Consolidated Financial Statements and Reports on Federal Award Programs

Ochsner Health System and Subsidiaries
Year Ended December 31, 2014
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Ochsner Health System and Subsidiaries

Consolidated Financial Statements and Reports on Federal Award Programs

Year Ended December 31, 2014

Contents

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Building a better working world

Report of Independent Auditors

The Board of Directors and Management
Ochsner Health System and Subsidiaries

We have audited the accompanying consolidated financial statements of Ochsner Health System and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ochsner Health System and its subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information – Schedule of Compensation Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Compensation Information as required under Louisiana Revised Statute 24:513A(1)(a)(3) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Supplementary Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated April 27, 2015, on our consideration of Ochsner Health System and its subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ochsner Health System and its subsidiaries' internal control over financial reporting and compliance.

Ernst + Young LLP

April 27, 2015,
except for the Schedule of Compensation Information
for which the date is June 11, 2015

Ochsner Health System and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	December 31 2014	December 31 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 158,658	$ 174,550
Assets limited as to use required for current liabilities	2,687	3,944
Patient accounts receivable – net	213,827	196,598
Accounts receivable other	71,690	43,891
Inventories	42,384	37,110
Prepaid expenses and other current assets	26,205	25,498
Estimated third-party payor settlements	25,164	17,778
Total current assets	540,615	499,369
Assets limited as to use:		
By Board for capital improvements, charity, research, and other	445,703	324,766
Under bond indenture agreements	44,009	59,874
Under loan agreements	–	5,075
Under self-insurance trust fund	9,740	8,651
Donor-restricted long-term investments	63,163	59,629
Total assets limited as to use	562,615	457,995
Less assets limited as to use required for current liabilities	2,687	3,944
Non-current assets limited as to use	559,928	454,051
Investments in unconsolidated affiliates, real estate, and other	6,301	7,266
Property – net	734,873	746,960
Goodwill	43,077	43,077
Intangible assets	11,482	11,433
Other assets	18,006	18,562
Total assets	$ 1,914,282	$ 1,780,718

	December 31	
	2014	2013
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 117,814	$ 103,326
Accrued salaries, wages, and benefits	136,296	118,465
Deferred revenue	15,520	17,455
Estimated third-party payor settlements	5,331	6,627
Bonds payable – current portion	6,230	5,925
Notes payable – current	52,985	52,969
Long-term debt – current portion	15,364	13,708
Other current liabilities	28,248	42,716
Total current liabilities	377,788	361,191
Pension and postretirement obligations	156,907	113,110
Bonds payable	566,242	572,156
Long-term debt	193,182	128,962
Other long-term liabilities	28,453	21,544
Total liabilities	1,322,572	1,196,963
Commitments and contingencies *(Notes 4 and 14)*		
Net assets:		
Unrestricted	523,310	518,441
Temporarily restricted	45,003	42,053
Permanently restricted	23,397	23,261
Total net assets	591,710	583,755
Total liabilities and net assets	$ 1,914,282	$ 1,780,718

See notes to financial statements.

Ochsner Health System and Subsidiaries

Consolidated Statements of Operations
(In Thousands)

	Year Ended December 31	
	2014	**2013**
Unrestricted revenues:		
Patient service revenue – net of contractual allowances and discounts	$ 1,930,298	$ 1,746,343
Provision for bad debts	(83,508)	(91,384)
Net patient service revenue, less provision for bad debts	1,846,790	1,654,959
Premium revenue	267,283	278,483
Other operating revenue	197,125	108,006
Net assets released from restrictions used for operations	3,649	2,916
Total unrestricted revenues	2,314,847	2,044,364
Expenses:		
Salaries and wages	1,037,062	937,801
Benefits	151,788	143,106
Medical services to outside providers	129,218	115,812
Medical supplies and services	358,842	295,244
Other operating expenses	458,445	398,877
Depreciation and amortization	98,270	90,099
Interest	40,124	33,744
Total expenses	2,273,749	2,014,683
Operating income	41,098	29,681
Non-operating gains:		
Investment and other realized gains and losses – net	44,303	22,868
Unrealized (losses) gains on alternative investments	(1,072)	9,289
Total non-operating gains	43,231	32,157
Excess of revenues over expenses	$ 84,329	$ 61,838

See notes to financial statements.

Ochsner Health System and Subsidiaries

Consolidated Statements of Changes in Net Assets

(In Thousands)

	Year Ended December 31	
	2014	**2013**
Unrestricted net assets		
Excess of revenues over expenses	$ 84,329	$ 61,838
Change in net unrealized (losses) gains excluding alternative investments	(22,879)	15,846
Net assets released from restrictions used for capital acquisitions	6,999	1,091
Pension-related changes other than net periodic pension costs	(63,580)	35,186
Increase in unrestricted net assets	4,869	113,961
Temporarily restricted net assets		
Contributions	9,454	8,538
Investment income	4,144	3,725
Net assets released from restrictions:		
Operations	(3,649)	(2,916)
Capital acquisitions	(6,999)	(1,091)
Increase in temporarily restricted net assets	2,950	8,256
Permanently restricted net assets		
Contributions	136	597
Increase in permanently restricted net assets	136	597
Increase in net assets	7,955	122,814
Net assets – beginning of year	583,755	460,941
Net assets – end of year	$ 591,710	$ 583,755

See notes to financial statements.

Ochsner Health System and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31 2014	2013
Operating activities		
Increase in net assets	$ 7,955	$ 122,814
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension costs	63,580	(35,186)
Depreciation and amortization	98,270	90,099
Provision for bad debts	83,508	91,384
Amortization of deferred financing costs and debt discounts	1,212	1,446
Contributions restricted for long-term investments	(136)	(587)
Loss from equity-method investment, net of cash received	170	441
Net realized and unrealized gains on investments	(24,616)	(51,564)
Other reconciling items, net	(843)	(5,422)
Changes in operating assets and liabilities, net of acquisitions:		
Patient accounts receivable	(100,737)	(95,513)
Other current and non-current assets	(51,318)	(18,026)
Accounts payable	27,113	34,407
Accrued expenses and other liabilities	(319)	23,389
Net cash provided by operating activities	103,839	157,682
Investing activities		
Purchases of assets whose use is limited and other investments	(170,157)	(18,397)
Sales and maturities of assets whose use is limited and other investments	90,153	98,079
Capital expenditures	(92,492)	(156,619)
Acquisitions of businesses	(5,092)	–
Other	1,988	6,905
Net cash used in investing activities	(175,600)	(70,032)
Financing activities		
Repayment of bonds payable and long-term debt	(42,482)	(49,049)
Proceeds from long-term borrowings	102,244	90,750
Payments of debt financing costs	(1,268)	(1,933)
Payments on capital lease obligations	(2,761)	(1,318)
Proceeds from contributions restricted for long-term investments	136	587
Net cash provided by financing activities	55,869	39,037
Net (decrease) increase in cash and cash equivalents	(15,892)	126,687
Cash and cash equivalents – beginning of year	174,550	47,863
Cash and cash equivalents – end of year	$ 158,658	$ 174,550
Supplemental disclosures – cash paid for interest (net of amounts capitalized)	$ 38,977	$ 32,333
Supplemental non-cash investing and financing activities		
Property purchases included in accounts payable	$ 2,277	$ 15,072
Property purchases financed by capital leases and long-term debt	$ 2,587	$ 11,033

See notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

Ochsner Health System (OHS or Ochsner) is a not-for-profit, non-stock membership corporation and the parent company of Ochsner Clinic Foundation (OCF) and Ochsner Community Hospitals (OCH).

OCF, located in New Orleans, Louisiana, is a not-for-profit institution, that either directly or through its fully owned subsidiaries, owns and operates an acute care hospital known as Ochsner Medical Center (OMC), an 11-story clinic building, a 143-room hotel and related medical facilities located on a main campus in Jefferson Parish at the western end of New Orleans (the Main Campus). OCF also owns 100% of the outstanding common stock of Ochsner System Protection Company (OSPC), a captive insurance company domiciled in Louisiana. OCF operates Ochsner Medical Center Westbank and Ochsner Baptist Medical Center as remote campuses of OMC. It also owns and operates health centers throughout southeast Louisiana, owns a hospital in Baton Rouge that operates as Ochsner Medical Center Baton Rouge, owns a hospital in Slidell, Louisiana that operates as Ochsner Medical Center – Northshore, operates a hospital in Raceland, Louisiana known as Ochsner St. Anne General Hospital, and owns several fitness centers that operate as Elmwood Fitness Center. OHS also provides management assistance and support for a hospital in Houma, Louisiana known as Leonard J. Chabert Medical Center (Chabert), for a hospital in Luling, Louisiana known as St. Charles Parish Hospital (St. Charles), and for a hospital in Bay St. Louis, Mississippi known as Hancock Medical Center. Under its management agreements with Chabert and St. Charles, OHS receives management fees and any excess of revenues over expenses generated by each of the facilities, as well as reimbursement of purchased services incurred on behalf of the facilities. Under its management agreement with Hancock Medical Center, OHS receives management fees as well as reimbursement of expenses incurred for providing management support services.

