BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA

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A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Biomedical Research Foundation of Northwest Louisiana
Shreveport, Louisiana

We have audited the accompanying consolidated financial statements of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation), which comprise the consolidated statements of financial position as of September 30, 2014 and September 30, 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the year ended September 30, 2014 and the nine month period ended September 30, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the year ended September 30, 2014 and for the nine month period ended September 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 23, 2015, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Foundation's internal control over financial reporting and compliance.

Cooperative Endeavor Agreement

As explained in Note 1 to the financial statements, the Foundation and one of its subsidiaries entered into a Cooperative Endeavor Agreement (CEA) with the Louisiana State University Board of Supervisors (LSU) and the State of Louisiana. The agreement resulted in assuming responsibility for the management and operation of certain hospital facilities and associated outpatient clinics in North Louisiana beginning on October 1, 2013. Our opinion is not modified with respect to this matter.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 23, 2015

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2014 AND 2013

ASSETS

	2014	2013
Cash and cash equivalents	$ 15,708,982	$ 331,835
Restricted cash and cash equivalents	244,990	366,472
Accounts receivable, net of allowances for doubtful accounts doubtful accounts and contractual adjustments of $189,816,840 and $111,498 respectively	29,907,649	3,316,179
Disproportionate share receivable	186,302,173	-
Prepaid expenses and other current assets	7,648,698	2,113,095
Investments, including $1,720,623 restricted for endowment purposes	8,792,846	8,121,239
Inventory	5,304,917	-
Property and equipment, net	60,552,794	52,100,918
Total assets	$ 314,463,049	$ 66,349,738

LIABILITIES AND NET ASSETS

	2014	2013
LIABILITIES		
Outstanding checks in excess of bank balances	$ -	$ 1,574,233
Accounts payable and accrued expenses	76,676,311	2,776,044
Credit balance in patient accounts	6,798,074	-
Line-of-credit	20,000,000	1,805,702
Capital leases	5,711,061	-
Notes payable	11,455,802	12,461,895
Derivative liability	467,318	572,275
Deferred revenue	139,730,203	93,024
Due to third party (Note 22)	7,250,350	-
Asset retirement liability	174,952	164,306
Total liabilities	268,264,071	19,447,479
NET ASSETS		
Unrestricted	44,238,592	44,948,756
Temporarily restricted	239,763	232,880
Permanently restricted	1,720,623	1,720,623
Total net assets	46,198,978	46,902,259
Total liabilities and net assets	$ 314,463,049	$ 66,349,738

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

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2014 AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

	Year ended September 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT:				
Patient service revenue net of contractual adjustments	$ 224,148,335	$ -	$ -	$ 224,148,335
Less: Bad debt	9,029,824	-	-	9,029,824
Net patient service revenue	215,118,511	-	-	215,118,511
Other operating revenues- hospital (Note 2)	215,988,948	-	-	215,988,948
Grant revenue	52,000,000			52,000,000
Support - philanthropic	395,978	153,717	-	549,695
Rental revenues	8,993,315	-	-	8,993,315
Local government operating revenue	2,344,756	-	-	2,344,756
Federal and state grants and contracts	1,052,640	77,495	-	1,130,135
Investment revenues	765,837	-	-	765,837
Positron Emission Tomography (PET)	1,945,166	-	-	1,945,166
Radiopharmaceutical sales	1,709,931	-	-	1,709,931
Other revenues	2,405,940	9,033	-	2,414,973
	502,721,022	240,245	-	502,961,267
Net assets released from restrictions:				
Restrictions satisfied by payments	233,362	(233,362)	-	-
Withdrawal of donor restrictions	-	-	-	-
Total revenues and support	502,954,384	6,883	-	502,961,267
EXPENSES:				
Program services:				
Hospital Expenses	488,258,501	-	-	488,258,501
Scientific research initiatives:				
Grants and support for scientific investigators	27,977	-	-	27,977
Leased research facilities	2,526,361	-	-	2,526,361
Science park development initiatives:				
Land, infrastructure, and program development and marketing	2,861,488	-	-	2,861,488
Grants, loans, and financial activities	154,685	-	-	154,685
Positron Emission Tomography (PET) and Radiopharmaceutical Distribution	5,532,862	-	-	5,532,862
Research	1,368,163	-	-	1,368,163
Entrepreneurial Acceleration Program	221,930	-	-	221,930
Digital Media Institute	371,833	-	-	371,833
LSU Outreach Pathology Services	369,167	-	-	369,167
Total program services	501,692,967	-	-	501,692,967
Support services:				
Management and general	1,910,234	-	-	1,910,234
Fund-raising	166,304	-	-	166,304
Total support services	2,076,538	-	-	2,076,538
Total expenses	503,769,505	-	-	503,769,505
NONOPERATING REVENUES:				
Change in value of derivative	104,957	-	-	104,957
CHANGE IN NET ASSETS	(710,164)	6,883	-	(703,281)
Net assets - beginning of year	44,948,756	232,880	1,720,623	46,902,259
Net assets - end of year	$ 44,238,592	$ 239,763	$ 1,720,623	$ 46,198,978

The accompanying notes are an integral part of these statements.

