Cluster*:							
U.S. Department of Education							
Federal Work-Study (FWS)	84.033			$ 121,697	—	121,697	—
Federal Supplemental Education Opportunity Grant (FSEOG)	84.007			128,782	—	128,782	—
Federal Pell Grant Program (PELL)	84.063			2,308,581	—	2,308,581	—
Federal Family Education Loan (FFELP)	84.032			—	—	—	15,733,171
Academic Competitiveness Grant (ACG)	84.375			39,078	—	39,078	—
U.S Department of Heath and Human Serivces							
Scholarship for Disadvantaged Students (SDS)	93.925			556,789	—	556,789	—
American Recovery & Reinvestment Act (ARRA) - SDS	93.407			244,658	—	244,658	—
Total Student Financial Aid Cluster				3,399,585	—	3,399,585	15,733,171
Other Financial Assistance:							
U.S. Department of Housing and Urban Development							
Emergency Shelter Grants Program (ESG)	14.231	not available	City of Baton Rouge	—	15,000	15,000	—
Supportive Housing Program (SHP)	14.235	not available	City of Baton Rouge	—	38,950	38,950	—
Housing Opportunities for Persons with AIDS	14.241	not available	City of Baton Rouge	—	209,167	209,167	—
Total U.S. Department of Housing and Urban Development				—	263,117	263,117	—
U.S. Department of Health and Human Services							
Nurse Anesthetist Traineeships (NAT)	93.124			7,862	—	7,862	—
Assumption Community Hospital – Research on Healthcare Costs, Quality and Outcomes	93.226			1,056	—	1,056	—
Assumption Community Hospital - State Rural Hospital Flexibility Program	93.241			6,000	—	6,000	—
Assumption Community Hospital - Small Rural Hospital Improvement Grant Program (SHIP)	93.301			12,133	—	12,133	—
St. Bernard - Primary Care Access and Stabilization Grant (PCASG)	93.779	1M0C30175A	Louisiana Public Health Institute (LPHI)	—	1,861,696	1,861,696	—
Hospital Preparedness Program	93.889	not available	Louisiana Public Health Institute (LPHI)	—	171,224	171,224	—
Assumption Community Hospital - Hospital Preparedness Program	93.889	not available	Louisiana Public Health Institute (LPHI)	—	28,588	28,588	—
Total CFDA				—	199,812	199,812	—
Total U.S. Department of Health and Human Services				27,051	2,061,508	2,088,559	—
U.S. Department of Labor							
Workforce Investment Act (WIA) - Adult Program*	17.258	not available	Local Workforce Investment Boards	—	363,352	363,352	—
Corporation for National and Community Service:							
Senior Companion Program (SCP)	94.016			199,001	—	199,001	—
Total federal expenditures				$ 3,625,637	2,687,977	6,313,614	15,733,171

* Denotes a major program

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) under programs of the federal government for the year ended June 30, 2010. The Medical Center's basic consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. which collectively received $12,567,613 in federal awards which is not included in the Medical Center's schedule of expenditures of federal awards during the year ended June 30, 2010. The amounts reported as federal expenditures were obtained from the Medical Center's general ledger. Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the Medical Center.

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

(2) Summary of Significant Accounting Policies

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

(3) Federal Family Education Loan Program

The U.S. Department of Education's student financial assistance programs for which the transactions are between the student and an outside third party, including the Federal Family Education Loan Program (FFELP), are administered by Our Lady of the Lake College, Inc. (the College), a wholly owned subsidiary of the Medical Center.

During the year ended June 30, 2010, the College advanced the following amount of new loans under the FFELP Program:

	Federal CFDA number	Amount expended
Stafford Loans	84.032	$ 5,575,567
Unsubsidized Stafford Loans	84.032	8,266,507
Parents' Loans for Undergraduate Students	84.032	53,670
Parents' Loans for Graduate Students	84.032	1,837,427
Total FFELP		$ 15,733,171

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(4) Relationship to Financial Statements

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

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the Medical Center	$	4,005,033
Federal Pell Grant Program – agency transactions		2,308,581
Federal expenditures per the Schedule	$	6,313,614

(Continued)

OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(1) Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA numbers	Name of federal program or cluster
84.033, 84.007, 84.063 84.032, 84.375, 93.925 and 93.407	Student Financial Aid Cluster/U.S. Department of Education and U.S. Department of Health and Human Services
17.258	Workforce Investment Act (WIA)/U.S. Department of Labor

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

(Continued)

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

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards.*

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 2010-01 – Allowable Costs/Activities Allowed

Federal Program:

Workforce Investment Act (WIA)

Federal Agency:

U.S. Department of Labor

CFDA Number:

17.258

Federal Award Year:

July 1, 2009 through June 30, 2010

Criteria

OMB Circular A-122 (A-122) establishes principles for determining the costs applicable to activities performed by non-profit organizations under grants, contracts, and other agreements with the federal government. In accordance with A-122, direct costs charged to Federal grants must be for allowable costs.

Condition

During our testwork related to the WIA, we noted that certain costs charged to the grant were unallowable. The amount of costs determined to be unallowable totaled $15,334.

Questioned Costs

$15,334.

Context

Total program costs totaled $361,352 for the year ended June 30, 2010.

Effect

The understanding of relevant allowable cost compliance requirements on the part of responsible Medical Center personnel was not sufficient to ensure compliance.

Recommendation

We recommend that management strengthen the Medical Center's processes and controls to ensure that the federal regulations are reviewed to ensure compliance with all requirements.

Management Response

Management agrees with the finding. The refund request has been submitted for the amount identified as unallowable. The Medical Center implemented additional audits and review processes to ensure compliance with this federal program.

OUR LADY OF THE LAKE
REGIONAL MEDICAL CENTER
Franciscan Missionaries of Our Lady Health System

April 15, 2011

RECEIVED
LEGISLATIVE AUDITOR
2011 APR 19 AM 9:35

Tanya A. Forbes, MSA
Engagement Analyst II
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, La 70804-9397

Subject: Our Lady of the Lake Audit Reports

Dear Ms. Forbes,

As mentioned in your email dated April 13, 2011, the following reports requested are attached:

1) Federal Data Collection Form
2) Management Letter

Regarding the noncompliance to report within six months of our fiscal year, our response and plan of corrective action is summarized below:

Management Response
Our staff was instructed by the Legislative Auditor's office to file an extension in December, and to submit both the Audited Financials and A-133 reports at the same time when the A-133 report was finalized. The extension approval letter is attached. After further clarification, we now understand that our Audited Financials should be submitted by December 31st, six months after our fiscal year end.

The Accounting staff has been educated and we will ensure these Audited Financial reports, including the schedules referenced in the report, are submitted timely. We will also ensure the federal Data Collection form is submitted, with the A-133 report, by the March 31st deadline, nine months after our fiscal year.

Sincerely,

Amanda Hymel

Amanda Hymel
Accounting Director
Our Lady of the Lake Regional Medical Center

KPMG

KPMG LLP
Suite 1700
450 Laurel Street, Suite 1700
Baton Rouge, LA 70801

RECEIVED
LEGISLATIVE AUDITOR
2011 APR 19 AM 9:35

February 9, 2011

Mr. Jeffrey D. Limbocker
Chief Financial Officer
Our Lady of the Lake Hospital, Inc.
Baton Rouge, Louisiana

Mr. Limbocker:

In planning and performing our audit of the consolidated financial statements of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center), as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Charity Care Write-Offs

In performing our assessment of controls over the accounts receivable process, we identified charity care write-offs that were not approved at the appropriate level, in accordance with the Medical Center's policy. We recommended that the Medical Center develop processes to ensure that the appropriate review is obtained prior to an account being written-off.

KPMG

Mr. Jeffrey D. Limbocker
Chief Financial Officer
Our Lady of the Lake Hospital, Inc.
February 9, 2011

Management's Response

We concur with the findings. Four of the accounts did not include the proper approval. Findings have been reviewed with management and staff. Corrective action has been taken and a new procedure has been implemented to provide proper oversight and verification that appropriate signature has been obtained. One account did not have documentation although our current policy does support the adjustment taken. Management will follow up to determine if additional information should be added to the Charity policy to address homeless and other unidentifiable patients.

* * * * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Medical Center's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The Medical Center's written response to our comments and recommendation has not been subject to the auditing procedure applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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

The Company's written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Very truly yours,

KPMG LLP