Effective September 1, 2014, OHS entered into a management agreement with Hospital Service District No. 1 of St. Charles Parish to provide management assistance and support to St. Charles which operates as a public, safety net hospital for the residents of St. Charles Parish. OHS, as manager of the facility, does not report utilization statistics related to St. Charles. St. Charles remains a public hospital owned by St. Charles Parish and governed by the St. Charles Hospital Service District No. 1 board.

1. Summary of Significant Accounting Policies (continued)

OCF and St. Tammany Parish Hospital (STPH) entered into a Joint Operating Agreement (JOA) on September 30, 2014. Through entering this agreement, OCF and STPH have aligned their respective assets and operations to achieve certain clinical, operational, and financial objectives, with the ultimate goal of providing efficient, cost-effective healthcare services to patients in West St. Tammany Parish and Washington Parish, Louisiana.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of OHS, OCF, OCH, and their wholly owned subsidiaries.

All intercompany accounts and transactions have been eliminated upon consolidation. The assets of any member of the consolidated group may not be available to meet the obligations of other members in the group, except as disclosed in Notes 7, 8, and 9.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation, under bond indenture agreements, or under self-insurance agreements.

Inventories

Inventories are stated at the lower of first-in, first-out cost or market.

1. Summary of Significant Accounting Policies (continued)

Pledges Receivable

Unconditional promises to give are recognized as revenues at their fair values in the period received. Pledges receivable are recorded net of necessary discounts and allowances. The current portion of pledges receivable is recorded in accounts receivable other and the non-current portion is recorded in other assets in the consolidated balance sheets.

Pledges receivable as of December 31 are expected to be realized as follows (in thousands):

	2014	2013
In one year or less	$ 1,608	$ 1,805
Between one and five years	3,182	3,293
Greater than five years	77	602
	4,867	5,700
Less discount (ranging from 0.72%–4.50% and 0.13%-4.50% at December 31, 2014 and 2013, respectively) and allowance for uncollectible pledges	(349)	(425)
Pledges receivable – net	$ 4,518	$ 5,275

Investments

Investments held by OHS are included in assets limited as to use in the consolidated balance sheets. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include investments in private equity funds, hedge funds, real estate funds, offshore fund vehicles, and funds of funds structured as limited liability corporations or partnerships or trusts. These investments are termed alternative investments in the notes to the consolidated financial statements and are accounted for under the equity method, which approximates fair value. 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 off-balance-sheet risk, may result in loss due to changes in the market (market risk).

1. Summary of Significant Accounting Policies (continued)

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments, other than alternative investments, are excluded from the excess of revenues over expenses. If management believes a decline in the value of a particular investment is temporary, the decline is included in unrealized losses on the consolidated statements of operations. If the decline is evaluated as being other than temporary, the carrying value of the investment is written down and a realized loss is recorded in non-operating gains and losses in the consolidated statements of operations. OHS recorded impairment charges on investment securities of approximately $0 and $100,000 for the years ended December 31, 2014 and 2013, respectively.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees (the Board) primarily for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of OHS have been classified in the consolidated balance sheets as current assets.

Property – Net

Property improvements and additions are recorded at cost and capitalized and depreciated on the straight-line basis over the following estimated useful lives of the assets, as follows:

	Years
Land improvements	5–25
Buildings and building improvements	10–40
Leasehold improvements	12–20
Equipment, furniture, and fixtures	2–20

1. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

OHS evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. There were no impairment charges for the years ended December 31, 2014 or 2013.

Capitalization of Interest

OHS capitalizes interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating OHS' average cost of borrowed funds. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled approximately $579,000 and $2,607,000 for the years ended December 31, 2014 and 2013, respectively.

Goodwill and Intangible Assets

Goodwill and intangible assets, consisting primarily of trade name and employment contracts, were recorded as a result of Alton Ochsner Medical Foundation's merger with Ochsner Clinic LLC in 2001, which resulted in the creation of OCF. Goodwill represents the excess of the fair value of the consideration conveyed in the acquisition over the fair value of net assets acquired. Goodwill and indefinite-lived intangible assets arising from business combinations are not amortized, but rather are tested for impairment at least annually at the reporting unit level. Impairment is the condition that exists when the carrying amount of goodwill or intangible assets exceeds its implied fair value. Additional impairment assessments may be performed on an interim basis if OHS encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value of goodwill or intangible assets has been impaired. OHS has selected October 31 as its annual testing date. OHS has determined that its reporting unit is OCF.

1. Summary of Significant Accounting Policies (continued)

The first step in the impairment process is to estimate the fair value of the reporting unit and then compare it to the carrying value, including goodwill. If the fair value exceeds the carrying value, no further action is required and no impairment loss is recognized. OHS determined that the use of the income and market approaches were the most appropriate methods of measuring fair value of the reporting units. These are considered Level 3 valuations in the valuation hierarchy described in Note 2. Under the income approach, fair value is estimated using a discounted cash flow analysis. Under the market approach, fair value is estimated using a guideline company method and a comparable transaction method. Both the income approach and the market approach require significant assumptions to determine the fair value of each reporting unit. The significant assumptions used in the income approach include estimates of future revenues, profits, capital expenditures, working capital requirements, operating plans, industry data, and an appropriate discount rate for each reporting unit. The significant assumptions utilized in the market approach include the determination of appropriate market comparables and estimated multiples of net revenue and earnings before interest, taxes, depreciation, and amortization. OHS performed Step 1 of the impairment test using a quantitative impairment analysis and concluded the fair value exceeded the carrying value and no further action was required for 2014 and 2013.

Deferred Revenue

OHS, through OCF, engages in research activities funded by contracts from U.S. Government agencies and other private sources. Revenue related to grants and contracts is recognized as the related costs are incurred. Amounts received from grant and contract sponsors for which OCF has not yet fulfilled its obligations are recognized in future periods once the obligations have been satisfied.

Deferred Financing Costs

In connection with the issuance of bonds and long-term debt by OHS, OCF, and OCH, certain financing costs were capitalized, and are being amortized over the respective lives of the bonds and long-term debt. These costs are approximately $9,766,000 and $8,911,000 net of accumulated amortization at December 31, 2014 and 2013, respectively, and are included in other assets in the accompanying consolidated balance sheets.

1. Summary of Significant Accounting Policies (continued)

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

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

Accounting for Pension and Other Postretirement Plans

OHS recognizes the overfunded or underfunded status of its pension and other postretirement plans as an asset or liability in its consolidated balance sheets. Changes in the funded status of the pension and other postretirement plans are reported as a change in unrestricted net assets presented below the excess of revenues over expenses financial statement line item in the consolidated statements of operations in the year in which the changes occur.

Reinsurance

OSPC relies on reinsurance to limit its retained property insurance risk. In entering into reinsurance agreements, management considers a variety of factors including the creditworthiness of reinsurers. In preparing its financial statements, management makes estimates of amounts receivable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible by management based on an assessment of factors including an assessment of the creditworthiness of the reinsurers. OSPC cedes 100% of the underlying risk and as a result, OSPC retains no insurance risk. However, OSPC is not relieved of its primary obligation and is subject to credit risk of its reinsurers. OSPC's last reinsurance contract ended on May 31, 2014. Its expiration coincided with the expiration of the last policy written by OSPC.

Temporarily and Permanently Restricted Net Assets

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

1. Summary of Significant Accounting Policies (continued)

Consolidated Statement of Operations

For purposes of presentation, all revenues and expenses are reported as operating except for investment income and other gains and losses – net, which are reported as non-operating.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses, which represents OHS' performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized losses on other-than-trading investments, contributions used to acquire property and equipment, and pension related changes other than net periodic pension costs.

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. Amounts OHS receives for treatment of patients covered by governmental programs such as Medicare and Medicaid and other third-party payors such as health maintenance organizations, preferred provider organizations and other private insurers are generally less than OHS' established billing rates. Additionally, to provide for accounts receivable that could become uncollectible in the future, OHS establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. Third-party liability accounts are pursued until all payments and adjustments are posted to the patient account. For those accounts with a patient balance after third-party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters. Patients who express an inability to pay are reviewed for potential sources of financial assistance, including OHS' charity care policy. If the patient is deemed unwilling to pay, the account is written off as bad debt and transferred to an outside collection agency for additional collection effort. Accordingly, the revenues and accounts receivable reported in OHS' consolidated financial statements are recorded at the net amount expected to be received. 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.