Nine Months Ended September 30, 2013			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ -	$ -	$ -	$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
256,157	143,278	-	399,435
4,125,185	-	-	4,125,185
2,245,560	-	-	2,245,560
220,448	-	-	220,448
527,063	-	-	527,063
1,385,343	-	-	1,385,343
1,523,571	-	-	1,523,571
164,621	-	-	164,621
10,447,948	143,278	-	10,591,226
407,239	(407,239)	-	-
11,000	-	(11,000)	-
10,866,187	(263,961)	(11,000)	10,591,226
5,007,702	-	-	-
833,686	-	-	833,686
2,058,465	-	-	2,058,465
2,086,726	-	-	2,086,726
338,797	-	-	338,797
3,247,299	-	-	3,247,299
359,320	-	-	359,320
3,389	-	-	3,389
175,631	-	-	175,631
14,111,015	-	-	14,111,015
1,265,794	-	-	1,265,794
131,300	-	-	131,300
1,397,094	-	-	1,397,094
15,508,109	-	-	15,508,109
497,356	-	-	497,356
(4,144,566)	(263,961)	(11,000)	(4,419,527)
49,093,322	496,841	1,731,623	51,321,786
$ 44,948,756	$ 232,880	$ 1,720,623	$ 46,902,259

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2014 AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (703,281)	$ (4,419,527)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,750,766	1,706,610
Bad debt	9,029,824	-
Change in value of derivative liability	(104,957)	(497,356)
Net change in unrealized gain on investments	(418,395)	(272,946)
Increase in accounts receivable	(35,621,294)	(1,855,629)
Increase in disproportionate share receivable	(186,302,173)	-
Increase in inventory	(5,304,917)	-
Increase in prepaid expenses and other assets	(5,535,603)	(1,876,403)
Increase in deferred revenue	139,637,179	-
Increase in credit balances in patient accounts	6,798,074	-
Increase in due to third party	7,250,350	-
Increase in accounts payable and other liabilities	73,910,913	1,895,364
Net cash provided by (used in) operating activities	6,386,486	(5,319,887)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,112,496)	(2,793,813)
Purchase of investments	(5,636,551)	(150,000)
Proceeds from sales of investments	5,383,339	-
Net cash used in investment activities	(5,365,708)	(2,943,813)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in outstanding checks in excess of bank balances	(1,574,233)	1,574,233
Increase in line-of-credit	20,000,000	1,805,702
Payments on line-of-credit	(1,805,702)	-
Payments on capital leases	(1,379,085)	-
Payments on notes payable	(1,006,093)	(505,283)
Additional debt incurred	-	2,058,746
Net cash provided by financing activities	14,234,887	4,933,398
Net increase (decrease) in cash and cash equivalents	15,255,665	(3,330,302)
Cash and cash equivalents - beginning of year	698,307	4,028,609
Cash and cash equivalents - end of year	$ 15,953,972	$ 698,307
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 838,438	$ 449,019
Equipment acquired through capital lease	$ 7,090,146	$ -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of activities and accounting policies

The accounting and reporting policies of the Biomedical Research Foundation of Northwest Louisiana (the Foundation or Company) conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the non-profit and healthcare industries. A summary of significant accounting policies is as follows:

Consolidation

The consolidated financial statements include the accounts of the Biomedical Research Foundation of Northwest Louisiana and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Foundation owns 100% of Intertech Venture Fund, LP (the Fund or the Partnership) through its two wholly owned subsidiaries, InterTech Venture Management, LLC (VC Management) and BRF Capital, LLC (Capital). VC Management functions as the general partner in the Fund, and Capital operates as the limited partner. The operations of the subsidiaries and the Fund are included in these consolidated financial statements. The Fund was formed to provide venture capital to new businesses desiring to locate in Northwest Louisiana.

The Foundation also owns 100% of Southern Isotopes, LLC, which operates radiopharmaceutical manufacturing and distribution facilities in Louisiana.

During the nine month period ended September 30, 2013, the Foundation formed BRF Hospital Holdings, LLC (BRFHH), for the purpose of leasing and operating healthcare facilities owned by the State of Louisiana and previously operated by LSU Health Sciences Center in Shreveport (LSUHSC-S). BRFHH formed two 100% owned subsidiaries of its own (BRFHH Shreveport, LLC and BRFHH Monroe, LLC), and these two subsidiaries operate the privatized hospitals in Shreveport, Louisiana and Monroe, Louisiana, respectively. See further discussion in the next heading and footnote 2.

