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

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Franciscan Missionaries of Our Lady Health System, Inc and affiliated organizations (FMOLHS) as of June 30, 2011 and 2010, 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 System'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 Accordingly, we express no such opinion An audit 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 Franciscan Missionaries of Our Lady Health System, Inc and affiliated organizations as of June 30, 2011 and 2010, 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

As discussed in note 1(u) to the consolidated financial statements, FMOLHS has changed its method of accounting for noncontrolling interests in 2011 as a result of the adoption of ASU No 2010-07, *Not-for-Profit Entities Mergers and Acquisitions*, which amended ASC 958, *Not-for-Profit Entities* The June 30, 2010 consolidated financial statements were restated to reflect the new presentation of noncontrolling interests

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, on our consideration of FMOLHS's 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 consolidating information included in schedules 1 through 3 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual organizations The consolidating information referred to in this report has been subjected to the auditing procedures applied in the audits of the 2011 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2011 consolidated financial statements taken as a whole

The supplementary information included in schedule 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements Such 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

November 4, 2011

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

Consolidated Balance Sheets

June 30, 2011 and 2010

(In thousands)

Assets		**2011**	**2010**
Current assets			
Cash and cash equivalents	$	218,195	78,691
Short-term investments		21,254	21,780
Patient receivables, net of allowance for uncollectible accounts of $64,441 and $56,088 in 2011 and 2010, respectively		175,784	169,847
Other current assets		88,980	95,086
Total current assets		504,213	365,404
Assets limited as to use, net of current portion		690,785	642,607
Property and equipment, net		944,292	839,780
Property and equipment, held for sale		15,055	—
Other assets		106,063	97,821
Total assets	$	2,260,408	1,945,612
Liabilities and Net Assets			
Current liabilities			
Lines of credit	$	4,650	5,158
Current installments of long-term debt		17,585	66,069
Current portion of capital lease obligations		4,649	3,573
Accounts payable		75,487	72,325
Other current liabilities		153,491	126,455
Total current liabilities		255,862	273,580
Professional and general liabilities		25,587	26,354
Long-term debt, excluding current installments		518,709	479,437
Capital lease obligations, excluding current portion		16,843	5,122
Accrued pension cost		176,003	242,155
Other long-term liabilities		52,782	37,314
Total liabilities		1,045,786	1,063,962
Net assets			
Unrestricted		1,180,209	848,125
Temporarily restricted		18,609	18,877
Permanently restricted		5,516	5,505
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc		1,204,334	872,507
Noncontrolling interests		10,288	9,143
Total net assets		1,214,622	881,650
Commitments and contingencies			
Total liabilities and net assets	$	2,260,408	1,945,612

See accompanying notes to consolidated financial statements

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

Consolidated Statements of Operations

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Changes in unrestricted net assets			
Unrestricted revenues			
Net patient service revenue	$	1,362,922	1,207,123
Other revenue		86,317	83,821
Equity in income from equity investees, net		10,951	10,190
Total unrestricted revenues		1,460,190	1,301,134
Net assets released from restrictions used for operations			
Satisfaction of program restrictions		5,364	6,354
Expiration of time restrictions		125	118
Total net assets released from restrictions used for operations		5,489	6,472
Total unrestricted revenues and other support		1,465,679	1,307,606
Operating expenses			
Salaries and wages		483,515	454,901
Employee benefits		125,264	131,036
Total salaries, wages, and employee benefits		608,779	585,937
Provision for uncollectible accounts		108,238	102,392
Physician fees		28,189	25,226
Professional services		14,817	21,376
Other services		156,997	144,443
Leases, insurance, and utilities		44,103	43,124
Supplies and other		246,479	252,188
Depreciation and amortization		68,478	76,530
Interest		21,942	20,663
Other		21,352	526
Total operating expenses		1,319,374	1,272,405
Operating income		146,305	35,201

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

Consolidated Statements of Operations

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Nonoperating gains (losses)			
Investment return		119,270	76,587
Other		(4,695)	(2,644)
Loss on early extinguishment of debt		—	(542)
Change in fair value of interest rate swap agreements		4,676	(5,412)
Total nonoperating gains, net		119,251	67,989
Noncontrolling interests		(3,145)	(2,329)
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc		262,411	100,861
Pension-related changes other than net periodic pension cost		69,673	(49,441)
Increase in unrestricted net assets	$	332,084	51,420

See accompanying notes to consolidated financial statements

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Net assets, beginning of year (as previously reported)	$	881,650	819,952
Adjustment to present noncontrolling interests as required by new accounting standard		—	9,591
Net assets, beginning of year (as adjusted)		881,650	829,543
Change in unrestricted net assets			
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc		262,411	100,861
Pension-related changes other than net periodic pension cost		69,673	(49,441)
Increase in unrestricted net assets		332,084	51,420
Changes in temporarily restricted net assets			
Contributions		5,185	7,140
Income from long-term investments, net		1	2
Net unrealized and realized gains on investments, net		35	17
Net assets released from restrictions		(5,489)	(6,472)
Transfer from unrestricted net assets due to clarification of donor intent		—	48
Increase (decrease) in temporarily restricted net assets		(268)	735
Changes in permanently restricted net assets – contributions		11	400
Changes in noncontrolling interests			
Unrestricted revenues, gains, and other support in excess of expenses and losses		3,145	2,329
Distributions		(3,207)	(3,426)
Sale of noncontrolling interests		1,207	649
Changes in noncontrolling interest		1,145	(448)
Increase in net assets		332,972	52,107
Net assets, end of year	$	1,214,622	881,650

See accompanying notes to consolidated financial statements

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

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Cash flows from operating activities			
Increase in net assets	$	332,972	52,107
Adjustments to reconcile increase in net assets to net cash provided by operating activities			
Depreciation and amortization		68,478	76,530
Provision for uncollectible accounts		108,238	102,392
Loss on sale of property and equipment, net		2,240	463
Net realized and unrealized gains on assets limited as to use and investment securities		(114,438)	(70,579)
Income from equity investees, net of distributions		(10,951)	44
Change in value of interest rate swap agreement		(4,676)	5,412
Amortization of net premium on bond issues		(35)	(35)
Loss on early extinguishment of debt		—	542
Pension-related changes other than net periodic pension cost		(69,673)	49,441
Contributions restricted for permanent investments		—	(400)
Sale of noncontrolling interest		(1,207)	(649)
Distributions to noncontrolling interest		3,207	3,426
Changes in operating assets and liabilities			
Short-term investments, net		782	(4,051)
Receivables		(109,622)	(106,383)
Inventories		(752)	2,236
Prepaid expenses and other assets		(1,207)	(3,954)
Accounts payable, accrued expenses, and other liabilities		60,368	44,735
Professional and general liabilities		(767)	407
Net cash provided by operating activities		262,957	151,684

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

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from investing activities		
Capital expenditures	(181,048)	(183,858)
Change in assets limited as to use	68,212	(16,920)
Decrease in cash and government securities held as collateral under securities lending transaction	154	306
Proceeds from sales of property and equipment	448	743
Distributions of investment in equity investees	9,158	387
Acquisition of additional interest in equity investees	(6,084)	—
Net cash used in investing activities	(109,160)	(199,342)
Cash flows from financing activities		
Decrease in liability held under securities lending transaction	(154)	(306)
Repayment of long-term debt	(16,708)	(14,044)
Repayment of capital lease obligations	(2,300)	(827)
Proceeds from issuance of bonds	2,614	122,291
Payment of bond issuance costs	(163)	(2,494)
(Proceeds) payments on line of credit	4,418	(41,117)
Proceeds from sale of noncontrolling interest	1,207	649
Contributions restricted for permanent investment	—	400
Distributions to noncontrolling interest	(3,207)	(3,426)
Net cash (used in) provided by financing activities	(14,293)	61,126
Increase in cash and cash equivalents	139,504	13,468
Cash and cash equivalents, beginning of year	78,691	65,223
Cash and cash equivalents, end of year	$ 218,195	78,691

See accompanying notes to consolidated financial statements

(1) Organization and Summary of Significant Accounting Policies

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

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

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co , Ltd (Louise), which is wholly owned by FMOLHS (see note 18) Calais Health, LLC (Calais), a limited liability Louisiana company formed to provide occupational medicine services in Louisiana, is also wholly owned by FMOLHS Franciscan PACE, Inc (PACE), a corporation formed for the purpose of performing religious, benevolent, charitable, healthcare, and educational activities and to promote and support the religious, health, and charitable activities of the congregation of the Franciscan Missionaries of Our Lady – North American Province, Inc , is also wholly owned by FMOLHS

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

(a) Principles of Consolidation

The consolidated financial statements include the accounts of FMOLHS, its wholly owned subsidiaries, and the FMOLHS Affiliates All significant intercompany balances and transactions have been eliminated in consolidation

(b) Use of Estimates

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

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, valuation of derivatives, useful lives of property and equipment, and the actuarially determined benefit liability related to FMOLHS' pension plans and postretirement health plans 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

(c) ***Cash Equivalents***

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

(d) ***Investments and Investment Return***

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

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

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

Unrealized gains and losses on investments recorded at fair value and on 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 stipulations or law Dividend, interest, and other investment income are recorded as increases in

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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

(f) *Assets Limited as to Use*

Assets limited as to use include the following

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

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

(g) *Components of Net Assets*

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

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

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

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

Unrealized gains and losses are recorded as temporarily restricted net assets if the terms of the gift restrict the use of the income Permanently restricted net assets are increased if the term of the gift

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that gave rise to the investment requires the unrealized gain be added to the principal of a permanent endowment

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

(h) Bond Issuance Costs

Bond issuance costs, premiums, and discounts, costs of letters of credit and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the interest method Accumulated amortization was approximately $4,532 and $3,946 at June 30, 2011 and 2010, 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 lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements

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

(j) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, is the amount by which the purchase price exceeds the fair value of assets acquired and through June 30, 2010 was amortized over the expected life of the underlying acquired assets using the straight-line method

Accumulated amortization for all costs in excess of net assets acquired was $15,852 at June 30, 2011 and 2010

In January 2010, the FASB issued ASU 2010-07, *Not-for-Profit Entities Mergers and Acquisitions*, which amends ASC 958, *Not-for-Profit Entities* Under these standards, cost in excess of net assets

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acquired 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 Cost in excess of net assets acquired prior to July 1, 2010 was amortized through the remainder of 2010, at which time amortization ceased and a transition goodwill impairment test was performed Impairment charges resulting from the initial application of the new rules would have been classified as a cumulative change in accounting principal FMOLHS was not required to record an impairment charge upon completion of the initial impairment test

Cost in excess of net assets acquired is reviewed for impairment at least annually The cost in excess of net assets acquired impairment test is a two-step test Under the first step, the fair value of the reporting unit is compared with its carrying value (including cost in excess of net assets acquired) If the fair value of the reporting unit is less than its carrying value, an indication of cost in excess of net assets acquired impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement) Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's cost in excess of net assets acquired over the implied fair value of that cost in excess of net assets acquired The implied fair value of cost in excess of net assets acquired is determined by allocating the fair value of the reporting unit in a manner similar to a purchased price allocation and the residual fair value after this allocation is the implied fair value of the reporting units cost in excess of net assets acquired Fair value of the reporting unit is determined using a discounted cash flow analysis If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed No impairment loss was required to be recognized in 2011

The FASB issued ASU 2011-08, *Testing Goodwill for Impairment,* in September 2011 ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step test for impairment of goodwill as described in note 1(j) If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit FMOLHS expects to adopt this ASU in fiscal 2012

(k) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset Net interest expense capitalized was $4,917 and $6,207 for the years ended June 30, 2011 and 2010, 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, FMOLHS first compares the undiscounted future cash flows expected to be generated by the asset 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 FMOLHS's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and/or the use of actuarial information

(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 agreements, and gains and losses on asset disposals are reported as nonoperating gains or losses

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

(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

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

(p) Charity Care

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

The FMOLHS Affiliates maintain records to identify and monitor the level of charges forgone that are associated with the charity care they provide Charges forgone, based on established rates, totaled approximately $32,084 and $31,433 for the years ended June 30, 2011 and 2010, respectively

(q) Income Taxes

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

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

(r) Asset Retirement Obligations

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

(s) Fair Value Measurements

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

FMOLHS also follows FASB ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which amended Topic 820 ASU 2010-06 requires that FMOLHS provide additional enhanced disclosures related to its fair value measurements

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

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

(t) Fair Value Option

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

(u) New Accounting Pronouncements

Recently Adopted

In January 2010, the FASB issued ASU 2010-07, *Not-for-Profit Entities Mergers and Acquisitions*, which amends ASC 958, *Not-for-Profit Entities* (NFP) The amendments in this standard provide guidance on accounting for combinations of NFPs It defines a merger of NFPs as one in which one NFP cedes control to another NFP In the case of a merger, the carryover method applies, which requires combining the assets and liabilities as of the merger date Combinations are accounted for as acquisitions when consideration is transferred to the former owner or designee Acquisitions are accounted for by applying fair market values to acquired assets and liabilities, including identifiable intangible assets and the recognition of goodwill in the case of NFPs with operations not predominantly supported by contributions Any resulting goodwill is analyzed for impairment annually or if business conditions indicate an analysis is necessary, and is no longer amortized The guidance requires that noncontrolling ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet within net assets, but separate from the parent's net assets In addition, the standard requires that a consolidated schedule of changes in net assets attributable to the parent and noncontrolling interests be provided for each class of net assets for which a noncontrolling interest exists during the reporting period FMOLHS adopted ASU 2010-07 in fiscal year 2011, and has restated its previously presented fiscal 2010 consolidated financial statements to reflect the new presentation of noncontrolling interests

In August 2008, the FASB issued ASC Topic 958, *Classification of Donor-Restricted Endowment Funds, Subject to UPMIFA* 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 FMOLHS's adoption of this standard did not have a significant impact on the consolidated financial statements

Recently Issued

The FASB issued ASU 2010-23, *Health Care Entities (Topic 954) Measuring Charity Care for Disclosure,* in August 2010 ASU 2010-23 amends ASC Subtopic 954-605, *Health Care Entities-Revenue Recognition,* to require that cost be used as the measurement basis for charity care disclosure purposes The method used to estimate such costs as well as any funds received to offset or subsidize charity services provided should also be disclosed FMOLHS expects to adopt this ASU in fiscal year 2012

The FASB issued ASU 2010-24, *Health Care Entities* (Topic 954) *Presentation of Insurance Claims and Related Insurance Recoveries* in August 2010 ASU 2010-24 amends ASC Subtopic 954-450, *Health Care Entities-Contingencies*, to clarify that a healthcare entity should not net insurance recoveries against a related liability and the claim liability should be determined without consideration of insurance recoveries The ASU is effective for FMOLHS's fiscal year 2012

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* This ASU will change FMOLHS's presentation of provision for uncollectible accounts in the consolidated statements of operations from operating expenses to a deduction from net patient service revenue It also expands disclosures regarding policies for recognizing revenue, assessing contra revenue line items, and activity in the allowance for uncollectible accounts The ASU is effective for FMOLHS's fiscal year 2013

(v) ***Current Economic Environment***

The U S economy appears to be slowly recovering from the downturn of the past several years FMOLHS monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective While FMOLHS was able to achieve certain objectives of importance in the current economic environment, management recognizes that economic conditions may continue to impact FMOLHS in a number of ways, including (but not limited to) uncertainties associated with U S financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2011 Potential impacts of ongoing healthcare industry transformation include, but are not limited to

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

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

(In thousands)

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

Short-term investments consist of the following

		2011	2010
Equity securities			
U S companies	$	1,393	9,012
International companies		1,735	1,137
Real assets		910	484
Fixed income securities			
U S government guaranteed		43	82
U S agency		542	694
Corporate		2,275	1,909
Municipal		155	131
Other		3,620	2,786
Alternative asset funds			
Hedge funds		5,141	2,764
Private equity funds		2,025	919
Comingled funds			
Equity funds		2,370	1,583
Fixed income funds		237	988
Real asset funds		808	506
Total	$	21,254	22,995

(In thousands)

The composition of assets limited as to use at June 30, 2011 and 2010 is as follows

	2011				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Cash	$ 88,676	25,351	2,156	3,052	119,235
Equity securities					
U S companies	46,108	—	3,124	4,437	53,669
International companies	57,481	—	—	149	57,630
Real assets	30,136	—	—	—	30,136
Fixed income securities					
U S Government guaranteed	1,411	—	4,682	—	6,093
U S agency	11,145	—	10,734	325	22,204
Mortgage-backed	—	—	—	—	—
Corporate	29,931	—	—	1,519	31,450
Municipal	1,347	—	—	—	1,347
Other	47,473	—	—	1,264	48,737
Alternative asset funds					
Hedge funds	170,336	—	—	103	170,439
Private equity funds	67,087	—	—	—	67,087
Comingled funds					
Equity funds	78,535	—	—	—	78,535
Fixed income funds	7,852	—	—	—	7,852
Real asset funds	26,726	—	—	—	26,726
Accrued interest	403	—	3	—	406
	664,647	25,351	20,699	10,849	721,546
Less amounts classified as current	6,946	23,234	—	581	30,761
Noncurrent portion	$ 657,701	2,117	20,699	10,268	690,785

(Continued)

(In thousands)

	2010				
	Board-designated for capital	Trusteed bond funds	Self-insurance trust funds	Other	Total
Cash	$ 73,187	29,197	1,767	2,789	106,940
Equity securities					
U S companies	60,483	—	2,188	3,320	65,991
International companies	53,242	—	—	—	53,242
Real assets	22,656	—	—	—	22,656
Fixed income securities					
U S Government guaranteed	3,813	—	5,724	—	9,537
U S agency	15,253	—	7,815	—	23,068
Mortgage-backed	—	—	—	—	—
Corporate	29,797	—	—	—	29,797
Municipal	817	—	—	—	817
Other	23,908	20,460	—	2,332	46,700
Alternative asset funds					
Hedge funds	129,475	—	—	—	129,475
Private equity funds	43,031	—	—	—	43,031
Comingled funds					
Equity funds	74,099	—	—	—	74,099
Fixed income funds	46,254	—	—	—	46,254
Real asset funds	23,696	—	—	—	23,696
Accrued interest	271	—	1	—	272
	599,982	49,657	17,495	8,441	675,575
Less amounts classified as current	9,146	23,063	—	759	32,968
Noncurrent portion	$ 590,836	26,594	17,495	7,682	642,607

(a) Board-Designated for Capital

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

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

(b) Alternative Assets

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

(In thousands)

		2011	2010
Alternative assets			
Hedge funds	$	175,580	132,239
Private equity		69,112	43,950
Commingled funds		116,528	147,126
Total alternative assets	$	361,220	323,315

At June 30, 2011, FMOLHS's remaining outstanding commitments to private equity interests totaled $52,629 The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below

		Projected capital calls
Fiscal year		
2012	$	17,253
2013		14,847
2014		10,244
2015		5,836
2016		3,121
Thereafter		1,327
	$	52,629

Private equity interests have 10-year terms, with extensions of 1 to 4 years As of June 30, 2011, the average remaining life of the private equity interests is approximately 8 9 years

At June 30, 2011 and 2010, FMOLHS had hedge fund investments of $175,580 and $132,239, respectively, which were restricted from redemption for lock-up periods Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days notice after the initial lock-up period

(In thousands)

Based upon the terms and conditions in effect at June 30, 2011, FMOLHS's hedge fund investments can be redeemed or sold as follows