1. Summary of Significant Accounting Policies (continued)

Charity Care

OHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided. Because OHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. OHS estimates its costs of care provided under its charity care programs by applying a ratio of direct and indirect costs to charges to the gross foregone charges associated with providing care to charity patients. OHS' gross charity care charges include only services provided to patients who are unable to pay and qualify under OHS' charity care policies. The ratio of cost to charges is calculated based on OHS' total expenses divided by gross patient revenue. During the years ended December 31, 2014 and 2013, the estimated costs incurred by OHS to provide care to patients who met certain criteria under its charity care policy were approximately $61,627,000 and $55,583,000, respectively.

Community Benefit

Since December 2010, OHS and four other health care providers have formed fourteen non-profit organizations with the purpose to create a vehicle to provide services to low income and needy patients. Expenditures recorded by OHS to fund the organizations for the years ended December 31, 2014 and 2013, were approximately $61,129,000 and $48,755,000, respectively, and are included in other operating expenses in the consolidated statements of operations.

Provision and Allowance for Doubtful Accounts

To provide for accounts receivable that could become uncollectible in the future, OHS establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty lies with uninsured patient receivables and deductibles, co-payments, or other amounts due from individual patients. Payment pressure from managed care/indemnity payors also affects OHS' provision for doubtful accounts. Although OHS typically experiences ongoing managed care payment delays and disputes, OHS continues to work with these payors to obtain adequate and timely reimbursement for services provided. There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of

1. Summary of Significant Accounting Policies (continued)

uninsured and underinsured patients, the volume of patients through OHS' emergency departments, the increased burden of co-payments and deductibles to be made by patients with insurance, and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process.

OHS has an established process to determine the adequacy of the allowance for doubtful accounts that relies on a number of analytical tools and benchmarks to arrive at a reasonable allowance. No single statistic or measurement determines the adequacy of the allowance for doubtful accounts. Some of the analytical tools that OHS utilizes include, but are not limited to, historical cash collection experience, revenue trends by payor classification and revenue days in accounts receivable. Accounts receivable are written off after collection efforts have been followed in accordance with OHS' policies.

HIT Incentive Payments and Other Benefits

Beginning in 2012, OHS through OCF achieved compliance with certain of the health information technology (HIT) requirements under the American Recovery and Reinvestment Act of 2009. As a result, OCF recognized approximately $16,954,000 and $14,400,000 in other operating revenue in the accompanying consolidated statements of operations for 2014 and 2013, respectively, for electronic health record (EHR) incentives related to Medicaid and Medicare programs. These incentives partially offset the operating expenses OCF has incurred and continues to incur from its investment in HIT systems. At December 31, 2014 and 2013, OCF has approximately $1,535,000 and $1,765,000, respectively, included in accounts receivable other in the accompanying consolidated balance sheets related to these incentives. OHS accounts for EHR incentive payments under the grant accounting model as grants related to income. Medicare and Medicaid EHR incentive payments are recognized as revenue after OHS has determined it is reasonably assured to comply with the meaningful use criteria over the entire applicable compliance period. OHS' compliance with the meaningful use criteria is subject to audit by the federal government.

1. Summary of Significant Accounting Policies (continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Contributions for which restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue.

Fair Value of Financial Instruments Other Than Investments

The following methods and assumptions were used by OHS in estimating the fair value of its financial instruments:

Current Assets and Liabilities

OHS considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

Bonds Payable

The fair values of OHS' revenue bonds are based on currently traded values of similar financial instruments as disclosed in Note 8.

Notes Payable and Long-Term Debt

OHS considers the carrying value of its notes payable and long- term debt to approximate fair value at December 31, 2014, due to the variable nature of the interest rate or based on a comparison of its fixed rates to current market rates.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

OHS and its subsidiaries qualify as tax-exempt organizations under Section 501(a) and are described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated balance sheets.

Concentration of Credit Risk

OHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Risks and Uncertainties

OHS' business could be impacted by continuing price pressure on new and renewal business, OHS' ability to effectively control health care costs, additional competitors entering OHS' markets, and federal and state legislation in the area of health care reform. Changes in these areas could adversely impact OHS' operations in the future.

In March 2010, the Patient Protection and Affordability Care Act (ACA), a comprehensive health care reform bill, was signed into law. The legislation is complex and will be phased in over several years, with the most significant parts beginning to take effect in 2014. OHS is in the process of assessing the potential impact of this reform on its operations but does not have enough information or data to predict the effects with certainty.

OHS is unable to predict the full impact of the ACA on its future revenues and operations at this time due to the law's complexity, the limited amount of implementing regulations and interpretive guidance, uncertainty regarding the ultimate number of uninsured patients who will obtain insurance coverage, uncertainty regarding future negotiations with payers, and gradual or potentially delayed implementation. However, OHS expects that several provisions of the ACA could have a material effect on its business. Any reductions to OHS' reimbursement under the Medicare and Medicaid programs by the ACA could adversely affect its business and results of operations to the extent such reductions are not offset by increased revenues from providing care to previously uninsured individuals.

1. Summary of Significant Accounting Policies (continued)

Reclassification

Certain prior year amounts have been reclassified to conform to the 2014 presentation. These reclassifications related to the presentation of certain amounts within the balance sheet or statement of operations and had no impact on total assets, liabilities or changes in net assets.

Pending Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Among other provisions and in addition to expanded disclosure about the nature, amount, timing, and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures, ASU 2014-09 changes the health care industry specific presentation guidance under ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The provisions of ASU 2014-09 are currently effective for annual periods beginning after December 15, 2016. Early adoption is not permitted. OHS is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

2. Investments and Related Fair Value Measurements and Disclosures

ASC 820, *Fair Value Measurement,* establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value and expands disclosures about such fair value measurements. ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

> *Level 1* – Unadjusted quoted market prices in active markets for identical assets or liabilities.
>
> *Level 2* – Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices are observable for the asset or liability.
>
> *Level 3* – Unobservable inputs for the asset or liability.

OHS endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period. There were no transfers between Level 1 and Level 2 in the years ended December 31, 2014 or 2013.

2. Investments and Related Fair Value Measurements and Disclosures (continued)

Assets and Liabilities Measured at Fair Value

Recurring Fair Value Measurements

The fair values of assets measured at estimated fair value on a recurring basis are estimated as described in the preceding section. These estimated fair values and their corresponding fair value hierarchy in accordance with ASC 820 are summarized as follows (in thousands):

	December 31, 2014			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[(a)]	$ 54,780	$ –	$ –	$ 54,780
Fixed income investments[(a)]	73,195	–	–	73,195
Marketable equity securities[(a)]	190,001	–	–	190,001
Diversifiers[(a)]	100,153	–	–	100,153
Natural resources and other[(a)]	23,924	–	–	23,924
Total	$ 442,053	$ –	$ –	$ 442,053

	December 31, 2013			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[(a)]	$ 85,222	$ –	$ –	$ 85,222
Fixed income investments[(a)]	46,040	–	–	46,040
Marketable equity securities[(a)]	135,437	–	–	135,437
Diversifiers[(a)]	76,922	–	–	76,922
Natural resources and other[(a)]	22,870	–	–	22,870
Total	$ 366,491	$ –	$ –	$ 366,491

2. Investments and Related Fair Value Measurements and Disclosures (continued)

[a] Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Investments classified as Level 1 include mutual funds that are publicly traded. Valuation of these funds is based on unadjusted quoted prices in active markets that are readily and regularly available.

Alternative investments and other investments of approximately $117,689,000 and $92,940,000 at December 31, 2014 and 2013, respectively, are not included in these tables since they are accounted for using the equity method of accounting and not measured at fair value. Real estate investments of $6,338,000 and $6,079,000 at December 31, 2014 and 2013, respectively, are not included in these tables since they are accounted for at cost.

Investment income and other gains and losses are classified as non-operating and are comprised of interest and dividend income of approximately $12,737,000 and $6,931,000 (net of expenses of approximately $684,000 and $944,000 for the years ended December 31, 2014 and 2013, respectively), unrealized (losses) gains on alternative investments of approximately ($1,072,000) and $9,289,000, and realized net gains and losses on sales of securities of approximately $32,005,000 and $15,937,000 for the years ended December 31, 2014 and 2013, respectively. Unrealized gains (losses) on investments recorded at fair value are included in other changes in unrestricted net assets.