Organization

The Foundation is a publicly supported not-for-profit organization which was created to pioneer a knowledge-based regional economy by cultivating and attracting knowledge-based enterprises and related technologies. The Foundation promotes and develops (1) private and public support and collaboration for a knowledge-based economic development strategy, (2) InterTech Park as a suitable physical environment for knowledge-based enterprises, (3) capacities and accomplishments, in collaboration with and support of LSUHSC-S and other higher ed institutions, (4) human resources and the regional knowledge base via K-12, higher education, and technical / professional training programs, and (5) support and resources for technology and business innovation, with people, research, facilities, and funding.

The Foundation's Board of Directors elected to change its reporting period from a December 31 year end to a September 30 year end, effective January 1, 2013. Consequently, these consolidated financial statements include the results of the Foundation's operations as of and for the year ended September 30, 2014 and the nine month period ended September 30, 2013.

1. Summary of activities and accounting policies (continued)

Organization (continued)

On September 30, 2013, the Foundation and BRFHH entered into a Cooperative Endeavor Agreement (CEA) with the Louisiana State University Board of Supervisors (LSU) and the State of Louisiana. In accordance with the terms of the agreement, BRFHH assumes responsibility for the management and operation of certain hospital facilities and associated outpatient clinics in North Louisiana beginning on October 1, 2013.

BRFHH also entered into a professional services agreement with LSU whereby LSU agrees to supply LSU-employed physicians and allied health professionals sufficient in number to provide commercially reasonable clinical and medical services to the hospital's patients to the equivalent extent and quality as was provided prior to October 1, 2013. In accordance with the terms of the agreement, BRF Hospital Holdings paid approximately \$83,961,810 and \$19,396,296 to LSU for the periods ending September 30, 2014 and 2013 respectively.

BRFHH, LSU and the State of Louisiana also entered into a master hospital lease agreement effective October 1, 2013, for the LSU Medical Center - Shreveport in Shreveport, Louisiana and E.A. Conway Medical Center in Monroe, Louisiana. The lease has an initial term of 5 years; however, subsequent to completion of the first year of the lease, an additional year is added to the term, thereby becoming a rolling 5 year term. The lease shall not exceed 99 years and will automatically terminate upon completion of the 99th year. The lease requires the payment of an annual base rent of \$38,763,891 payable in 12 equal monthly installments. The base rent will be adjusted annually for changes in the consumer price index and may be adjusted every fifth year based on the then fair market value of the leased premises; however, there will be no adjustments below the fixed minimum rent established at the initial lease date..

BRFHH, LSU and the State of Louisiana also entered into an equipment lease effective October 1, 2013, related to all the furniture, fixtures, equipment and personal property used by LSU Medical Center - Shreveport and E.A. Conway Medical Center. The lease is for a term of five years and requires the payment of annual base rent of \$5,936,109 payable in 12 equal monthly installments; the base rent will be adjusted annually for changes in the consumer price index.

Prior to signing the CEA and various lease agreements, BRFHH incurred legal, consulting and other costs related to the development and implementation of the privatization of these hospital facilities and associated outpatient clinics. These costs which totaled approximately \$5,000,000 for the nine month period ended September 30, 2013, are included in the statement of activities as "management fees" in this report.

1. Summary of activities and accounting policies (continued)

Use of estimates

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

Restricted cash and cash equivalents

Restricted cash and cash equivalents, which consist primarily of demand deposits and short-term certificates of deposit, represent donor-restricted assets and assets pledged for future decommissioning expenses at its two cyclotron sites. These items are considered cash and cash equivalents for purposes of the statements of cash flows.

Patient accounts receivable

The Company provides credit in the normal course of operations to patients located primarily in northern Louisiana and surrounding areas and to third party payors conducting operations in these areas.

The Company maintains allowances for contractual adjustments, doubtful accounts, and charity care based on management's assessment of collectability, current economic conditions, and prior experience. The Company determines if patient accounts receivable are past-due based on the discharge date; however, the Company does not charge interest on past-due accounts. The Company charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful.

In evaluating the collectability of accounts receivable, the Company analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of activities and accounting policies (continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Unrealized gains and losses are recorded in current year operations as increases or decreases in unrestricted net assets. Dividend, interest, and other investment income are recorded as an increase in unrestricted net assets unless the use is restricted by the donor.

Realized gains and losses on dispositions are based on the net proceeds and the amortized cost basis of the securities sold, using the specific identification method, and are classified as temporarily restricted or unrestricted based on donor intent. These realized gains and losses flow through the Foundation's yearly activities.

Inventories

Inventories consist primarily of drugs, medical supplies, and general supplies and are stated at the lower of cost (using the first-in, first-out method) or market.

Property and equipment

Property and equipment are stated at cost. Additions, renewals, and betterments that increase the value or extend the lives of assets are capitalized. Replacements, maintenance, and repairs that do not increase the values or extend the lives of the respective assets are expensed as incurred. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized for that period.

Impairment of long-lived assets and long-lived assets to be disposed of

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments have been recognized as of September 30, 2014.