		Amount
Fiscal year		
2012	$	151,040
2013		16,671
2014		—
2015		—
2016		—
2017 – 2021		—
Thereafter		7,869
Total	$	175,580

(c) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations The consolidated trusteed bond funds as of June 30, 2011 and 2010 consist of the following categories

		2011	2010
Construction funds	$	1,755	26,594
Principal and interest funds		23,596	23,063
		25,351	49,657
Less amounts classified as current		23,234	23,063
Noncurrent portion	$	2,117	26,594

The above funds were established in accordance with related indentures to secure the payment of principal and interest on the related obligations, and to pay or reimburse the FMOLHS Affiliates for payment of the costs of the acquisition, construction, and installation of certain extensions and improvements to their facilities Amounts classified as current represent funds deposited to pay current costs of construction projects and to pay related debt service costs classified as current liabilities Information regarding FMOLHS's debt obligations is included in note 9

(d) *Self-insurance Trust Funds*

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

(In thousands)

Other assets limited as to use as of June 30, 2011 and 2010 consist of the following

		2011	2010
Scholarships – limited by donor	$	217	229
Healthcare services – limited by donor		9,361	6,921
Resident deposits		104	109
Escrow, security deposits, and surplus cash		258	255
Capital improvement – limited by grantor agency		909	927
		10,849	8,441
Less amounts classified as current		581	759
	$	10,268	7,682

All investments are considered "trading" for accounting purposes All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of unrestricted revenues, gains, and other support in excess of expenses and losses The following schedule for the years ended June 30, 2011 and 2010 summarizes the investment return and its classification in the consolidated statements of operations

		Unrestricted	Temporarily restricted	Total
2011				
Dividends and interest, net of expenses of $2,299	$	4,367	1	4,368
Realized and unrealized gains, net		114,903	35	114,938
Investment return	$	119,270	36	119,306
2010				
Dividends and interest, net of expenses of $2,393	$	6,025	2	6,027
Realized and unrealized gains, net		70,562	17	70,579
Investment return	$	76,587	19	76,606

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

(In thousands)

(3) Other Current Assets

The composition of other current assets at June 30, 2011 and 2010 follows

		2011	2010
Due from third-party payors	$	730	83
Other receivables		13,028	16,920
Inventories		22,820	22,070
Prepaid expenses and other current assets		21,641	22,848
Assets whose use is limited, required for current liabilities		30,761	32,968
Other		—	197
	$	88,980	95,086

(4) Property and Equipment

A summary of property and equipment as of June 30, 2011 and 2010 is as follows

		2011	2010	Estimated useful lives
Land	$	120,319	122,289	—
Land improvements		15,409	15,450	2 – 40 years
Buildings and building improvements		831,495	692,048	4 – 50 years
Fixed equipment		110,872	109,811	3 – 50 years
Movable equipment		536,745	479,873	3 – 25 years
Leasehold improvements		7,586	7,151	5 – 15 years
Building and building improvements held for lease		3,543	3,543	2 – 22 years
Construction in progress		29,306	163,612	
		1,655,275	1,593,777	
Less accumulated depreciation		710,983	753,997	
	$	944,292	839,780	

At June 30, 2011, the FMOLHS Affiliates were obligated under purchase commitments of $268,000 relating to the completion of various construction projects and purchases of equipment Approximately $6,606 and $10,953 related to such projects and other property additions are included in accounts payable at June 30, 2011 and 2010, respectively

Lourdes placed a new hospital and related facilities in service in fiscal year 2011 In June 2011, Lourdes reclassified depreciated assets related to its former operating facility and the surrounding medical office buildings and parking towers as assets held for sale on the consolidated financial statements Such assets were previously reported in property and equipment, net At June 30, 2011, Lourdes had $15,055 classified as assets held for sale Lourdes expects to complete the sale of these assets during fiscal 2012

(In thousands)

(5) Other Assets

The composition of other assets at June 30, 2011 and 2010 follows

		2011	2010
Unamortized bond issuance costs, net of accumulated amortization	$	7,262	7,446
Investments in equity investees		64,034	62,136
Cost in excess of net assets acquired		13,236	13,242
Fair value of interest rate swap agreements		8,478	6,714
Other		13,053	8,283
	$	106,063	97,821

(In thousands)

(6) Investment in Equity Investees

A summary of the FMOLHS Affiliates investment in equity investees at June 30, 2011 and 2010 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2011 and 2010 are as follows

	Ownership interest	Investments in equity investees	Equity in income (deficit) from investees, net
2011			
Convenient Care, LLC	50%	$ 2,079	443
Capital Area Shared Service Organization	48	466	(15)
Regional Eye Surgery Center	14	193	229
Baton Rouge Physical Therapy-Lake	29	468	170
Baton Rouge Physical Therapy-STE	4	56	21
Surgical Specialty Center of Baton Rouge, LLC	49	24,028	3,186
Perkins Plaza ASC	46	721	293
P&S Surgery Center, LLC	50	12,368	2,039
Northeast Louisiana Cancer Institute, LLC	50	3,081	695
Northeast Louisiana Physician Hospital Organization	25	182	26
St Francis Pediatric After Hours Clinic, LLC	50	124	26
Louisiana Home Care of Monroe, LLC	33	97	46
Lourdes After Hours, LLC	50	473	142
Louisiana Health Care Group, LLC	33	99	70
Park Place Surgery Center	45	16,334	3,500
Capital Area Shared Services	17	170	—
Mary Bird Perkins Cancer Center	35	3,095	80
		$ 64,034	10,951

(In thousands)

	Ownership interest	Investments in equity investees	Equity in income from investees, net
2010			
Convenient Care, LLC	50%	$ 1,789	1,386
Regional Eye Surgery Center	14	149	276
Baton Rouge Physical Therapy	33	504	197
Perkins Plaza ASC	47	896	221
Surgi-Center Limited Partnership	12	—	70
Surgical Specialty Center of Baton Rouge, LLC	49	24,241	3,104
P&S Surgery Center, LLC	50	11,889	1,793
Northeast Louisiana Cancer Institute, LLC	50	2,787	591
Northeast Louisiana Physician Hospital Organization	25	156	14
St Francis Pediatric After Hours Clinic, LLC	50	97	9
Louisiana Home Care of Monroe, LLC	33	76	24
Lourdes After Hours, LLC	50	332	80
Louisiana Health Care Group, LLC	33	112	63
Park Place Surgery Center	45	16,047	2,302
Mary Bird Perkins Cancer Center	35	3,061	60
		$ 62,136	10,190

(7) Lines of Credit

At June 30, 2011, FMOLHS Affiliates had various unsecured working capital lines of credit with banks with the aggregate capacity of $53,200, bearing interest at variable rates expiring at various dates through December 2011 Outstanding amounts at June 30, 2011 and June 30, 2010 were $4,650 and $5,158, respectively FMOLHS Affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions

(In thousands)

(8) Other Current Liabilities

The composition of other current liabilities at June 30, 2011 and 2010 follows

		2011	2010
Accrued salaries and related expenses	$	58,466	51,222
Accrued interest		9,899	10,656
Accrued expenses and other current liabilities		85,126	64,577
	$	153,491	126,455

(9) Long-term Debt

A summary of long-term debt at June 30, 2011 and 2010 is as follows

		2011	2010
Obligated Group bonds			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds, due in varying installments through 2026 with interest fixed at rates ranging from 5 50% to 5 75%	$	57,620	65,420
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 50% to 5 00%, respectively), due in varying installments through 2017		27,050	31,050
Louisiana Public Facilities Authority Hospital Bonds Series 2005A, $80,000 tax-exempt bonds, due in varying installments from 2032 through 2037, with interest fixed at rates ranging from 5 00% to 5 25%		80,000	80,000
Louisiana Public Facilities Authority Hospital Bonds Series 2005B, $50,000 tax-exempt bonds, due in varying installments from fiscal year 2014 through 2031, which bear interest at a variable rate (0 09% at June 30, 2011)		50,000	50,000
Louisiana Public Facilities Authority Hospital Bonds Series 2005C, $50,000 tax-exempt bonds, due in varying installments from fiscal year 2014 through 2031, with interest fixed at a rates ranging from 4 00% to 6 75%		50,000	50,000

(In thousands)

	2011	2010
Louisiana Public Facilities Authority Hospital Bonds Series 2005D, $88,325 bonds due in varying installments through 2029, which bear interest at a variable rate (0 04% at June 30, 2011)	82,526	85,475
Louisiana Public Facilities Authority Hospital Bonds Series 2008A, $47,185 bonds, due in varying installments through fiscal year 2026, which bear interest at a variable rate (0 08% at June 30, 2011)	46,650	46,815
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2009A, $125,000 bonds, due in varying installments from fiscal year 2029 through 2040, with interest fixed at rates ranging from 6 625% to 6 750%	125,000	125,000
	518,846	533,760
Add unamortized premium	411	492
Total Obligated Group bonds	519,257	534,252
Other debt – Our Lady of the Lake Regional Medical Center		
Mortgage payable in monthly installments of $23, including interest at 9%, through May 1, 2033, secured by land, building and equipment	2,609	2,646
Mortgage payable in monthly installments of $33, including interest at 6 8%, through December 2012, secured by land, building and equipment	3,209	3,375
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	3,167	3,307
Other debt – Our Lady of Lourdes Regional Medical Center		
Note payable, payable upon demand, including interest at 5 5%, maturing April 2013, secured by equipment, inventory and accounts receivable	938	1,411
Note payable, due in monthly installments of $7, including interest at 5 75%, through January 2013 secured by 1 1 acres of property	158	250
Note payable, payable upon demand, including interest at 7 75%, maturing February 2011, secured by equipment	—	265

(Continued)

(In thousands)