2. Investments and Related Fair Value Measurements and Disclosures (continued)

Investment in Equity Investees

OHS' investment in unconsolidated affiliates at December 31 and its income from equity investees for the years then ended are as follows (in thousands):

2014	Ownership Interest	Investment in Equity Investees	Equity in Income (Loss) of Equity Investees
Southeast Louisiana Homecare LLC	25%	$ 2,256	$ (49)
Louisiana Extended Care Hospital of Kenner, LLC	25	337	32
		$ 2,593	$ (17)

2013	Ownership Interest	Investment in Equity Investees	Equity in Income (Loss) of Equity Investees
Southeast Louisiana Homecare LLC	25%	$ 2,305	$ (262)
Louisiana Extended Care Hospital of Kenner, LLC	25	458	421
		$ 2,763	$ 159

3. Net Patient Service Revenue

Net patient service revenue is recognized when services are provided. OHS has agreements with third-party payors that provide for payments to OHS at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

A summary of the significant payment arrangements with major third-party payors follows:

3. Net Patient Service Revenue (continued)

Medicare and Medicaid

Inpatient acute care services and defined capital costs related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare inpatient rehabilitation services are also paid at prospectively determined rates per discharge, based on a patient classification system. Psychiatric services rendered to Medicare beneficiaries are reimbursed on a prospectively determined rate per day. Outpatient services to Medicare beneficiaries are paid on a prospectively determined amount per procedure. Medicare skilled nursing care is paid on a prospectively determined amount per diem based on a patient classification system. The Medicare program's share of indirect medical education costs is reimbursed based on a stipulated formula. The Medicare program's share of direct medical education costs is reimbursed based on a prospectively determined amount per resident. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a cost basis subject to certain limits.

OHS records retroactive Medicare and Medicaid settlements based upon estimates of amounts that are ultimately determined through annual cost reports filed with and audited by the fiscal intermediary. The difference between estimated and audited settlements is recorded as an adjustment to net patient service revenue in the year a determination is made. The favorable resolution of reimbursement issues under appeal by OHS is reported as an increase in net patient service revenue in the year the issue is resolved.

As a result of retroactive settlements of certain prior year cost reports, OHS recorded changes in estimates during the years ended December 31, 2014 and 2013. As a result of changes in prior year estimates, net patient service revenues increased approximately $495,000 and $6,786,000 in 2014 and 2013, respectively.

Medicaid Supplemental Payment Program

Since December 2010, Ochsner's hospitals and eight other hospitals (Baton Rouge General Medical Center, CHRISTUS Schumpert Health System, CHRISTUS St. Frances Cabrini Hospital, CHRISTUS St. Patrick Hospital, Lakeview Regional Medical Center, The Regional Medical Center of Acadiana, Rapides Regional Medical Center and Tulane University Hospital and Clinic) entered into collaborations with the State and several units of local government in

3. Net Patient Service Revenue (continued)

Louisiana (Jefferson Parish Hospital Service District No. 1, Jefferson Parish Hospital Service District No. 2, Natchitoches Hospital District No. 1, Jefferson Parish Human Services Authority, Terrebonne Parish Hospital Service District #1, Southern Regional Medical Corporation, Hospital Service District No. 3 of the Parish of Allen, The Parish Hospital Service District for the Parish of Orleans – District A and Savoy Medical Center) to more fully fund the Medicaid program (the Program) to ensure services remain available to low income and needy patients in the respective communities.

These collaborations enable the governmental entities to increase support for the Uncompensated Care Cost (UCC) program and for other Medicaid supplemental payments up to the state's federal Medicaid Upper Payment Limits (UPL). Each State's UCC and UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs or UCC entitlement. In 2014 and 2013, OHS recognized $147,879,000 and $90,707,000, respectively, in net patient service revenue related to the Program and recorded deferred revenue of approximately $5,057,000 and $7,858,000 at December 31, 2014 and 2013, respectively. Such amounts are included in other current liabilities in the accompanying consolidated balance sheets.

Humana Inc.

OHS entered into a provider contract with Humana Inc. to provide services for its commercial and senior members on a fee-for-service basis for physician services and at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates for hospital services. Also, OHS provided services to approximately 30,000 senior members under a capitation contract for both physician and hospital services. Premium revenue from Humana Inc. under the capitation contract approximated $267,283,000 and $278,483,000 in 2014 and 2013, respectively, and is included in premium revenue in the accompanying consolidated statements of operations. Expenses for medical services to outside providers under the capitation contract approximated $129,218,000 and $115,812,000 in 2014 and 2013, respectively, and are included in medical services to outside providers in the accompanying consolidated statements of operations. Net revenue from Humana Inc. on a fee-for-service basis approximated $148,713,000 and $130,777,000 in 2014 and 2013, respectively, and is included in net patient service revenue in the accompanying consolidated statements of operations.

3. Net Patient Service Revenue (continued)

Managed Care

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

OHS recognizes net patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who are not eligible for charity care, OHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical experience, a significant portion of OHS' uninsured and underinsured patients will be incapable or reluctant to pay for the services provided. Therefore, OHS records a significant provision for bad debts in the period the services are provided related to patient receivables and deductibles, copayments, or other amounts due from individual patients who have been deemed unwilling to pay.

The table below shows the sources of patient service revenue (net of contractual allowances and discounts), before the provision for bad debts, for the years ended December 31 (in thousands):

	2014	2013
Government agencies	$ 671,115	$ 618,882
Patients	93,551	81,663
Managed care/indemnity	1,165,632	1,045,798
Patient service revenue, net of contractual allowances and discounts	$ 1,930,298	$ 1,746,343

4. Patient Accounts Receivable

At December 31 OHS' patient accounts receivable balances were due from the following sources (in thousands):

	2014	2013
Managed care/indemnity	$ 167,295	$ 166,134
Government agencies	67,088	74,262
Patients	31,033	20,024
Total	265,416	260,420
Less allowance for doubtful accounts	(51,589)	(63,822)
Patient accounts receivable – net	$ 213,827	$ 196,598

The allowance for doubtful accounts due from patients was 10.0% and 9.2% of the accounts receivable balance at December 31, 2014 and 2013, respectively. The allowance for doubtful accounts due from managed care/indemnity payors was 6.4% and 10.1% of the accounts receivable balance at December 31, 2014 and 2013, respectively.

A summary of activity in the allowance for doubtful accounts is as follows (in thousands):

	Balance at Beginning of Year	Provision for Doubtful Accounts	Accounts Written Off, Net of Recoveries	Balance at End of Year
Year Ended December 31, 2013	$ 64,889	$ 91,384	$ (92,451)	$ 63,822
Year Ended December 31, 2014	63,822	83,508	(95,741)	51,589

5. Property – Net

OHS' investment in property at December 31 is as follows (in thousands):

	2014	2013
Land and improvements	$ 88,295	$ 86,744
Buildings and leasehold improvements	641,639	575,262
Equipment, furniture, and fixtures	1,026,030	980,867
Building and building improvements held for lease	45,764	41,436
Construction in progress	13,142	62,983
Total property – at cost	1,814,870	1,747,292
Less accumulated depreciation	1,079,997	1,000,332
Property – net	$ 734,873	$ 746,960

Depreciation and amortization expense totaled approximately $98,270,000 and $90,099,000 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, OHS has purchase commitments totaling approximately $11,968,000 and $12,730,000, respectively, toward additional capital expenditures.

OHS leases certain software and equipment under capital leases. Capital lease assets are included in equipment, furniture, and fixtures in the accompanying consolidated balance sheets as of December 31 and are as follows (in thousands):

	2014	2013
Software and equipment	$ 9,469	$ 6,882
Accumulated amortization	(3,398)	(1,798)
Net carrying value of capital lease assets	$ 6,071	$ 5,084

Amortization expense applicable to the capital lease asset is included in depreciation and amortization in the accompanying consolidated statements of operations.

6. Goodwill and Indefinite-Lived Intangible Assets

As stated in Note 1, on August 31, 2001, OCF and the Clinic effected a merger transaction resulting in the net assets of the Clinic being acquired by Alton Ochsner Medical Foundation.

The cost to acquire the Clinic was allocated to the assets acquired and liabilities assumed according to their estimated fair values. In addition, the carrying values of certain other assets and liabilities of the Clinic were changed to reflect management's estimate of fair value under purchase accounting.