Asset retirement obligations

The Foundation records liabilities equal to the fair value of the estimated cost to retire assets. The asset retirement liability is recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed in service. The Foundation has recorded a liability for the abandonment of the cyclotron assets.

1. Summary of activities and accounting policies (continued)

Derivative financial instruments

The Foundation uses interest rate swap agreements to modify interest rate characteristics of its outstanding indebtedness. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and convert a portion of the Foundation's variable-rate debt to a fixed rate.

Professional liability claims

The provision for estimated malpractice claims includes estimates of the ultimate cost, including costs to defend claims for both reported claims, and claims incurred but not reported. The Company has not experienced material losses from professional liability claims in the past.

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of activities and accounting policies (continued)

Net patient service revenue

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue 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. Retroactive adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to examination. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Consequently, there is at least a reasonable possibility that recorded estimates could change by a material amount.

Accounting Standards Update (ASU) 2011-07, *Healthcare Entities* (Topic 954), "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities," which requires certain healthcare entities to present the provision for doubtful accounts relating to patient service revenue as a deduction from patient service revenue in the statement of operations rather than as an operating expense, has been applied during the year ended September 30, 2014.

Charity care

The Company provides care to patients who meet certain criteria established under its charity care policy without expected reimbursements or at reimbursement rates substantially lower than its usual and customary charges. The related amounts are not reported as net revenues because the Company does not pursue collection of amounts determined to qualify as charity care.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give are recognized as revenue in the period received. Promises to give are recorded at realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year.

1. Summary of activities and accounting policies (continued)

Local government operating revenue

In October of 2001, the voters of Caddo Parish renewed a special tax levy by the Caddo Parish Commission (CPC) of two mills on all property subject to taxation for the purpose of economic development through the Biomedical Research Foundation of Northwest Louisiana through 2017. The accompanying consolidated financial statements include revenues from this tax of approximately $2,345,000 for the year ended September 30, 2014 and $2,246,000 for the nine month period ended September 30, 2013; the consolidated financial statements also include a receivable of $233,970 at September 30, 2014, for qualifying amounts which the Foundation has expended but the CPC has not yet reimbursed.

Positron Emission Tomography (PET)

The Foundation has agreements with third-party payors that provide for payments to the Foundation at amounts different from its established rates. PET revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Income taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made. The Foundation received IRS approval to change the reporting year from a December 31st year end to a September 30th year end.

The Foundation applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The determination of whether or not a tax position has met the more-than-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation has evaluated its position regarding the accounting for uncertain income tax positions and determined that it had no uncertain tax positions at September 30, 2014.

With few exceptions, the statute of limitations for the examination of the Foundation's income tax returns is generally 3 years from the due date of the tax return including extensions. The tax years open for assessment are periods ending on or after December 31, 2011.

1. Summary of activities and accounting policies (continued)

Statements of cash flows

For purposes of the statements of cash flows, cash and cash equivalents includes unrestricted operating and restricted funds on deposit at various financial institutions.

Environmental obligations

A provision for environmental obligations is charged to expense when the Foundation's liability for an environmental assessment and/or cleanup is probable and the cost can be reasonably estimated. Related expenditures are charged against the accrued liability.

Concentrations of credit risk

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the current year presentation.

2. Current operating environment

Although not effective until 2015 or later, as enacted, the Affordable Care Act will change how health care services are covered, delivered and reimbursed. The Affordable Care Act provides for significant reductions in the growth of Medicare spending and reductions in Medicare and Medicaid disproportionate share hospital payments. Any shortfalls, now or in the future, whether as a result of the economic downturn, the expansion of Medicaid coverage under the Affordable Care Act or otherwise, could result in additional reductions to Medicaid payments.

In 2014, the Company received a grant for the purpose of ensuring the availability of certain charitable, academic, and community outreach healthcare services at the Hospitals, including but not limited to activities related to the operation of an academic medical center that enhances opportunities for graduate medical education and cutting edge research and the provision of healthcare services for low income and needy patients residing in the Region. During calendar 2014, $35 million was received and recognized. Additional funds were granted and accrued in the amount of $17 million to be received during 2014 and another $17 million at the discretion of the grantor which was received subsequent to year end.

The CEA provides state funding commitments for indigent patient care and effectively mitigates reductions in Medicaid up to the maximum amount provided in the CEA. As a result, the hospitals received approximately $163,900,000 in CEA related payments during 2014 and expect to receive approximately $186,302,000 before June 30, 2015. The hospitals recognized approximately $210,509,000 DSH payments as other operating revenue related to the services provided under that CEA during 2014. The Hospital recognized $52,000,000 in grant payments as non operating revenue related to the CEA during 2014. The remainder of the revenue has been deferred. Revenue will be recognized based on a systematic method over the term of the agreement period to which they relate which ends June 30, 2015.