	2011	2010
Note payable, payable upon demand, including interest at 3 25% maturing April 2016, secured by equipment	890	—
Note payable, payable upon demand, including interest at 4 42%, maturing December 2014, secured by equipment	1,479	—
Other debt – St Elizabeth		
Note payable in monthly installments of $51, including interest at 5 15%, through October 15, secured by land, building and equipment	4,587	—
Total long term debt	536,294	545,506
Less current installments of long term debt	17,585	66,069
	$ 518,709	479,437

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (see note 2) The total debt subject to the Obligated Group guarantee and Master Trust Indenture amounted to $519,257 and $534,252 as of June 30, 2011 and 2010, respectively

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group None of the bonds is 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 systemwide 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 2005C in the amounts of $50,000 each), and $89,325 in variable rate Revenue and Refunding bonds (Series 2005D) The variable rate bonds were issued as auction rate securities The four bond issues total $269,325, of which approximately $83,000 represents refunding of existing bonds and the remainder of approximately $186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions

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

(In thousands)

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

In addition to the issuance of the 2009 Series, FMOLHS (i) converted the interest rate from the daily variable interest modes to a fixed rate on the Series 1998B and (ii) converted the interest rate from the weekly variable interest modes top a fixed rate on the Series 2005C FMOLHS recorded a loss of $542 in 2010 related to the conversions

FMOLHS and FMOLHS Affiliates made cash payments for interest totaling $25,424 and $19,676 during the years ended June 30, 2011 and 2010, respectively

Aggregate maturities of long-term debt at June 30, 2011 follow

Year ending June 30		
2012	$	17,585
2013		18,394
2014		13,570
2015		13,938
2016		19,036
Thereafter		453,360
	$	535,883

(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

(In thousands)

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

FMOLHS entered into an interest rate swap agreement with Merrill Lynch Capital Services with respect to the 2005D refunding series Such agreement is intended to reduce the impact of changes in interest rates on the variable rate debt The swap agreement effectively changes FMOLHS's interest rate exposure on the 2005D variable rate debt to a fixed rate of 3 53%

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advance refund the approximately $48,000 of 1998A and 1998C bonds In 2005, FMOLHS entered into a forward starting interest rate swap agreement with Goldman Sachs Capital Markets to effectively change FMOLHS's interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3 66%

In June 2007, FMOLHS entered into two Constant Maturity Swaps (CMS) with Merrill Lynch Under these swap agreements, FMOLHS receives variable rate payments based on the 10-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

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations The net unrealized gain (loss) on the interest rate swaps for the years ended June 30, 2011 and 2010 was $4,676 and $(5,412), respectively, and is included in nonoperating gains in the accompanying consolidated statements of operations

The following is a summary of the contracts outstanding at June 30, 2011 and 2010 and are recorded, as applicable, in either other assets or other long-term liabilities

June 30, 2011								
Related bond issuance		Notional amount	Maturity date	Average rate paid	Average rate received		Increase (decrease) in interest expense	Swap fair value
2005D	$	82,525	7/1/2028	3 53%	0 18%	$	2,763	(8,589)
2005D		82,525	7/1/2028	0 18	1 84		(1,370)	5,147
2008A		48,625	7/1/2025	3 66	0 18		1,690	(5,898)
2008A		48,625	7/1/2025	0 18	1 84		(807)	3,331

(In thousands)

June 30, 2010						
Related bond issuance	Notional amount	Maturity date	Average rate paid	Average rate received	Increase (decrease) in interest expense	Swap fair value
2005D	$ 85,475	7/1/2028	3 53%	0 18%	$ 2,860	(10,453)
2005D	85,475	7/1/2028	0 18	2 21	(1,730)	4,118
2008A	48,850	7/1/2025	3 66	0 18	1,697	(6,945)
2008A	48,850	7/1/2025	0 18	2 21	(989)	2,596

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by time and purpose at June 30, 2011 and 2010 are available for the following purposes

	2011	2010
Healthcare services	$ 7,893	9,427
Elderly housing	8,039	8,162
Building and equipment acquisitions	116	146
Educational services	2,392	1,089
Other	169	53
	$ 18,609	18,877

Permanently restricted net assets at June 30, 2011 and 2010 totaled $5,516 and $5,505, respectively, the income from which is restricted for educational services

Net assets released from restrictions for the years ended June 30, 2011 and 2010 are as follows

	2011	2010
Healthcare services	$ 4,785	5,118
Elderly housing	125	117
Building and equipment acquisitions	16	—
Educational services and other	563	1,237
	$ 5,489	6,472

(12) Net Patient Service Revenue

The FMOLHS Affiliates have agreements with governmental and other third-party payors that provide for reimbursement to the FMOLHS Affiliates at amounts different from their established rates Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors A summary of the basis of reimbursement with major third-party payors 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 FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2004 to June 30, 2007 Revenue from the Medicare program accounted for approximately 26% and 27% of FMOLHS's net patient service revenue for the years ended June 30, 2011 and 2010, respectively

(b) ***Medicaid***

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary The FMOLHS Affiliates' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2004 to June 30, 2009 Revenue from the Medicaid program accounted for approximately 6% and 8% of FMOLHS's net patient service revenue for the years ended June 30, 2011 and 2010, respectively

(c) ***Blue Cross***

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates Outpatient services are paid based on a fee schedule Revenue from the Blue Cross program accounted for approximately 22% and 19% of FMOLHS's net patient service revenue for the years ended June 30, 2011 and 2010, 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

(Continued)

(In thousands)

The FMOLHS Affiliates' net patient service revenue for the years ended June 30, 2011 and 2010 increased $6,485 and $1,295, 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 of amounts comprising net patient service revenue for the years ended June 30, 2011 and 2010

	2011	2010
Inpatient revenue	$ 1,588,224	1,506,321
Outpatient revenue	1,281,776	1,129,699
Gross patient service revenue	2,870,000	2,636,020
Less provisions for contractual and other adjustments	1,507,078	1,428,897
Net patient service revenue	$ 1,362,922	1,207,123

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

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

(13) Business and Credit Concentrations

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

(In thousands)

The mix of accounts receivable from patients and third-party payors at June 30, 2011 and 2010 is as follows

	2011	2010
Medicare	21%	24%
Medicaid	11	13
Blue Cross	15	12
Self-pay	23	22
Managed care/other	30	29
	100%	100%

(14) Related-party Transactions

The FMOL Sisters formed the Franciscan Fund (Fund) to support community programs in the operating areas of the FMOLHS hospitals Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund During 2011 and 2010, FMOLHS made no contributions to the Fund

(In thousands)

(15) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans) The following table at June 30, 2011 and 2010 sets forth, in the aggregate, the plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans

		2011	2010
Change in benefit obligation			
Projected benefit obligation, beginning of year	$	578,008	459,878
Service cost		23,847	18,759
Interest cost		31,394	29,476
Actuarial (gains) losses		(35,715)	70,612
Merger of specialty plan		4,191	—
Plan amendments		—	10,509
Benefits paid		(13,090)	(11,226)
Projected benefit obligation, end of year		588,635	578,008
Change in plan assets			
Fair value of plan assets, beginning of year		335,853	273,200
Actual return on plan assets		55,705	45,977
Contributions made		36,352	27,902
Merger of plans		3,986	—
Other		(6,174)	—
Benefits paid		(13,090)	(11,226)
Fair value of plan assets, end of year		412,632	335,853
Funded status	$	(176,003)	(242,155)
Amounts recognized in the consolidated balance sheets consist of			
Accrued pension cost	$	(176,003)	(242,155)
Unrestricted net assets		93,413	169,260
Amounts recognized in unrestricted net assets			
Prior service cost	$	(2,019)	(2,255)
Net actuarial loss		95,432	171,515
	$	93,413	169,260

(Continued)

(In thousands)

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2011 and 2010 were as follows

	2011	2010
Weighted average discount rate	5 75%	5 50%
Rate of compensation increase	3 50%–4 25%	4 00

Net periodic pension cost for the years ended June 30, 2011 and 2010 includes the following components

		2011	2010
Service cost, benefits earned during the year	$	23,847	18,759
Interest cost on projected benefit obligation		31,394	29,476
Expected return on plan assets		(26,585)	(21,601)
Amortization of actuarial losses		11,451	7,280
Amortization of prior service cost		(236)	24
Net periodic pension cost		39,871	33,938
Other changes in plan assets and benefit obligations recognized in unrestricted net assets			
Net actuarial (gain) loss		(64,633)	59,031
Amortization of net actuarial losses		(4,283)	(7,280)
Amortization of prior service cost		134	—
Prior service credit		(7,065)	(2,310)
Other		6,174	—
		(69,673)	49,441
Total recognized in net periodic benefit costs and unrestricted net assets	$	(29,802)	83,379

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2011 and 2010 were as follows

	2011	2010
Weighted average discount rate	5 50%	6 50%
Expected return on plan assets	8 00	8 00
Rate of compensation increase	4 00	4 00

(In thousands)

The defined benefit pension plan asset allocation as of the measurement date (June 30, 2011 and 2010) and the target asset allocation, presented as a percentage of total plan assets, were as follows

	2011	**2010**	**Target allocation**
Equity securities	24%	21%	36% – 55%
Alternative investments	52	50	15% – 41%
Fixed income	13	17	20% – 30%
Cash	11	12	0% – 5%

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

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

(In thousands)

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2011

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Asset category				
Equity securities				
U S companies	$ 39,555	—	—	39,555
International companies	39,772	—	—	39,772
Real assets	16,750	—	—	16,750
Fixed income securities				
U S government guaranteed	1,511	—	—	1,511
U S agency	—	10,061	—	10,061
Corporate	—	28,401	—	28,401
Municipal	—	1,179	—	1,179
Other	11,285	2,566	—	13,851
Comingled funds				
Equity funds	—	12,602	—	12,602
Real asset funds	—	14,686	—	14,686
Total – categorized	$ 108,873	69,495	—	178,368
Investments accounted for using the equity method and cash – uncategorized				234,264
				$ 412,632