Amounts recorded as goodwill and indefinite-lived intangible assets as of December 31 are as follows (in thousands):

	2014	2013
Goodwill	$ 43,077	$ 43,077
Trade name – Intangible assets	$ 11,433	$ 11,433
Other – Intangible assets	49	–
	$ 11,482	$ 11,433

7. Notes Payable

OCF has a loan agreement with a bank that provides a credit line with maximum borrowings of $53,000,000. The line of credit currently expires on June 18, 2015. Borrowings under the arrangement are unsecured; however, OCF must meet certain financial covenants. Management believes OCF was in compliance with these covenants at December 31, 2014 and 2013. At December 31, 2014 and 2013, OCF had borrowings outstanding under this arrangement of $52,985,000 and $52,969,000, respectively. The interest rate on outstanding borrowings is based on the London Interbank Offered Rate (LIBOR) and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 1.66% and 1.67% at December 31, 2014 and 2013, respectively. All amounts are classified as current at December 31, 2014 and 2013.

8. Bonds Payable

At December 31 bonds payable consisted of the following tax-exempt revenue bonds issued by the Louisiana Public Facilities Authority on behalf of OCF and OCH (in thousands):

	2014	2013
OCF Series 2007-A issued September 2007, due serially 2009–2047, annual interest rates ranging from 5.00% to 5.50%	$ 358,160	$ 363,635
OCH Series 2007-B issued September 2007, due serially 2009–2047 annual interest rates ranging from 5.00% to 5.50%	74,295	74,745
OCF Series 2011 issued May 2011, due serially 2017–2023, then on term in 2031, 2037 and 2041, at annual interest rates ranging from 4.00% to 6.75%	150,000	150,000
Total	582,455	588,380
Less current portion	6,230	5,925
Less unamortized net bond discount	9,983	10,299
Non-current portion of bonds payable	$ 566,242	$ 572,156

The Series 2007-A and Series 2011 bonds are general obligations of OCF, while the Series 2007-B bonds are general obligations of OCH. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property. The OCH Series 2007-B bonds are guaranteed by OCF through a Joint and Several Guarantee Agreement (Guarantee Agreement) secured by a mortgage and security interest in all present and future accounts receivable of OCF as well as a pledge of revenues. Under the Guarantee Agreement, OCF will be obligated to pay the guaranteed bonds should OCH fail to pay. OCH is obligated to reimburse OCF for any amount OCF has to pay under the guaranty, and the reimbursement obligation is secured by a mortgage and security interest on certain assets of OCH and its subsidiaries.

Also, under the terms of the bond indenture, OCF and OCH are required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the consolidated financial statements. The bond indenture also places limits on the incurrence of additional borrowings by OCF and requires that OCF satisfy certain measures of financial performance as long as the bonds are outstanding. Management is not aware of any noncompliance with these requirements.

8. Bonds Payable (continued)

At December 31, 2014, scheduled repayments of principal and sinking fund installments to retire the bonds payable for the next five fiscal years are as follows (in thousands):

Years ending December 31:		
2015	$	6,230
2016		6,550
2017		8,990
2018		9,390
2019		9,315

The estimated fair value of the Series 2007-A, Series 2007-B, and Series 2011 bonds as of December 31, 2014 and 2013, is approximately $633,764,000 and $601,117,000, respectively. This fair value is based on quoted market prices for similarly rated health care revenue bond issues, a Level 2 input.

9. Long-Term Debt

A summary of long-term debt at December 31 is as follows (in thousands)

	2014	2013
Note payable, including interest at three-month LIBOR less 2.35% (0.50% at December 31, 2013) originally due February 2015 but prepaid in October 2014	$ –	$ 22,000
Working capital note, due May 2016, including interest at rates varying from 1.09% to 1.59% during 2014 with a rate of 1.19% as of December 31, 2014	8,397	8,293
Note payable 4.61% Senior Secured Note, entered into March 2013, due March 2033	6,611	6,837
Note payable 5.26% Senior Secured Note, entered into December 2013, due December 2028	60,165	63,000
Promissory note entered into December 2013, due December 2020 with interest synthetically fixed at 3.97%	18,848	20,750
Note payable 5.09% Senior Secured Note entered into July 2014, due August 2034	79,225	–
Promissory note entered into October 2014, due October 2021 with interest at 3.75%	22,000	–
Software and equipment loans, due varying dates in 2016 and 2017	13,755	22,517
Total long-term debt	209,001	143,397
Less unamortized discount	455	727
Less current portion	15,364	13,708
Non-current portion of long-term debt	$ 193,182	$ 128,962

9. Long-Term Debt (continued)

New Market Tax Credits

In 2008, OCH entered into a loan with a financial institution in the form of a note payable totaling $22 million. The loan is eligible for federal income tax credits under the New Markets Tax Credits program implemented by Congress in December 2000. Borrowings under the note payable bear interest at three-month LIBOR less 2.35%, subject to a 0.50% floor (0.50% at December 31, 2014). Interest payments are due in quarterly installments that commenced on April 1, 2008, and were originally due in February 2015, along with the lump sum principal payment, but were prepaid in October 2014. This loan was guaranteed by OCF through the Guarantee Agreement discussed in Note 8.

St. Anne

On May 1, 2006, OCF entered into lease and management services agreements with Lafourche Parish Hospital Service District No. 2 (Lafourche), which owns and operates St. Anne General Hospital and related facilities (St. Anne) of Raceland, Louisiana. Under the agreements, OCF leases the St. Anne buildings and facilities, purchased working capital and certain equipment of St. Anne's and operates the hospital for a specified period of time. As part of the agreement, OCF entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment for $7,100,000. On December 31, 2010, OCF and Lafourche executed an amendment in which the principal and all accrued and unpaid interest of $8,029,000 became the new principal amount of the note and the note was extended for five years to a maturity date of May 1, 2016. The interest rate on the working capital note, based on the 5-Year Yield Tax Exempt Insured Revenue Bond Rate published by Bloomberg, was 1.19% and 1.07% at December 31, 2014 and 2013, respectively.

March 2013 Note Payable

Pursuant to OCF's purchase of two Medical Office Buildings on November 15, 2012, OCF entered into a loan in the principal amount of $7 million on March 12, 2013. The loan is secured by first mortgage liens on medical office building properties at 1850 East Gause Boulevard (Northshore Medical Office Building 1) and 105 Medical Center Drive (Northshore Medical Office Building 2), both in Slidell, Louisiana and both in close proximity to Ochsner Medical Center – Northshore. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 4.61%. Principal and interest payments are due monthly based upon a 20-year (240-month) amortization period and actual/360-day interest period.

9. Long-Term Debt (continued)

December 2013 Note Payable

OCF entered into a loan in the principal amount of $63 million on December 30, 2013. The loan is secured by first mortgage liens on OCF facilities at 2005 Veterans Memorial Boulevard, Metairie, Louisiana and 1950 Gause Boulevard, Slidell, Louisiana. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 5.26%. Principal and interest payments are due monthly based upon a 15-year (180-month) amortization period and actual/360-day interest period.

December 2013 Promissory Note

OCF entered into a loan with a financial institution (the Loan) in the principal amount of $20.75 million on December 31, 2013. The Loan is in the form of a promissory note bearing stated interest of 30-day LIBOR plus 2.00%. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property. Principal and interest payments are due monthly based upon a 15-year (180-month) fixed principal payment amortization period with the balance of the outstanding principal due on a 7-year maturity date of December 30, 2020, and actual/360-day interest period. As part of a program to manage interest rate risk, OHS entered into an interest rate swap agreement on December 19, 2013, effective as of December 30, 2013. OCF pays 1.97% fixed interest rate on the outstanding notional amount based on the outstanding principal balance of the loan to the counterparty and receives the floating amount of 30-day LIBOR as of the date of rate-set. The effect of the swap agreement is to fix OCF's interest rate on the loan at 3.97%.

July 2014 Note Payable

OCF entered into a loan in the principal amount of $80 million on July 31, 2014. The loan is secured by first mortgage liens on OCF facilities at 17000 Medical Center Drive, Baton Rouge, Louisiana, and 16777 Medical Center Drive, Baton Rouge, Louisiana. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 5.09%. Principal and interest payments are due monthly based upon a 20-year (240-month) amortization period and actual/360-day interest period.

9. Long-Term Debt (continued)

October 2014 Promissory Note

OCF entered into a loan with a financial institution (the 2014 Loan) in the principal amount of $22.0 million on October 30, 2014. The 2014 Loan is in the form of a promissory note bearing stated interest of 3.75%. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property. Principal and interest payments are due quarterly with the first payment due on February 1, 2015, and based upon a 15-year fixed principal payment amortization period. The balance of the outstanding principal is due on a 7-year maturity date of October 31, 2021, and actual/360-day interest period.