3. Net patient service revenue

The Company has agreements with governmental and other third-party payors that provide for payments to the Company at amounts different from its established rates. These differences are referred to as contractual adjustments. A summary of the basis of reimbursement with third-party payors follows:

- *Medicare* - inpatient acute services, psychiatric services, and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain costs, such as Graduate Medical Education costs and bad debt related to Medicare beneficiaries, are paid based on a cost reimbursement methodology. The Company is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits thereof by the Medicare fiscal intermediary.

- *Medicaid* - inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate-per-diem. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain extraordinary inpatient costs for children under the age of one are eligible for additional reimbursement. Some outpatient services are reimbursed at a prospectively determined fee schedule. Where no fee schedule has been developed, outpatient services are paid based on a cost reimbursement methodology. The Company is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits thereof by the Medicaid fiscal intermediary.

- *Commercial and HMO* - the Company has entered into agreements with 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, and prospectively determined daily rates.

Presented below is a summary of net patient service revenue for the year ended September 30, 2014:

	2014
Gross patient service revenue	$ 948,062,826
Less: contractual adjustments and other deductions	(723,914,491)
Less: bad debt	(9,029,824)
Net patient service revenue	$ 215,118,511

4. Unconditional promises to give

Unconditional promises to give at September 30, 2014 and 2013, are summarized as follows:

	2014	2013
Unconditional contributions expected to be collected in less than one year	$ 36,250	$ 45,158
Less: allowances for doubtful accounts	(30,000)	(30,000)
Net unconditional promises to give	$ 6,250	$ 15,158

5. Investments

Investments at September 30, 2014 and 2013 consisted of the following:

	2014	2013
Mutual funds	$ 8,569,654	$ 7,812,028
Common stock	-	10
Limited partnership interests	223,192	309,201
	$ 8,792,846	$ 8,121,239

Following is the composition of investment revenues (losses) for the year ended September 30, 2014 and the nine month period ended September 30, 2013:

	2014	2013
Dividends, interest, and realized gains (losses)	$ 235,864	$ 100,831
Unrealized gain (loss) on investments	418,395	272,946
	654,259	373,777
Other investment revenues	111,578	153,286
	$ 765,837	$ 527,063

6. Property and equipment

The composition of property and equipment at September 30, 2014 and 2013 was as follows:

Assets	Estimated useful lives	2014	2013
Land	-----	$ 7,753,655	$ 7,153,004
Building and improvements	4 - 40 years	63,746,604	61,787,012
Furniture and fixtures / equip	5 - 20 years	29,879,331	22,696,350
		101,379,590	91,636,366
Less accumulated depreciation		(40,826,796)	(39,535,448)
Property and equipment, net		$ 60,552,794	$ 52,100,918

6. Property and equipment (continued)

The large majority of the Foundation's property and equipment is being held for lease or future development.

Depreciation expense totaled $3,750,766 for the year ended September 30, 2014 and $1,706,610 for the nine month period ended September 30, 2013.

7. Line-of-credit

The Foundation maintains a $4,000,000 line-of-credit with a national financial institution. This line-of-credit is secured by the investments of the Foundation, bears interest at the 30 day LIBOR rate plus 2.75% (2.93% at September 30, 2014), and matured on November 28, 2014; however it was renewed subsequent to year end. The outstanding balances on this line-of-credit were $0 and $1,805,702 at September 30, 2014 and September 30, 2013, respectively.

During the year ended September 30, 2014, BRFHH acquired a $20,000,000 line-of-credit with a national financial institution. This line-of-credit is secured by the gross revenues of BRFHH bears interest at the 30 day LIBOR rate plus 2.5% (2.86% at September 30, 2014) and is scheduled to mature on September 30, 2015. The outstanding balance on this line-of-credit was $20,000,000 at September 30, 2014.

8. Leases

Aggregate payments on capital lease obligations at September 30, 2014 are as follows:

	Capital lease obligations
Year ending September 30,	
2015	$ 2,226,080
2016	1,453,817
2017	1,183,431
2018	1,147,494
2019	455,162
	6,465,984
Less amount representing interest	(754,923)
Present value of future minimum lease payments	5,711,061
Less current portion	(1,891,490)
Noncurrent portion	$ 3,819,571

The following is an analysis of the equipment under capital lease at September 30, 2014:

Equipment	$ 7,090,146
Less accumulated depreciation	(830,023)
	$ 6,260,123

8. Leases (continued)

Aggregate payments on operating lease obligations at September 30, 2014 are as follows:

	Operating lease obligations
Year ending September 30,	
2015	$ 45,995,083
2016	45,998,769
2017	45,998,769
2018	45,998,769
2019	44,948,935

9. Long-term debt

During the year ended December 31, 2010, the Foundation refinanced all of its outstanding revenue bonds and notes payable with a regional financial institution. The current note payable was issued in the amount of $12,000,000, bears interest at a variable rate equal to the LIBOR rate plus 250 basis points (2.86% and 2.76% at September 30, 2014 and September 30, 2013, respectively), and is secured by an assignment of leases, real estate, and investments. The note is due in monthly installments of principal and interest through March 30, 2015, at which time the final payment of approximately $9,500,000 is due. The outstanding balance on the note payable was $9,850,421 and $10,467,352 at September 30, 2014 and 2013, respectively.