(Continued)

(In thousands)

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

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Asset category	$			
Equity securities				
U S companies	31,406	—	—	31,406
International companies	29,871	—	—	29,871
Real assets	7,405	—	—	7,405
Fixed income securities				
U S government guaranteed	1,709	—	—	1,709
U S agency	—	12,400	—	12,400
Corporate	—	23,792	—	23,792
Municipal	—	636	—	636
Other	11,190	1,709	—	12,899
Comingled funds				
Equity funds	—	8,978	—	8,978
Real asset funds	—	6,290	—	6,290
Total	$ 81,581	53,805	—	135,386
Investments accounted for using the equity method – uncategorized				200,467
				$ 335,853

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

As of June 30, 2011 and 2010, the plans had accumulated benefit obligations (ABO) of $517,259 and $492,731, respectively At June 30, 2011 and 2010, the fair value of plan assets falls short of the ABO by $104,627 and $156,878, respectively

FMOLHS does not expect to make contributions to the defined benefit pension plans in fiscal year 2012

(In thousands)

The estimated net gain (loss) and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $(13,452) and $(313), respectively

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2011 are as follows

Year ending June 30		
2012	$	15,322
2013		17,362
2014		19,661
2015		21,854
2016		24,500
2017 – 2021		166,406

(b) *Defined Contribution Plans*

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

Effective July 1, 2006, the defined benefit pension plan was closed to new entrants in 2006 and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan) Substantially, all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates Contribution expense of $6,013 and $4,200 was recorded for the years ended June 30, 2011 and 2010, respectively

(c) *Retiree Medical Plan*

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006 Costs are accrued for this plan during the service lives of covered employees Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder The healthcare plan is funded on a pay-as-you-go basis Lourdes retains the right to modify or terminate the benefits and/or cost sharing provisions The accrued liability for such benefits was approximately $1,022 at June 30, 2011 and 2010, and is included in other long-term liabilities

(Continued)

(In thousands)

(16) Functional Expenses

The FMOLHS Affiliates provide healthcare and other services to residents within its service area Expenses related to providing these services for the years ended June 30, 2011 and 2010 are as follows

		2011	2010
Healthcare services	$	920,411	888,544
General and administrative		375,157	359,599
Educational services		21,639	21,071
Fund-raising		2,167	3,191
	$	1,319,374	1,272,405

(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, 2011 and 2010

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2011 and 2010 are summarized as follows

		2011		2010	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Liabilities – long-term debt	$	536,294	553,203	545,506	569,427

(In thousands)

(b) *Fair Value Hierarchy*

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011 and 2010

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Equity securities				
U S companies	$ 55,062	—	—	55,062
International companies	59,365	—	—	59,365
Real assets	31,046	—	—	31,046
Fixed income securities				
U S government guaranteed	6,136	—	—	6,136
U S agency	—	22,422	—	22,422
Mortgage-backed	—	—	—	—
Corporate	—	32,206	—	32,206
Municipal	—	1,502	—	1,502
Other	46,052	7,042	—	53,094
Alternative asset funds				
Hedge funds	—	103	—	103
Interest rate swaps	—	8,478	—	8,478
Total – categorized	$ 197,661	71,753	—	269,414
Assets limited as to use and short-term investments accounted for using the equity method cash and interest accrued – uncategorized				451,103
				$ 720,517
Liabilities				
Interest rate swaps	$ —	14,487	—	14,487

 (Continued)

(In thousands)

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Equity securities				
U S companies	$ 75,002	—	—	75,002
International companies	54,379	—	—	54,379
Real assets	23,140	—	—	23,140
Fixed income securities				
U S government guaranteed	9,619	—	—	9,619
U S agency	—	23,761	—	23,761
Mortgage-backed	—	—	—	—
Corporate	—	31,706	—	31,706
Municipal	—	949	—	949
Other	22,101	26,170	—	48,271
Alternative asset funds				
Hedge funds	—	86	—	86
Interest rate swaps		6,715		6,715
Total – categorized	$ 184,241	89,387	—	273,628
Assets limited as to use and short-term investments accounted for using the equity method cash and accrued interest - uncategorized				408,662
				$ 682,290
Liabilities				
Interest rate swaps	$ —	17,398	—	17,398

The Medical Center's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer There were no significant transfers into or out of level 1, level 2, or level 3 for the years ended June 30, 2011 or 2010

The investments classified as Level 2 are as follows

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

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

(c) Limitations

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

(18) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are self-insured for the first $100 of professional liability per occurrence, additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expense provided by law) FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer As of June 30, 2011, FMOLHS has significant excess insurance coverage in place for general and professional liability risks, with a $2,000 layer of self-insurance retention for professional liability and $1,000 layer of self-insurance retention for general liability, with a $6,000 aggregate Incurred losses identified under FMOLHS's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries The reserve for estimated professional and general liability costs is approximately $25,587 and $26,354 as of June 30, 2011 and 2010, respectively Claims liabilities are estimated at the present value of future claims payments using a discount rate of 3% at June 30, 2011

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2011 To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured Management believes, based on incidents identified through FMOLHS's incident reporting system, that any such claims would not have a material effect on FMOLHS's results of operations or financial position In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires

FMOLHS is also self-insured with respect to employee health coverage (up to a $500 limit per claim) and workers' compensation (up to a limit of $350 per individual claim) Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program The employee health self-insured reserves are approximately $10,022 and $10,401 as of June 30, 2011 and 2010, respectively, and are included in other current liabilities in the consolidated balance sheets The workers' compensation reserves are approximately $11,438 and $10,618 as of June 30, 2011 and 2010, respectively, and are included in other current liabilities in the consolidated balance sheets

(In thousands)

(19) Commitments and Contingencies

(a) Investments

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

(b) Leases

Rental expense for all operating leases totaled $8,210 and $7,740 for the years ended June 30, 2011 and 2010, respectively Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2011 follow

Year ending June 30		
2012	$	3,558
2013		1,645
2014		1,289
2015		1,104
2016		784
Thereafter		369
	$	8,749

 (Continued)

(In thousands)

As of June 30, 2011, the Lake, St Francis, Lourdes, and St Elizabeth were obligated under various capital leases, each with noncancelable terms in excess of one year Future minimum lease payments as of June 30, 2011 are as follows

Year ending June 30		
2012	$	5,462
2013		5,628
2014		4,742
2015		4,008
2016		3,668
Total minimum lease payments		23,508
Less amounts representing interest (rates ranging from 6 0% to 14 5%)		2,016
Present value of future minimum lease payments		21,492
Less current portion of capital lease obligations		4,649
Capital lease obligations excluding current portion	$	16,843

The net book value of assets under capital lease as of June 30, 2011 and 2010 was $25,169 and $9,351, respectively

For the years ended June 30, 2011 and 2010, FMOLHS entered into new capital leases for equipment in the amount of $14,817 and $2,513, respectively

In late 2010, the FASB issued for comment *Proposed Accounting Standards Update-Leases (Topic 840)* After receiving and considering significant feedback, the FASB intends to issue a related final ASU in calendar year 2012 This new guidance is expected to require FMOLHS to recognize virtually all of its leases in the consolidated balance sheet Assuming the ASU is in fact issued, adoption will cause considerable changes in the presentation of FMOLHS's debt and interest expense in its consolidated financial statements (among other things) Management is reviewing the implications of the proposed ASU for FMOLHS, including potential implications for many complex agreements and arrangements which might be impacted by this potential major accounting change While that work is ongoing, management is optimistic that there will not be material issues associated with important related matters, such as overall FMOLHS credit ratings or future debt covenant compliance

(c) Operating Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities, generally to medical staff members, under operating leases The terms of these leases range from month-to-month to 10 years Assets held for lease at June 30, 2011 and 2010 consist of buildings and improvements with an original cost of $166,186 and $170,636, respectively, and fixed equipment with an original cost of $11,758 and

(In thousands)

$14,346, respectively Total accumulated depreciation is $61,273 and $71,019 at June 30, 2011 and 2010, respectively Future minimum lease payments to be received at June 30, 2011 are as follows

Year ending June 30		
2012	$	10,491
2013		9,544
2014		9,193
2015		8,961
2016		4,470
Thereafter		14,179
	$	56,838

(d) St. Francis Specialty Hospital

St Francis has a leasing arrangement with St Francis Specialty Hospital (Specialty Hospital), a distinct and separate long-term care hospital with rentals based on square footage The lease requires St Francis to provide certain ancillary services, dietary services, housekeeping services, and additional management and other services based on St Francis' cost associated with Specialty Hospital's utilization This lease was effective June 1, 1995, and the original term was for two years, with automatic renewal of the lease for subsequent two-year terms unless written notice is given Rental income and management fee income related to the lease arrangement totaled $2,570 for the year ended 2010 Amounts due from Specialty Hospital at June 30, 2011 and 2010 were $627 and $4,746, respectively At June 30, 2011, St Francis had amounts due to Specialty Hospital at June 30, 2011 and 2010 of $22 and $15, respectively St Francis has also provided a guarantee of $2,100 on a bank line of credit for Specialty Hospital At June 30, 2010, there were no borrowings for Specialty Hospital against the line of credit, which expired on December 31, 2010 St Francis received $2,000 from Specialty Hospital in 2010 Additional payments were received during the year ended June 30, 2011 totaling $4,526 and resulting in income recognition of $1,667 St Francis has no recourse for this guarantee

In November 2008, the Specialty Hospital Board of Directors executed a nonbinding letter of intent to sell the assets and provider number of Specialty Hospital to a third party The sale was completed on June 25, 2010 As a result of the transaction, Specialty Hospital transferred to Extended Care its rights under the lease and services agreement Rental income and income related to the services agreement with Extended Care totaled $2,905 for the year ended June 30, 2011 Amounts due from Extended Care totaled $585 at June 30, 2011