At December 31, 2014, scheduled repayments of long-term debt for the next five fiscal years are as follows (in thousands):

Years ending December 31:	
2015	$ 15,364
2016	22,753
2017	12,302
2018	10,113
2019	10,461

10. Employee Benefit Plans

Defined Benefit Pension Plan

Certain employees of OCF and its subsidiaries are covered under a defined benefit pension plan (the Defined Benefit Plan). The Defined Benefit Plan is non-contributory and provides benefits that are based on the participants' credited service and average compensation during the last five years of covered employment. As of December 31, 2006, benefit accruals ceased for all plan participants under age 40 and those over age 40 who elected to freeze their retirement plan benefits. OCF made an additional change to the Defined Benefit Plan, and as of December 31, 2009, benefit accruals cease for all plan participants under age 55 with less than 10 years of service (rounded to the nearest 6 months). Physician/executive participants are frozen as of December 31, 2009, regardless of age and service. Participants who are not frozen as of December 31, 2009, can accrue benefits until the earlier of age 65 or December 31, 2014. No new participants are allowed to enter the Defined Benefit Plan. OCF makes contributions to

10. Employee Benefit Plans (continued)

its qualified plan that satisfy the minimum funding requirements under Employee Retirement Income Security Act of 1974. These contributions are intended to provide not only for benefits attributed to services rendered to date but also those expected to be earned in the future.

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost (in thousands):

	December 31	
	2014	**2013**
Change in benefit obligation:		
Benefit obligation – beginning of year	$ 484,075	$ 504,635
Service cost	1,143	1,348
Interest cost	22,897	20,923
Actuarial loss (gain)	74,448	(23,791)
Benefits paid	(21,037)	(19,040)
Benefit obligation – end of year	561,526	484,075
Change in plan assets:		
Fair value of plan assets – beginning of year	384,947	362,547
Actual return on plan assets	36,606	35,185
Employer contributions	19,550	6,255
Benefits paid	(21,037)	(19,040)
Fair value of plan assets – end of year	420,066	384,947
Funded status	$ (141,460)	$ (99,128)

10. Employee Benefit Plans (continued)

	December 31 2014	December 31 2013
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations – current portion	$ –	$ –
Pension and postretirement obligations – noncurrent portion	(141,460)	(99,128)
Unrestricted net assets	N/A	N/A
Amounts recognized in unrestricted net assets:		
Net actuarial loss	219,450	155,958
Prior service credit	–	(20)
Total amounts recognized	219,450	155,938
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net loss (gain)	67,540	(29,603)
Recognized loss	(4,048)	(5,303)
Recognized prior service credit	20	63
Total amounts recognized	$ 63,512	$ (34,843)

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

	2014	2013
Weighted-average discount rate	4.06%	4.83%
Rate of compensation increase	Graded	Graded

In 2014, OHS updated its assumptions regarding the appropriate mortality table and participant retirement ages for purposes of determining the projected benefit obligations at December 31, 2014. In October 2014, the Society of Actuaries released updated mortality tables (collectively referred to as RP-2014) that reflect increases in longevity from the previous tables that were issued in 2000. OHS updated its assumption regarding the appropriate mortality table used in

10. Employee Benefit Plans (continued)

determining the projected benefit obligation based upon the RP-2014 tables, modified to reflect State of Louisiana mortality experience. OHS also updated its assumptions regarding participant retirement ages based on an updated analysis of recent OHS-specific retirement trends. The changes to these assumptions resulted in a $20.2 million actuarial loss in 2014.

Net periodic pension cost for the years ended December 31 includes the following components (in thousands)

	2014	2013
Service cost	$ 1,143	$ 1,348
Interest cost	22,897	20,923
Expected return on plan assets	(29,698)	(29,373)
Amortization of net loss	4,048	5,303
Recognized prior service credit	(20)	(63)
Net periodic pension benefit	$ (1,630)	$ (1,862)

Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31 were as follows:

	2014	2013
Weighted-average discount rate	4.83%	4.16%
Expected return on plan assets	7.80	8.30
Rate of compensation increase	Graded	Graded

10. Employee Benefit Plans (continued)

The fair values of the Defined Benefit Plan assets at December 31 are as follows (in thousands):

	2014 Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Observable Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[a]	$ 14,624	$ –	$ –	$ 14,624
Fixed income investments[a][b][c]	19,828	26,465	21,204	67,497
Marketable equity securities[a][b][c]	78,633	40,973	42,093	161,699
Absolute return[b][c]	–	10,739	118,382	129,121
Private equity/venture capital[c]	–	–	19,186	19,186
Natural resources[a][c]	20,519	–	7,420	27,939
Total	$ 133,604	$ 78,177	$ 208,285	$ 420,066

	2013 Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Observable Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds[a]	$ 19,073	$ –	$ –	$ 19,073
Fixed income investments[a][b][c]	50,817	12,090	10,074	72,981
Marketable equity securities[a][b][c]	77,500	39,917	35,549	152,966
Absolute return[b][c]	–	10,107	85,111	95,218
Private equity/venture capital[c]	–	–	18,389	18,389
Natural resources[a][c]	19,231	–	7,089	26,320
Total	$ 166,621	$ 62,114	$ 156,212	$ 384,947

[a] Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available.

10. Employee Benefit Plans (continued)

(b) Represents funds invested in common/collective trust funds or other alternative investments. Investments classified as Level 1 represent a fund that is publicly traded. Valuation of this fund is based on unadjusted quoted prices in active markets that are readily and regularly available. Level 2 classification represents investments in common/collective trust funds or other alternative investment funds and are classified based on the nature of the underlying investments of the fund. The estimated fair value is based upon reported Net Asset Value (NAV) provided by fund managers and this value represents the amount at which transfers into and out of the fund are affected. This fund provides reasonable levels of price transparency and can be corroborated through observable market data.

(c) In general, investments classified within Level 3 are alternative investments and use many of the same valuation techniques and inputs as described above, including reported NAV. However, if key inputs are unobservable, or if the investments are less liquid and there is very limited trading activity, the investments are generally classified as Level 3. The use of independent non-binding broker quotations to value investments generally indicates there is a lack of liquidity or the general lack of transparency in the process to develop the valuation estimates generally causing these investments to be classified in Level 3. This category includes funds that are invested in hedge fund and private equity investments that provide little or no price transparency due to the infrequency with which the underlying assets trade and generally require additional time to liquidate in an orderly manner. Accordingly, the values of these alternative asset classes are based on inputs that cannot be readily derived from or corroborated by observable market data and are based on investment balances provided by fund managers and adjusted for contributions and distributions in the event such balances pertain to an interim date. The investment return for the period in question is benchmarked against investment vehicles that management determines reasonably approximates the composition/nature of a selected Level 3 investment.

A rollforward of the fair value measurements for all assets measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for the year ended December 31, 2014, is as follows (in thousands):

	January 1, 2014	Gains	Purchases	Sales	December 31, 2014
Fixed income	$ 10,074	$ 1,130	$ 10,000	$ –	$ 21,204
Equity securities	35,549	6,544	–	–	42,093
Absolute return	85,111	8,271	25,000	–	118,382
Private equity/venture capital	18,389	8,245	–	(7,448)	19,186
Natural resources	7,089	927	–	(596)	7,420
Total	$ 156,212	$ 25,117	$ 35,000	$ (8,044)	$ 208,285

10. Employee Benefit Plans (continued)

The Defined Benefit Plan asset allocation as of the measurement dates (December 31, 2014 and 2013), and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2014	2014 Target Allocation	2013
Debt securities	16%	15%	19%
Equity securities	38	40	39
Private equity/venture capital	5	2	5
Hedge funds	31	33	25
Natural resources/REITs	7	10	7
Other	3	–	5

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings several times during the year by the Investment Committee of OCF. OCF utilizes an investment consultant and multiple managers for different asset classes. The Investment Committee takes into account liquidity needs of the plan to pay benefits in the short term and the anticipated long-term obligations of the Defined Benefit Plan.

The primary financial objectives of the Defined Benefit Plan are to: (1) provide a stream of relatively predictable, stable, and constant earnings in support of the Defined Benefit Plan's annual benefit obligations; and (2) preserve and enhance the real (inflation-adjusted) value of the assets of the Defined Benefit Plan. The long-term investment objectives of the Defined Benefit Plan are to: (1) attain the average annual total return assumed in the Defined Benefit Plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods; (2) outperform the Defined Benefit Plan's custom benchmark; and (3) outperform the median return of a pool of retirement funds to be identified in conjunction with OCF's investment consultant.

The asset allocation is designed to provide a diversified mix of asset classes including U.S. and foreign equity securities, fixed income securities, real estate investment trusts, natural resources, cash, and funds to hedge against deflation and inflation. Risk management practices include various criteria for each asset class including measurement against several benchmarks, achievement of a positive risk adjusted return, and investment guidelines for each class of assets that enumerate types of investment allowed in each category.