During the year ended September 30, 2013, the Foundation entered into an additional note payable agreement with a national financial institution in the amount of $2,058,746 for the purposes of financing the acquisition of new medical equipment. The note payable bears interest at a rate of 3% and is secured by the equipment purchased. The note is due in monthly installments of principal and interest through July 10, 2018. The outstanding balance on the note payable was $1,605,381 and $1,994,543 at September 30, 2014 and 2013, respectively.

The long-term debt is scheduled to mature during the years ended September 30th as follows:

Year ending September 30th	Amount
2015	$ 10,252,801
2016	414,450
2017	426,881
2018	361,670
	$ 11,455,802

As part of the loan agreements, the Foundation has agreed to comply with certain covenants. These consist, primarily, of reporting requirements, financial covenants, restrictions on additional debt and security interests, maintenance of its tax-exempt status, maintenance of its facilities, and other administrative requirements.

The Foundation incurred total interest expense on all types of financing of approximately $837,000 for the year ended September 30, 2014 and $450,000 for the nine month period ended September 30, 2013.

10. Derivative instruments and hedging activities

The Foundation uses long-term variable rate debt as a source of long-term financing. These debt obligations expose the Foundation to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit variability of a portion of its interest payments and, therefore, hedged a portion of its variable-rate debt. To meet this objective, management entered into an interest rate swap agreement with a financial institution whereby the Foundation makes fixed interest rate payments and receives variable rate interest rate payments during the contract period.

The Foundation has a stand alone derivative financial instrument in the form of an interest rate swap agreement, which derives its value from underlying interest rates. The transaction involves both credit and market risk. The notional amount is the amount on which calculations, payments, and the value of the derivatives are based. The notional amount does not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, was $467,318 and $572,275 at September 30, 2014 and September 30, 2013, respectively.

The total notional amounts of the swap agreements totaled $9,850,421 and $10,467,352 at September 30, 2014 and 2013, respectively. The pay rate of this agreement is 2.86%, and the receive rate is the 30 Day LIBOR plus 250 basis points (2.86% and 2.76% at September 30, 2014 and 2013, respectively). The agreement matures on November 30, 2020.

11. Net assets

Temporarily restricted net assets were restricted for the following purposes at September 30, 2014 and 2013:

	2014	2013
SMART program	$ 7,661	$ 9,475
Biostart	31,056	32,741
Other	201,046	190,664
	$ 239,763	$ 232,880

11. Net assets (continued)

Net assets which were released from restrictions during the year ended September 30, 2014 and the nine month period ended September 30, 2013, due to the Foundation making payments were as follows:

	2014	2013
SMART program	$ 38,034	$ 12,141
Cancer research	-	34,358
Biostart	1,685	2,388
Other	193,643	358,352
	$ 233,362	$ 407,239

Permanently restricted net assets at September 30, 2014 and September 30, 2013 consisted of endowment funds the principal of which is permanently restricted and the income of which is unrestricted except for amounts restricted for repair, maintenance, and upgrades of scientific equipment donated by the Foundation to LSUHSC-S.

The Foundation has established prudent investments and spending policies with the objective of maintaining the purchasing power of its endowed net assets in perpetuity and to provide a stable level of support. In an effort to achieve this objective, the Foundation's asset allocation strategy is periodically reviewed and adjusted to maximize return while limiting risk.

A summary of endowed net assets as of September 30, 2014 and September 30, 2013, as well as changes in endowed net assets for the year ended September 30, 2014 and the nine month period ended September 30, 2013, are as follows:

	2014	2013
Balance - beginning of the year	$ 1,720,623	$ 1,731,623
Contributions	-	-
Withdrawal of donor restrictions	-	(11,000)
Balance - end of the year	$ 1,720,623	$ 1,720,623

12. Classification of expenses

The following table approximates the classification of hospital only expenses incurred during the year ended September 30, 2014:

Patient related services (82%)	$ 400,372,000
General and administrative expenses (18%)	87,887,000
Total hospital only operating expenses	$ 488,259,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Shared Services Agreement

The Company and LSU have multiple agreements through which the Company receives information technology services and support, security staffing, utilities, and other services. The contract terms are 3 years or less. The aggregate value of the services received during the period under the agreements is approximately $22,000,000.

14. Related party transactions

Certain members of the Board of Directors and senior staff are affiliated with organizations that provide services to the Company and its affiliates. The Company has a policy of periodically obtaining independent reviews of its insurance program, maintaining banking relationships with multiple financial institutions, and obtaining formal bids on all significant purchases.