(e) Community Health Center Lease

An amended lease was executed by St Francis for the Community Health Center (CHC) space during the year ended June 30, 1998 The amended lease provided for an expansion of the leased premises through construction of an addition to the CHC building by St Francis Ambulatory Services, Inc (SFASI) at the leased site The building was completed during the year ended June 30, 1999, and SFASI took occupancy of the building Concurrently, the lease term was extended through August 31, 2014, and annual rentals increased to $449 through September 2008 and the greater of $601 annually, or an increase based upon the CPI through termination of the lease

(f) *Perkins Plaza ASC*

The Lake's subsidiary, Perkins Plaza Medical Arts Development (PPMAD), has a lease with Perkins Plaza ASC, an equity investment, whereby PPMAD receives minimum rent of $815 per year subject to annual adjustments Monthly rental installments were $67 from January 2010 through December 2010 and $68 beginning in January 2011 The lease expires in January 2015

(g) *Asset Retirement Obligations*

FMOLHS recognizes obligations associated with the future retirement of long-lived assets Estimated asset retirement obligations of $3,386 and $3,318 as of June 30, 2011 and 2010, respectively, are classified as a long-term liability

(h) *Contingent Liabilities*

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

FMOLHS Affiliates, like other hospitals throughout Louisiana, is a defendant in cases where the plaintiff has developed Hepatitis C allegedly through blood transfusions administered at the hospital prior to the 1976 Medical Malpractice Act Thus, no $500 statutory cap exists relating to these claims, and damages could be significant Lourdes and the insurer that were 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 hospital's self-insurance reserves or insurance coverage and will not materially affect the financial position or results of operations of the hospital

During the fall of 2003, the Chief Executive Officer of Lourdes was advised by a physician with privileges at Lourdes that another physician with privileges at Lourdes, as well as other area hospitals, may have performed medically unnecessary procedures at Lourdes An internal investigation was immediately commenced Based on its internal investigation, management at Lourdes concluded that the allegations were credible and on November 11, 2003 (the Self-Reporting Date), reported the matter to the Office of the Inspector General (OIG) and the United States Attorney's Office in Lafayette, Louisiana (the Justice Department) Immediately after the Self-Reporting Date, staff privileges for the physician were revoked and Lourdes cooperated fully in the investigations of the OIG and the Justice Department by responding to subpoenas for medical records and by providing other information voluntarily

On August 16, 2006, Lourdes, without admitting or denying fault, agreed to pay $3,800 in full settlement of all claims by the federal and state governments relating to alleged violations of the False Claims Act As a component of this settlement, Lourdes also entered into a Corporate Integrity Agreement with the OIG to promote compliance with statutes, regulations, and written directives for Federal Health Care Programs

The Corporate Integrity Agreement (CIA) covers a period of five years and is structured to assure the federal government of Lourdes' overall Federal Health Care Program compliance and specifically covers improvements in compliance monitoring and the management and oversight of the Cardiac Catheterization Laboratory and related medical procedures Under the CIA, Lourdes has an affirmative obligation to report potential violations of applicable federal healthcare laws and regulations This obligation could result in greater scrutiny by regulatory authorities Breach of the CIA could subject Lourdes to substantial monetary penalties and/or exclusion from participation in the Medicare and Medicaid programs Any such sanctions or expenses could have a material adverse effect on Lourdes' financial position, results of operations, and liquidity

While the settlement agreement and CIA resolved this matter with respect to government regulatory authorities, it did not conclude the matter with respect to individual claimants Lourdes agreed to pay a total of $7,400 as part of a global settlement agreement with all current and future individual claimants On May 11, 2007, Lourdes settled with all but three of the individual claimants, who opted out of the global settlement agreement The cost of the global settlement was paid by Louise As of June 30, 2011, the three remaining claimants are awaiting evaluation by a Medical Review Panel

Under the laws of the State of Louisiana, any claim for damages resulting from medical malpractice must be reviewed by a Medical Review Panel unless waived by all parties A Medical Review Panel is charged with determining whether there has been a breach of the standard of care by a healthcare provider, as well as determining whether such breach caused damage to a claimant A Medical Review Panel does not establish the level of damages and is not the tier of fact All determinations made by the Medical Review Panel may be used in related lawsuits for evidentiary purposes only

Under the laws of the State of Louisiana, damages for negligence by qualified healthcare providers, such as Lourdes, relating to claims for medical malpractice are limited to $100, punitive damages are not recoverable in the State of Louisiana Any damages in excess of $100 for medical malpractice claims are payable from the Patients Compensation Fund created and established pursuant to the laws of the State of Louisiana, but in no event shall the amounts paid therefrom exceed $400 per claim

Damages for claims for intentional acts by qualified healthcare providers relating to medical malpractice have no limitation In addition, damages for claims for negligent credentialing of a physician by a qualified healthcare provider have no limitation

Management at Lourdes has denied that its actions or failure to act in connection with these matters were negligent or intentional, or that the credentialing of the physician was negligent Management at Lourdes has been advised by legal counsel that at this stage of litigation, it is not possible to estimate the extent of potential liability with respect to the remaining individual claimants

(In thousands)

(i) ***Regulatory Compliance***

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

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

(j) ***Information Technology Contract***

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

The following table summarizes FMOLHS's future payment commitments under the contract as of June 30, 2011

	Capitalized software obligation	Other
2012	$ 3,137	7,245
2013	3,137	7,245
2014	3,137	7,245
2015	3,137	7,245
2016	1,047	1,841
Total	13,595	$ 30,821
Less amounts representing interest at 6 74%	1,891	
Long-term obligation (included in other long-term liabilities)	$ 11,704	

(20) Cooperative Endeavor Agreement

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

- The Lake will construct a medical education building (MEB) to house LSU training programs (to be donated by the Lake to LSU at completion of construction), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center The Lake has recorded $19,000 in other long-term liabilities in the consolidated balance sheet as of June 30, 2011 and an associated other expense in the consolidated statement of operations for the year ended June 30, 2011 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB

- DHH will provide payments under a new reimbursement structure to the Lake, which together with the $129,000 payment described below are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that are generally expected to accompany the Lake's increased role in LSU's graduate medical education program

- During the year ended June 30, 2011, DHH submitted a State Plan Amendment that obligated itself to make supplemental Medicaid payments to the Lake equal to a total of $129,000 for the period October 1, 2009, through June 30, 2011 These amounts were received by the Lake during its fiscal 2011 and have been included in net patient services revenue for the year ended June 30, 2011 as a reduction in related contractual and other adjustments Additionally, the State Plan Amendment requires DHH to make payments under the new reimbursement structure discussed above for the ensuing two year period The amount of funds ultimately paid to the Lake under the new reimbursement structure will depend an on the actual level of Medicaid and uninsured patient volume that the Lake experiences as a result of their increased role and those amounts are not yet determinable

(21) Subsequent Events

FMOLHS has evaluated subsequent events from the consolidated balance sheet date through November 4, 2011, the date the consolidated financial statements were issued

SUPPLEMENTAL SCHEDULES

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

Consolidating Schedule – Balance Sheet Information

June 30 2011
(with comparative totals as of June 30 2010)

(In thousands)

Assets	Franciscan Missionaries of Our Lady Health System, Inc	Our Lady of the Lake Regional Medical Center, Inc and affiliated organizations	St Elizabeth Hospital	St Francis Medical Center Inc and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc and subsidiaries	Louise Insurance Co Ltd	Calais Health, LLC	PACE, Inc	Eliminations	Total 2011	Total 2010
Current assets											
Cash and cash equivalents	$ 5 012	152 778	13 874	20 024	10 455	13 264	136	2 652	—	218 195	78 691
Short term investments	2 056	15 214	3 254	2	—	—	728	—	—	21 254	21 780
Receivables											
Patients	—	136 549	17 014	41 346	45 178	—	—	138	—	240 225	225 935
Less allowance for uncollectible accounts	—	(32,964)	(7,373)	(10,571)	(13,533)	—	—	—	—	(64 441)	(56,088)
Net patient receivables	—	103 585	9 641	30 775	31 645	—	—	138	—	175 784	169 847
Other current assets	7,449	47,133	2,058	17,045	20,281	145	—	29	(5 160)	88,980	95,086
Total current assets	14 517	318 710	28 827	67 846	62 381	13 409	864	2 819	(5 160)	504 213	365 404
Noncurrent assets limited as to use	—	482 003	487	157 407	32 348	18 540	—	—	—	690 785	642 607
Property and equipment net	42 745	452 999	55 003	110 580	282 291	—	235	439	—	944 292	839 780
Property and equipment held for sale	—	—	—	—	15 055	—	—	—	—	15 055	—
Other assets	11,047	37,342	3,859	25,080	30,379	—	129	—	(1,773)	106,063	97 821
Total assets	$ 68 309	1,291,054	88,176	360 913	422 454	31,949	1,228	3,258	(6 933)	2 260,408	1 945,612
Liabilities and Net Assets											
Current liabilities											
Lines of credit	$ —	—	—	—	4 650	—	—	—	—	4 650	5 158
Current installments of long term debt	—	9 186	386	4 282	3 731	—	—	—	—	17 585	66 069
Current portion of capital lease obligations	—	1 723	664	403	1 859	—	—	—	—	4 649	3 573
Accounts payable	2 577	28 318	2 161	8 980	33 684	60	—	606	(899)	75 487	72 325
Other current liabilities	14,070	90,434	8,707	20 766	11 786	11,439	—	550	(4,261)	153 491	126,455
Total current liabilities	16 647	129 661	11 918	34 431	55 710	11 499	—	1 156	(5 160)	255 862	273 580
Professional and general liabilities	—	3 188	—	1 257	812	20 330	—	—	—	25 587	26 354
Long term debt excluding current installments	—	211 335	15 767	140 270	151 337	—	—	—	—	518 709	479 437
Capital lease obligations excluding current portion	—	1 683	942	1 149	13 069	—	—	—	—	16 843	5 122
Accrued pension cost	—	108 138	—	29 084	38 781	—	—	—	—	176 003	242 155
Other long term liabilities	26,931	19 536	—	2,299	2,741	—	—	1 275	—	52,782	37 314
Total liabilities	43 578	473,541	28,627	208 490	262 450	31 829	—	2 431	(5 160)	1 045,786	1 063,962
Net assets											
Unrestricted	24 731	791 619	59 299	151 325	152 950	120	1 228	710	(1 773)	1 180 209	848 125
Temporarily restricted	—	17 144	250	1 098	—	—	—	117	—	18 609	18 877
Permanently restricted	—	5,300	—	—	216	—	—	—	—	5 516	5,505
Total net assets attributable to Franciscan Missionaries of Our Lady Health System Inc	24 731	814 063	59 549	152 423	153 166	120	1 228	827	(1 773)	1 204 334	872 507
Noncontrolling interests	—	3,450	—	—	6,838	—	—	—	—	10,288	9 143
Total net assets	24,731	817,513	59,549	152,423	160,004	120	1,228	827	(1,773)	1,214,622	881 650
Total liabilities and net assets	$ 68,309	1,291,054	88,176	360,913	422,454	31,949	1,228	3,258	(6 933)	2,260,408	1 945,612