10. Employee Benefit Plans (continued)

The OCF Retirement Plan Statement of Investment Policies and Objectives provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving the 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. OCF Treasury staff oversees the day-to-day activities involving assets of the Defined Benefit Plan and the implementation of any changes adopted by the Investment Committee.

OCF currently expects to make a contribution to the Defined Benefit Plan of approximately $8.6 million in 2015.

For 2014 and 2013, OCF's Defined Benefit Plan had accumulated benefit obligations of approximately $561,526,000 and $483,219,000, respectively.

The estimated net loss for the Defined Benefit Plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is approximately $5,678,000.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2014, are as follows (in thousands):

Years ending December 31:	
2015	$ 23,418
2016	25,110
2017	26,517
2018	28,055
2019	29,536
2020–2024	163,912
	$ 296,548

10. Employee Benefit Plans (continued)

Defined Contribution Plans

All employees of OCF and OCH meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the Plan). OCF and OCH may annually elect to make a retirement contribution on behalf of eligible employees in an amount up to 2% of the participant's annual eligible compensation. In addition, OCF and OCH may annually elect to make a match for eligible employees of 50% of the first 4% the employees contribute into their 401(k). At December 31, 2014 and 2013, OHS has accrued approximately $21,716,000 and $20,625,000 for matching contributions to the Plan for the 2014 and 2013 fiscal years, respectively.

Certain OCF employees are also covered under a 457(f) plan. The 457(f) plan was created to replace 100% of the benefit target for employees under age 65 as of December 31, 2009, whose benefits in the Defined Benefit Plan were frozen. The participant pays taxes at vesting and payout occurs at the later of age 65 or retirement. Participants of the 457(f) plan also participate in the 401(k) contributions. OHS' accompanying consolidated balance sheets reflect a liability of approximately $11,748,000 and $10,341,000 for the 457(f) plan at December 31, 2014 and 2013, respectively.

Other Postretirement Benefits

OCF also provides certain health care and life insurance benefits for retired employees. OCF funds these benefits on a pay-as-you-go basis. The obligations under the postretirement plan are $2,061,000 and $1,968,000 at December 31, 2014 and 2013, respectively.

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets

OHS has 701 temporarily restricted funds and 62 permanently restricted funds established for a variety of purposes. These funds are classified and reported based on the existence or absence of donor-imposed restrictions. Restricted net assets include funds dedicated to Medical Education, Nursing Education, Pastoral Care, Biomedical Research, Cancer Research, Cardiology Research, Transplant Research and Alzheimer's Research.

ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements,* 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 the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which the state of Louisiana enacted on July 1, 2010.

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

UPMIFA requires OHS to classify the portion of each donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure. Temporarily restricted net assets available for appropriations at December 31, 2014 and 2013, total approximately $4,399,000 and $3,338,000, respectively. Management retroactively adopted UPMIFA as of January 1, 2009.

UPMIFA also requires that OHS preserve the historic dollar value of the donor restricted endowed funds. Therefore, permanently restricted net assets contain the aggregate fair market value of: (1) an endowment fund at the time it became an endowment fund, (2) each subsequent donation to the fund at the time it is made, and (3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund.

Restricted Net Assets as of December 31, 2014, by Purpose (in thousands)

	Temporarily Restricted	Permanently Restricted	Total
Research	$ 11,019	$ 16,526	$ 27,545
Education	5,708	3,377	9,085
Other	28,276	3,494	31,770
Total	$ 45,003	$ 23,397	$ 68,400

Restricted Net Assets as of December 31, 2013, by Purpose (in thousands)

	Temporarily Restricted	Permanently Restricted	Total
Research	$ 9,660	$ 16,526	$ 26,186
Education	4,952	3,258	8,210
Other	27,441	3,477	30,918
Total	$ 42,053	$ 23,261	$ 65,314

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2014
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ –	$ 8,859	$ 23,397	$ 32,256
Board-designated funds	1,378	–	–	1,378
Total	$ 1,378	$ 8,859	$ 23,397	$ 33,634

Endowment Net Asset Composition by Type of Fund as of December 31, 2013
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ –	$ 5,885	$ 23,261	$ 29,146
Board-designated funds	1,360	–	–	1,360
Total	$ 1,360	$ 5,885	$ 23,261	$ 30,506

Changes in Endowment Net Assets for the Year Ended December 31, 2014
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ 1,360	$ 5,885	$ 23,261	$ 30,506
Investment gain	45	3,872	–	3,917
Contributions	–	1	136	137
Appropriations for expenditures	(27)	(899)	–	(926)
Ending balance	$ 1,378	$ 8,859	$ 23,397	$ 33,634

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2013 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ 2,500	$ 2,839	$ 22,664	$ 28,003
Investment gain	449	3,247	–	3,696
Contributions	–	–	597	597
Appropriations for expenditures	(1,589)	(201)	–	(1,790)
Ending balance	$ 1,360	$ 5,885	$ 23,261	$ 30,506

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires OHS to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2014 or 2013.

Return Objectives and Risk Parameters

OHS has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that OHS must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. OHS expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

11. Endowment Funds and Temporarily and Permanently Restricted Net Assets (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, OHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. OHS uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

Spending Policy and How the Investment Objectives Relate to Spending Policy

It is OHS' objective to establish a payout rate from endowment accounts that provides a stable, predictable level of spending for the endowed purposes that will increase with the rate of inflation, and to continue to invest in accordance with policy goals of providing for a rate of growth in the endowment earnings that meets or exceeds the rate of inflation. The annual spending appropriation will be subject to a minimum rate of 4% and a maximum rate of 7% of each endowment fund's current market value. Temporarily restricted net assets, along with other donor restricted funds, include the spending appropriation and investment income of the endowments and are pending appropriation for expenditure consistent with the specific purpose of the fund.

12. Business Combination

Effective November 1, 2014, OCH acquired River Parishes Hospital from LifePoint, Inc. for approximately $4.9 million in cash. The transaction was accounted for as a business combination and the financial results have been included in OCH's financial results since the date of the transaction. Purchase price amounts have been allocated to the related assets acquired and liabilities assumed based upon their respective fair values. The fair value of identifiable net assets acquired in excess of the purchase price was approximately $0.7 million, which is included as a gain in the investment and other realized gains and losses – net within the non-operating gains and losses in the accompanying consolidated statements of operations and represents the inherent contribution as a result of the transaction. Net operating revenues attributable to River Parishes Hospital that are included in the accompanying consolidated statement of operations since the acquisition date through December 31, 2014 totaled approximately $4.5 million. The estimated pro forma effects of the acquired entity on OCH's results of operations for periods prior to the acquisition date were not significant.

13. Functional Expenses

OHS provides general health care services primarily to residents within its geographic location. Expenses related to providing these services for the years ended December 31 are as follows (in thousands):

	2014	2013
Health care services	$ 1,566,613	$ 1,396,039
General and administrative	641,266	556,103
Medical education	39,751	37,075
Research	11,655	10,397
Fitness center	11,295	11,999
Hotel	3,169	3,070
	$ 2,273,749	$ 2,014,683

14. Commitments and Contingencies

Professional and General Liability Insurance

Professional and general liability claims have been asserted against OHS by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. Incidents occurring through December 31, 2014, may result in the assertion of additional claims. OCF and OCH participate in a risk management program to provide for professional and general liability coverage.

Under this program, OCF and OCH carry professional and general liability insurance coverage for up to $65 million each of annual aggregate claims subject to certain deductible provisions. OCF is self-insured with respect to the first $3,000,000 of each claim for professional liability with an annual aggregate exposure of $6,000,000. General liability claims are subject to a retention of $1,000,000 per claim and $2,000,000 annual aggregate. OHS also carries additional coverage on certain community hospitals that carry similar coverage with lower self-retention and aggregate levels.

14. Commitments and Contingencies (continued)

Professional liability claims are limited by Louisiana statute to $500,000 per occurrence, the first $100,000 of which is payable by the health care provider and the remainder of which is payable by the Patient's Compensation Fund (the Fund) for participants in the Fund. The Fund was established by the Medical Malpractice Act, which was enacted in 1975 by the State of Louisiana. The Act established the Fund and limited recovery in medical malpractice cases to $500,000. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by OHS for participation in the Fund for the years ended December 31, 2014 and 2013, were approximately $19,842,000 and $18,936,000, respectively.