15. Rental revenues

During the year ended December 31, 2000, the Foundation entered into an agreement with LSU for the lease of eight of the ten floors of the Virginia K. Shehee Biomedical Research Institute to LSU. This agreement required the payment of a base rent of $2,445,000 per year plus the first $585,000 of certain operating expenses, until June 30, 2015; the base rent was to be adjusted to be every 3 years for changes in the consumer price index.

Effective October 1, 2013, the Foundation and the Board of Supervisors of Louisiana State University terminated the existing agreement and entered into a new lease agreement for the Virginia K. Shehee Biomedical Research Institute. The new lease agreement, which encompasses the entire Virginia K. Shehee Biomedical Research Institute as well as some additional square footage of the Central Plant Building, is for a term of 30 years and contains an additional 10 year option. The new agreement requires monthly payments of $523,230 plus additional costs for maintenance and service. The fixed minimum rent will be adjusted upon each second anniversary of the lease date for changes in the consumer price index and may be adjusted every fifth year based on the then fair market value of the leased primises; however, there will be no adjustments below the fixed minimum rent established at the initial lease date.

In addition to the lease with LSU, the Foundation has entered into approximately twenty additional agreements for the leasing of its properties. The leases have terms ranging from month-to-month to twenty years and require payments ranging from $170 / month to $87,500 / quarter.

In accordance with the terms of these agreements, the Foundation recorded rental revenues of approximately $8,990,000 during the year ended September 30, 2014 and $4,100,000 during the nine month period ended September 30, 2013.

15. Rental revenues (continued)

The future minimum lease payments expected to be received from the new lease with LSU as well as additional operating leases for office and laboratory facilities and real property, during the next five years is as follows:

Year ending September 30th	Amount
2014	$ 7,004,980
2015	7,161,109
2016	7,153,045
2017	7,110,467
2018	7,060,621
	$ 35,490,221

16. Cooperative endeavor agreements

The Foundation entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development (LDED) in connection with the construction and operation of a wet-lab business incubator facility. The Foundation recognized revenues relating to this agreement of approximately $321,000 during the year ended September 30, 2014 and $167,000 during the nine month period ended September 30, 2013.

17. Radiopharmaceutical revenues

The Foundation has a limited number of customers for the radiopharmaceuticals that it produces to sell to third parties. The four largest customers comprised approximately 77% of the sales during the year ended September 30, 2014 and 78% of the sales during the nine month period ended September 30, 2013. Should one or more of the customers discontinue the purchase of radiopharmaceuticals from the Foundation, this could have a material effect on radiopharmaceuticals revenues in future periods.

18. Insurance programs

Any exposure under $100,000 per claim for professional liability is covered by the Company. Additional professional liability coverage is provided by the Louisiana Patient's Compensation Fund up to the present statutory maximum of $500,000 per claim (exclusive of additional amounts for future medical expense provided by law). The preceding policies are on an occurrence basis.

The Company is self-insured for group health insurance and pays all claims up to $200,000 per person. A stop loss policy pays claims in excess of this amount. The Company is also self-insured for workers' compensation liability up to the deductible of its excess workers' compensation policy of $100,000 per claim.

The Company has reflected its estimate of the ultimate liability for any general liability and casualty loss.

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

19. Retirement benefit plan

The Company has a defined contribution plan under IRS Code Section 401(k) that covers substantially all full-time employees who are over the age of twenty-one and who have met eligibility requirements. Discretionary contributions by the Foundation include matching contributions to the employee 401(k) plan up to certain limits of compensation. Total employer contributions were approximately $5,804,505 for the year ended September 30, 2014.

20. Business and credit concentrations

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of unsecured accounts receivable and temporary cash investments.

The Company maintains its cash investments with several national financial institutions. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

The Company grants credit to patients, substantially all of whom are regional residents. The Company 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, and commercial insurance policies).

The mix of receivables from patients and third-party payors at September 30, 2014, was as follows:

Medicare	15.87%
Medicaid	12.55%
Commercial insurance and managed care organizations	30.23%
Self-pay patients and other	41.35%
	100.00%

21. Fair value of financial instruments

In accordance with the Fair Value Measurements and Disclosure topic of FASB ASC, disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments; therefore, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

21. Fair value of financial instruments (continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

The Fair Value Measurements and Disclosures topic of the FASB ASC provides the framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the framework are described as follows:

- Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, accounts receivable, other receivables, accounts payable, and other accrued expenses - the carrying amounts approximate fair values because of the short maturity of these instruments.

Investments - where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are estimated using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads.

21. Fair value of financial instruments (continued)

Long-term debt - the carrying amount of the Foundation's long-term debt approximates its fair value.

Derivative financial instruments - fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

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

Fair Value of Assets Measured on a Recurring Basis

The Foundation's investments are measured on a recurring basis through estimates and assumptions made by management. Our level three assets within investments include investments in common stocks which are not actively traded and limited partnership interests. We value level 3 investments using inputs which include discounted cash flow models. Unobservable inputs used in these models are significant to the fair value of the investments.