See accompanying independent auditors report

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30 2011
(with comparative totals for the year ended June 30 2010)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc	Our Lady of the Lake Regional Medical Center, Inc and affiliated organizations	St Elizabeth Hospital	St Francis Medical Center Inc and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc and subsidiaries	Louise Insurance Co Ltd	Calais Health, LLC	PACE, Inc	Eliminations	Total 2011	Total 2010
Changes in unrestricted net assets											
Unrestricted revenues											
Net patient service revenue	$ —	820 520	95 207	236 066	211 129	—	—	—	—	1 362 922	1 207 123
Other revenue	70 643	62 596	1 488	12 266	10 395	5 535	454	7 202	(84 262)	86 317	83 821
Equity in income from equity investees net	—	4,306	101	2,832	3,712	—	—	—	—	10,951	10,190
Total unrestricted revenues	70 643	887,422	96,796	251,164	225,236	5,535	454	7 202	(84 262)	1,460 190	1 301 134
Net assets released from restrictions used for operations											
Satisfaction of program restrictions	8	4 943	359	18	—	—	—	36	—	5 364	6 354
Expiration of time restrictions	—	125	—	—	—	—	—	—	—	125	118
Total net assets released from restrictions	8	5,068	359	18	—	—	—	36	—	5 489	6 472
Total unrestricted revenues and other support	70,651	892,490	97,155	251,182	225,236	5,535	454	7,238	(84,262)	1,465,679	1,307 606
Operating expenses											
Salaries and wages	30 360	255 118	38 110	92 078	65 666	—	263	1 920	—	483 515	454 901
Employee benefits	6,030	67 304	8 600	23 567	19,433	—	85	245	—	125 264	131 036
Total salaries wages and benefits	36 390	322 422	46 710	115 645	85 099	—	348	2 165	—	608 779	585 937
Provision for uncollectible accounts	—	66 880	12 592	8 414	20 352	—	—	—	—	108 238	102 392
Physician fees	—	10 657	73	3 380	14 079	—	—	—	—	28 189	25 226
Professional services	427	9 135	579	3 478	1 114	61	5	18	—	14 817	21 376
Other services	28 681	111 110	14 656	40 875	35 265	238	76	3 427	(77 331)	156 997	144 443
Leases insurance and utilities	3 321	20 120	2 927	9 641	8 322	6 151	60	492	(6 931)	44 103	43 124
Supplies and other	297	143 357	9 356	45 768	47 457	—	4	240	—	246 479	252 188
Depreciation and amortization	12 819	27 312	4 602	14 559	9 062	—	57	67	—	68 478	76 530
Interest	885	10 458	788	6 877	2 934	—	—	—	—	21 942	20 663
Other	7	19,955	—	517	871	—	—	2	—	21 352	526
Total operating expenses	82,827	741,406	92,283	249,154	224,555	6 450	550	6,411	(84 262)	1,319 374	1 272 405
Operating income (loss)	(12 176)	151,084	4,872	2,028	681	(915)	(96)	827	—	146 305	35,201

(Continued)

Schedule 2

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

Consolidating Schedule – Statement of Operations Information

Year ended June 30 2011
(with comparative totals for the year ended June 30 2010)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc	Our Lady of the Lake Hospital, Inc and Affiliated Organizations	St Elizabeth Hospital	St Francis Medical Center Inc and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc and subsidiaries	Louise Insurance Co Ltd	Calais Health, LLC	PACE, Inc	Eliminations	Total 2011	Total 2010
Nonoperating gains (losses)											
Investment return	102	83 025	277	27 862	7 068	915	21	—	—	119 270	76 587
Other	—	(3 492)	—	—	(972)	—	(173)	—	(58)	(4 695)	(2 644)
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	(542)
Change in fair value of interest rate swap agreement	4,676	—	—	—	—	—	—	—	—	4,676	(5,412)
Total nonoperating gains (losses) net	4 778	79 533	277	27 862	6 096	915	(152)	—	(58)	119 251	67 989
Noncontrolling interests	—	(650)	—	—	(2 494)	—	—	—	(1)	(3 145)	(2 329)
Unrestricted revenues gains and other support in excess of (less than) expenses and losses attributable to Franciscan Missionaries of Our Lady Health System Inc	(7 398)	229 967	5 149	29 890	4 283	—	(248)	827	(59)	262 411	100 861
Capital transfers (to) from FMOLHS	16 508	(7 419)	(1 332)	(2 646)	(4 990)	—	(18)	(2)	(101)	—	—
Pension related changes other than net periodic pension cost	—	41,118	—	10 001	18,554	—	—	—	—	69 673	(49,441)
Increase (decrease) in unrestricted net assets	$ 9,110	263,666	3 817	37,245	17 847	—	(266)	825	(160)	332 084	51,420

See accompanying independent auditors report

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

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30 2011
(with comparative totals for the year ended June 30 2010)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc	Our Lady of the Lake Hospital Inc and Affiliated Organizations	St Elizabeth Hospital	St Francis Medical Center Inc and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc and subsidiaries	Louise Insurance Co Ltd	Calais Health, LLC	PACE, Inc	Eliminations	Total 2011	Total 2010
Net assets beginning of year (as previously reported)	$ 15 621	554 280	56 054	115 160	140 650	120	1 494	(115)	(1 614)	881 650	819 952
Adjustment to present noncontrolling interests as required by new accounting standard	—	—	—	—	—	—	—	—	—	—	9,591
Net assets beginning of year (as adjusted)	15,621	554 280	56 054	115,160	140,650	120	1,494	(115)	(1,614)	881,650	829 543
Unrestricted revenues gains and other support in excess of (less than) expenses and losses attributable to FMOLHS	(7 398)	229 967	5 149	29 890	4 283	—	(248)	827	(59)	262 411	100 861
Capital transfers (to) from FMOLHS	16 508	(7 419)	(1 332)	(2 646)	(4 990)	—	(18)	(2)	(101)	—	—
Pension related changes other than net periodic pension cost	—	41 118	—	10,001	18,554	—	—	—	—	69,673	(49 441)
Increase (decrease) in unrestricted net assets	9,110	263,666	3,817	37,245	17 847	—	(266)	825	(160)	332 084	51 420
Changes in temporarily restricted net assets											
Contributions	—	4 987	45	—	—	—	—	153	—	5 185	7 140
Income from long term investments net	—	—	—	1	—	—	—	—	—	1	2
Net unrealized and realized loss on investments net	—	—	—	35	—	—	—	—	—	35	17
Net assets released from restrictions	—	(5 068)	(367)	(18)	—	—	—	(36)	—	(5 489)	(6 472)
Transfer (to) from unrestricted net assets due to clarification of donor intent	—	—	—	—	—	—	—	—	—	—	48
Increase (decrease) in temporarily restricted net assets	—	(81)	(322)	18	—	—	—	117	—	(268)	735
Changes in permanently restricted net assets – contributions	—	—	—	—	11	—	—			11	400
Changes in noncontrolling interest											
Unrestricted revenues gains and other support in excess expenses and losses	—	650	—	—	2 494	—	—	—	1	3 145	2 329
Distributions	—	(1 002)	—	—	(2 205)	—	—	—	—	(3 207)	(3 426)
Sale of noncontrolling interest	—	—	—	—	1,207	—	—	—	—	1,207	649
Changes in noncontrolling interest	—	(352)	—	—	1,496	—	—	—	1	1,145	(448)
Increase in net assets	9,110	263,233	3 495	37,263	19,354	—	(266)	942	(159)	332,972	52,107
Net assets end of year	$ 24,731	817,513	59 549	152,423	160,004	120	1,228	827	(1,773)	1,214,622	881 650

See accompanying independent auditors report

FMOLHS and the FMOLHS Affiliates are active, caring members of the communities they serve In carrying out its mission of meeting the health needs of the people of God, the Board of Directors has established a policy under which FMOLHS Affiliates provide care to needy members of their communities Following that policy, healthcare services costing $12,140 and $12,643 were provided without charge during the years ended June 30, 2011 and 2010, respectively Charges foregone, based on established rates, totaled $32,084 and $31,433 for the years ended June 30, 2011 and 2010, respectively

The FMOLHS Affiliates also participate in government programs including Medicare, Medicaid, and the TriCare program Under these programs, the FMOLHS Affiliates provide care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost In some cases, these programs pay the FMOLHS Affiliates at amounts, which are less than their cost of providing services The following table summarizes the amount of charges foregone (i e , contractual adjustments) and the estimated losses incurred by the FMOLHS Affiliates due to inadequate payments by these programs and for charity for the years ended June 30, 2011 and 2010

		2011		2010	
		Charges foregone	Estimated unreimbursed costs	Charges foregone	Estimated unreimbursed costs
Medicare	$	716,773	62,772	641,409	74,014
Medicaid		285,971	54,813	250,345	51,236
Other		5,629	1,216	5,302	1,202
Charity		32,084	12,140	31,433	12,643
	$	1,040,457	130,941	928,489	139,095

In addition to community services directly associated with providing hospital-based care, FMOLHS Affiliates serve their communities in numerous other ways Although the FMOLHS Affiliates have estimated the cost of each of these efforts to serve their communities, management and the Boards of Directors believe that such costs represent only some of the many ways FMOLHS Affiliates serve their communities The estimated costs for the years ended June 30, 2011 and 2010 are as follows

		Net community benefit expense	
Our Lady of Lourdes		**2011**	**2010**
Community benefits at cost			
Subsidized health services	$	761	817
Community health improvement services		357	278
Health professions education		152	162
Community building activities		32	31
Donations or in-kind contributions		279	287
Community benefit operations		—	—
Total	$	1,581	1,575

(Continued)

Subsidized health services – Includes the discount provided, at cost, to all patients that have no form of insurance coverage Programs such as Scott Family Clinic, which serves the underinsured or uninsured, and St Bernadette's Clinic, which provides free medical care to the homeless and uninsured population, are also included

Community health improvement services – Includes activities carried out to improve community health and costs, which are underwritten by Lourdes No bills are generated for these services These services include Camp Bluebird, a camp for cancer patients and survivors, Lafayette Community Healthcare Clinic, which provides healthcare for individuals who are employed or temporarily unemployed and are not insured, a program that provides medications to Lourdes' patients who do not have the financial ability to purchase them upon discharge, Congregational Health Services, which provides nurses to two churches within the Lafayette area, and Northside High School Health Center, which is committed to providing exemplary comprehensive healthcare to the student

Health professions education – Includes helping to prepare future healthcare professionals and includes assistance to nursing students and pharmacy students

Community building activities – Includes activities that enhance the overall community such as emergency preparedness programs

Donations and in-kind contributions – Includes donations to various area community organizations such as United Way of Acadiana and American Heart Association Lourdes also provides office space for The Family Tree Parenting Center, which is included Also included are employee costs associated with board and community involvement in various community organizations

(Continued)

Community benefit operations – Includes costs associated with dedicated staff, community needs assessments, or coordination of community benefit

St. Francis Medical Center		Net community benefit expense 2011	2010
Community benefits at cost			
Other community benefits			
Health professions education	$	858	1,023
Subsidized health services		525	499
Cash and in-kind contribution to community groups		81	54
Total other community benefits		1,464	1,576
Community building activities			
Physical improvements and housing		40	94
Community health education		7	17
Community support		235	217
Community-based clinical services		227	349
Leadership development and training for community members		33	33
Community health improvement advocacy		153	158
Workforce development		7	24
Total community building activities		702	892
Total	$	2,166	2,468

Community Benefits

Health professions education – Clinical setting for undergraduate, vocational training, internships, clerkships, and residencies Includes registered nurse recruitment activities and collaboration with local colleges for supervision and clinical training in pharmacy, respiratory therapy, health information management, and medical technology

Subsidized health services – Includes the discount provided, at cost, to all patients that have no form of insurance coverage

Cash and in-kind contribution to community groups – Includes donations to Families Helping Families, Children's Coalition, Wellspring, YMCA, Haiti Project, Prevent Child Abuse, Komen Foundation, Alzheimer's Foundation Also, includes employee cost associated with board and community involvement of rural hospitals

Community Building Activities

Physical improvements and housing – Includes occupancy and utilities provided to St Vincent DePaul Charitable Pharmacy Also, includes occupancy for a primary healthcare clinic located in one of the poorest areas of Monroe For fiscal year 2008, St Francis also provided a new roof on the St Vincent building

Community health education – Includes classes on breast feeding, childbirth basics, sibling class, and ABC's of childcare Also, includes sponsorship of Think First, a national injury prevention organization St Francis provides free depression and anxiety screenings to the community St Francis Junior Fitness promotes wellness for obese children

Community support – Includes staff costs of management oversight of community benefit programs and activities, including Meals on Wheels, taxi and medication provided to the needy, and community benefit salary dollars

Community-based clinical services – Includes community-based health screenings including behavior health Includes discounted services provided to Louisiana Baptist Children's Home, Veteran's Administration, Rural Hospitals, ULM Athletic Department, MDA, YWCA, and Handicap Children

Leadership development and training for community members – St Francis serves as the designated regional hospital for Region 8 and provides leadership and coordination for emergency preparedness activities

Community health improvement advocacy – Includes the unreimbursed cost of the adult day healthcare facility

Workforce development – Designed to promote leadership development and provide exposure to various careers in healthcare Includes sports medicine program, AHEC (Area Health Education Center) program, Carroll High School housekeeping program, and junior volunteer program

		Net community benefit expense	
Our Lady of the Lake		**2011**	**2010**
Community benefits at cost			
Community health improvement services			
Immunological support	$	852	497
Community health		182	186
LakeLine Direct		1,187	1,226
St Martha Activity Center		102	41
Elderly services		287	279
Elderly housing		—	2,246
Healthcare professions education			
OLOL College		6,271	6,074
Interns and residents		4,263	2,373

(Continued)

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

Service to the Community (Unaudited)

June 30, 2011 and 2010

Our Lady of the Lake		Net community benefit expense 2011	Net community benefit expense 2010
Subsidized health services			
Family education		3,274	1,396
OLOL neighborhood clinic		59	457
COPE		6,545	1,159
Palliative care		484	398
St Francis House		38	—
Research			
Clinical research		611	645
Financial contribution			
Cash contribution		747	585
Community-building activities			
Elderly housing complex		611	462
Mary Bird Perkins		100	100
Community clinic		29	29
Medical Education Building		19,000	—
	$	44,642	18,153

Community Health Improvement Services

Immunological support – The Lake 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 Lake 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 Lake 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 Lake 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 Lake 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 Lake, operates St Clare Manor, which has 216 total beds, of which 120 are Medicaid licensed

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

Service to the Community (Unaudited)

June 30, 2011 and 2010

HealthCare Professions Education

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

Interns and Residents – The Lake 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

OLOL neighborhood clinic – The Lake operates a Scotlandville Clinic to provide walk-in care for minor illness and injury during evening and weekends

COPE and Mental Health Services – The Lake provides crisis oriented psychiatric evaluation (COPE) to the community Also, the Lake provides both Inpatient and Outpatient mental health services to the community

Palliative care – The Lake provides palliative care service for patient in the final stage of life and their family members

Assumption Community Hospital – Is a 15-bed critical access hospital and Rural Health Clinic located in a rural community serving and area that has a short of medical facilities in the area

Elderly Housing–Ollie Steel Burden Manor, a subsidiary of the Lake, operates St Clare Manor, which has 216 total beds, of which 120 are Medicaid licensed

Family Education and Children Support Services–The Lake promotes a healthy environment for the family through its pediatric programs, which include Kid-Med Clinic, Pediatric Assessment Center and child life programs The Lake now employs the following Pediatric Specialist–Pediatric Pulmonologist, Pediatric Emergency Room Physician, Pediatric Neurology, Pediatric Orthopedist, Pediatric Neurology, and Pediatric Nephrology

Medical Home–The Lake established a physician clinic that provides employees and family members medical service to improved quality of health

Trauma Service–The Lake employs Trauma Physicians and established a Trauma Clinic to cover the specialty needs of the community

Research

Clinical research – The Lake participates in clinical research projects to improve the health and care of patients and community members

Financial Contributions

Cash contributions – The Lake 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

(Continued)

Community Fund for the Arts The Lake also makes corporate donations to various area community service organizations

Community-Building Activities

Elderly housing complex – The Lake 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 Lake also sponsors the charitable activities of other not-for-profit organizations in Baton Rouge The Lake provides land adjoining the Lake to Mary Bird Perkins Cancer Center for its operations and foregoes all rental income for the use of this land

Community clinic – The Lake provides a building that sponsors a community clinic and foregoes all rental income related to the use of the building

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

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

We have audited the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc and affiliated organizations (FMOLHS) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 2011 Our report

- refers to a change in the method of accounting for noncontrolling interest in 2011 as a result of the adoption of ASU No *2010-07, Not-for-Profit Entities Mergers and Acquisitions*, which amended ASC 958, *Not-for-Profit Entities*,
- states that the consolidating information included in schedules 1 through 3 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual organizations, and
- states that the supplementary information included in schedule 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements

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

Management of FMOLHS is responsible for establishing and maintaining effective control over financial reporting In planning and performing our audit, we considered FMOLHS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FMOLHS's internal control over financial reporting Accordingly, we do not express an opinion on the effectiveness of FMOLHS'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

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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 However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and that is described below A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Pension Census Data

During our verification of census data provided to Aon Hewitt, FMOLHS's consulting actuary for its defined benefit pension plan, we noted that the census data was not appropriately reconciled to the FMOLHS's payroll system As a result, we proposed, and management recorded, an adjustment to the consolidated financial statements as of June 30, 2011 We recommend that management establish processes and procedures to ensure all data provided to the actuaries has been properly reconciled to underlying data and reviewed by someone other than the preparer

Response

Interface files have been updated to include all earnings and new review processes were implemented to ensure earnings data for the census report are reconciled to Lawson's payroll data

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses However, we do not believe that the significant deficiency described above is a material weakness

Compliance and Other Matters

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

We noted certain matters that we reported to management of FMOLHS in a separate letter dated November 4, 2011

FMOLHS's response to the finding identified in our audit is described above We did not audit FMOLHS's response, and accordingly, we express no opinion on it

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

KPMG LLP

November 4, 2011