The following table presents the fair-value hierarchy level of the Foundation's financial assets and liabilities that are measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3
September 30, 2014:			
Mutual funds - bonds	$ 1,819,059	$ -	$ -
Mutual funds - equities	1,831,923	-	-
Mutual funds - index funds	4,918,672	-	-
Limited partnerships	-	-	223,192
Derivative liability	-	(467,318)	-
	$ 8,569,654	($ 467,318)	$ 223,192
September 30, 2013:			
Mutual funds - bonds	$ 1,758,401	$ -	$ -
Mutual funds - equities	3,972,543	-	-
Mutual funds - index funds	2,081,084	-	-
Limited partnerships	-	-	309,201
Emerging companies - SteriFx	-	-	10
Derivative liability	-	(572,275)	-
	$ 7,812,028	($ 572,275)	$ 309,211

21. Fair value of financial instruments (continued)

The majority of the Level 3 instruments consist of limited partnerships and common stocks. The following tables present the changes in fair value for the year ended September 30, 2014 and the nine month period ended September 30, 2013, in Level 3 instruments that are measured at fair value on a recurring basis:

	2014	2013
Balance - beginning of the year	$ 309,211	$ 309,211
Purchases	-	-
Sales	-	-
Write downs related to investments in limited partnerships	(86,019)	-
Balance - end of the year	$ 223,192	$ 309,211

22. Commitments and contingencies

The Foundation receives a portion of its revenues from government grants and contracts which are subject to audit. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and subject to audit by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Foundation receives, directly or indirectly, a portion of its revenues from government ad volarum tax millages. Although the Foundation does not anticipate a material change in these revenues, there is a possibility that the continued funding of these revenues at current levels could be altered in the future.

In management's opinion, environmental issues will not have a material impact on the net assets of the Foundation. No accrual has been made in these consolidated financial statements for environmental liabilities due to the Foundation being unable to estimate an amount for future investigation or remediation or the amount of any grants that may be available to cover such costs.

The Foundation is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Foundation.

BRFHH, along with outside consultants, determined that the hospital's clinic operations were not in compliance with Medicare rules governing provider based entities ("PBE"). BRFHH voluntarily disclosed this issue to the United States Attorney for the Western District of Louisiana ("USAWDL") by letter dated July 30, 2014, and provided further information to the USAWDL in August 2014. To date no formal response has been received by BRFHH or counsel from the USAWDL. Approximately $7.2 million has been accrued as a liability. BRFHH has offset some of the charges with credits which has been shown net in patient accounts receivable.

23. Subsequent events

In November 2014, two construction contracts were executed for the Foundation's office relocation in the amount of $326,500, and construction on Blue Arx/ VCE offices in the amount of $312,065.

Management has evaluated subsequent events through March 23, 2015, the date that the consolidated financial statements were available to be issued, and determined that no additional disclosures are necessary. No events occurring after this date have been considered for inclusion in these consolidated financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Biomedical Research Foundation of Northwest Louisiana
Shreveport, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation), which comprise the consolidated statements of financial position as of September 30, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion of the effectiveness of the Foundation'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 Foundation's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charges with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2014-1

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

This report is intended solely for the information and use of the Board of Directors and management of the Biomedical Research Foundation of Northwest Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 23, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014

A. Summary of Auditors' Results

Consolidated Financial Statements

Type of auditor's report issued: *Unmodified*

Internal Control over Financial Reporting:

• Material weakness(es) identified?	______ yes	__x__ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	__x__ yes	______ none reported

B. Findings - Financial Statement Audit

2014-1) Internal Control Over Financial Reporting

Criteria: During the year ended September 30, 2014 the Foundation and BRFHH was required to make significant estimates relating to the allowance for uncollectible accounts, the allowance for contractual adjustments, estimated third party payer settlements, self-insurance, the funds received and to be received, under the CEA with the State of Louisiana and LSU. Estimates are required to be made and documented using knowledge and experience about past and current events and assumptions about future events.

Condition: The documentation of certain of the items considered in calculating these estimates was not readily available by management, in all instances. Certain accounts in the general ledger relating to patient accounts receivable and third party payers were not adjusted to the estimates calculated by management.

Cause: Due to BRFHH not having prior year history, management was limited in the ability to use historical data in the calculation and review of these estimates.

Effect: We believe that the financial statements are materially correct with respect to these estimates. With respect to the liability estimate for health insurance, it appears based on claims analysis, that the financial statements are over-reserved. We have proposed a likely adjustment for $2,000,000 relating to this estimate.

Recommendation: We recommend that management continue to monitor claims for self-insurance and adjust the financial statements to more accurately reflect the liability.

View of Responsible Official and Planned Corrective Action: Because it is the first year, management feels that there is too little history on which to base a more accurate estimate and that no adjustment should be made at this time. Claims history is monitored and reviewed monthly and the estimate will be adjusted accordingly over time.

BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA
SHREVEPORT, LOUISISNA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014

A. **Findings - Financial Statement Audit:**

(1) None