OCF and OCH each have an established trust fund held by a financial institution. Disbursements are made from the trust fund for self-insured professional and general liability claims, claims administration costs and legal fees. The amounts to be contributed to the trust funds are determined annually by an independent actuary. The trust fund assets for OCF and OCH in the aggregate totaled approximately $9,740,000 and $8,651,000 at December 31, 2014 and 2013, respectively. The trust fund assets are included in Assets limited as to use under self-insurance trust fund in the accompanying consolidated balance sheets. The estimated liability recorded by OCF and OCH in the aggregate for claims, based on the actuarial report, is approximately $13,979,000 with estimated reinsurance recoveries of $1,275,000 at December 31, 2014, and $15,125,000 with estimated reinsurance recoveries of $2,002,500 at December 31, 2013. The estimated liability is included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. The estimated liability for OCF was discounted at a range of 2.5% to 4.0% at both December 31, 2014 and 2013. The estimated liability for OCH was discounted at 2.0% at December 31, 2014 and 2013. If the risk management program is terminated, the trust fund balances, if any, revert to OCF and OCH after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

Estimated Workers' Compensation and Employee Health Claims

OHS is self-insured for workers' compensation and employee health claims. The estimated liability for workers' compensation and employee health claims totaled approximately $17,058,000 and $15,893,000 at December 31, 2014 and 2013, respectively, which is included in accrued salaries, wages, and benefits, other current liabilities, and other long-term liabilities in the accompanying consolidated balance sheets.

14. Commitments and Contingencies (continued)

Property Insurance

OHS previously carried property insurance through OSPC. OSPC's last insurance contract ended May 31, 2014. OHS now carries property insurance coverage through third-party insurers. Claims are subject to retention of $250,000 per claim and $750,000,000 annual aggregate. Named windstorms have a separate annual retention limit of $150,000,000 and a deductible of 3% of the insured value. OHS also carries coverage on certain community hospitals with lower self-retention and aggregate levels.

Lease Commitments

The capital lease obligations are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets.

Additionally, OHS leases assets under various rental agreements. OHS leases have varying terms, which may include renewal or purchase options and escalation clauses that are factored into determining minimum lease payments. The following schedule summarizes OHS' future annual minimum rental commitments on outstanding leases as of December 31, 2014 (in thousands):

	Lease Obligations	
	Capital	Operating
2015	$ 2,327	$ 26,148
2016	1,922	21,437
2017	1,913	14,959
2018	1,001	9,877
2019	–	6,940
Thereafter	–	29,315
Total minimum lease payments	7,163	$ 108,676
Amounts representing interest	407	
	6,756	
Less current maturities	(2,126)	
Capital lease obligations – noncurrent	$ 4,630	

14. Commitments and Contingencies (continued)

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was approximately $42,021,000 and $41,607,000 for the years ended December 31, 2014 and 2013, respectively.

Operating Leases – Lessor

OHS leases office space to other businesses. Lease terms generally range from one to four years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals and all rental revenue has been recorded on a straight-line basis. Following is a schedule by years of future minimum rental payments under non-cancelable operating leases as of December 31, 2014 (in thousands):

Years ending December 31:	
2015	$ 3,175
2016	1,911
2017	1,345
2018	1,123
2019	493
Thereafter	910
Total minimum lease payments to be received	$ 8,957

Contingencies

The health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. OHS and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of their business. Management of OHS believes the reserves it has established for these issues are adequate and does not believe, based on current facts and circumstances and after review with counsel, that these matters will have a material adverse effect on OHS' consolidated statements of financial position or results of operations.

14. Commitments and Contingencies (continued)

In September 2009, OCF indefinitely suspended operations at its in vitro fertilization center due to the mislabeling of frozen embryos. There are 50 patients who have either filed a lawsuit or a claim before the Fund alleging mishandling in the labeling and storage of embryos between 2004 and 2009. The Fund has taken the position that this liability is not covered by the Fund. However, these cases are covered by Ochsner's professional liability coverage.

All claims stemming from this matter have been settled. Furthermore, OCF reached the $6 million self-insured retention for the 2008 – 2009 policy period and OCF has so notified the carrier (both the claims and underwriting departments) by submitting its loss run report and supporting documentation to tender its defense and ongoing indemnity payments. All expenses over and above the $6 million retention are being paid by the carrier.

Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare and Medicaid overpayments and underpayments made to providers. RACs are compensated based on the amount of both overpayments and underpayments they identify by reviewing claims submitted to Medicare for correct coding and medical necessity. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes. Payment recoveries and denials resulting from RAC reviews can be appealed through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, OHS will incur additional costs to respond to requests for records and to pursue the reversal of payment denials. OHS expects the RACs will continue to seek CMS approval to review additional issues.

During 2010, OHS was selected for review by RAC auditors, which is ongoing as of December 31, 2014. Management of OHS believes that the reserves it has established based on preliminary results, included in other long-term liabilities in the accompanying consolidated balance sheets, are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on its future consolidated results of operations or cash flows.

15. Subsequent Events

OHS has evaluated subsequent events through April 27, 2015, the date the accompanying consolidated financial statements were available for issuance.

Ochsner Health System and Subsidiaries

Schedule of Compensation Information

Year Ended December 31, 2014

Chief Executive Officer: Warner L. Thomas

Purpose	Amount	Support
Salary	$ 1,482,813.04	(a)
Benefits–Insurance	8,201.40	(a)
Benefits–Retirement	6,800.00	(b)
Benefits–Increase in Actuarial Value of Defined Benefit Plan	44,608.00	(c)
Benefits–Disability	8,548.32	(a)
Benefits–Life Insurance	3,742.32	(a)
Benefits–Car allowance	12,000.00	(a)
Benefits–Mobile Device Stipend	540.00	(a)
Per diem		
Reimbursements	19,648.60	(d)
Travel	21,589.31	(d)
Continuing professional education fees	9,234.49	(d)
Total	$ 1,617,725.48	

(a) Payroll compensation and deductions
(b) 401k company contribution
(c) Buck Consulting – change in value
(d) Accounts payable reporting for reimbursements

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Building a better working world

Report of Independent Auditors 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 Directors and Management
Ochsner Health System and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ochsner Health System and its subsidiaries (Ochsner Health System), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of This Report

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

Ernst & Young LLP

April 27, 2015

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

The Board of Directors and Management
Ochsner Health System and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Ochsner Health System and its subsidiaries' (Ochsner Health System) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ochsner Health System's major federal programs for the year ended December 31, 2014. Ochsner Health System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Ochsner Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Ernst & Young LLP

April 27, 2015

Ochsner Health System and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other Federal Expenditures	Total Federal Expenditures
U.S. Department of Health and Human Services					
Direct Awards:					
State Rural Hospital Flexibility Program	93.241	–	$ –	$ 1,270	$ 1,270
Small Rural Hospital Improvement Grant Program	93.301	–	–	2,490	2,490
National Center for Advancing Translational Sciences	93.350	–	227,613	–	227,613
Cancer Treatment Research	93.395	–	576,296	–	576,296
Health Care Innovation Awards (HCIA)	93.610	–	–	1,338,296	1,338,296
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	–	17,362	–	17,362
Healthcare and Other Facilities	93.887	–	–	(15,222)	(15,222)
Pass-Through From:					
Southern Regional Medical Corporation					
Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283	158070077B	–	(67,010)	(67,010)
Southwest Louisiana Area Health Education Center					
Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283	704940	–	68,997	68,997
Total CFDA 93.283			–	1,987	1,987
Louisiana State University Health Sciences Center					
National Center for Research Resources	93.389	12-91-007	(2,037)	–	(2,037)
American College of Radiology Imaging Network					
Cancer Detection and Diagnosis Research	93.394	ACRIN6654	195	–	195
Cancer Detection and Diagnosis Research	93.394	547020	3,045	–	3,045
Total CFDA 93.394			3,240	–	3,240
Radiation Therapy Oncology Group					
Cancer Treatment Research	93.395	U10CA0037422	576	–	576
American College of Surgeons Oncology Group					
Cancer Treatment Research	93.395	7U10CA76001-4 & 7U10CA86004-2	2,086	–	2,086
Total CFDA 93.395			2,662	–	2,662
Eastern Cooperative Oncology Group					
Cancer Control	93.399	3U10CA37403-15	3,201	–	3,201

Ochsner Health System and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other Federal Expenditures	Total Federal Expenditures
U.S. Department of Health and Human Services (continued)					
Southeastern Louisiana Area Health Education Center					
Strong Start for Mothers and Newborns	93.611	CMS-1D1-12-001	$ –	$ 51,443	$ 51,443
American College of Radiology Imaging Network					
ARRA – Trans-NIH Recovery Act Research Support	93.701	CA80098	40	–	40
Louisiana Health Care Quality Forum					
ARRA – Health Information Technology Regional Extension Centers Program	93.718	90RC0049/01	–	10,400	10,400
Louisiana State University Health Sciences Center					
Lung Diseases Research	93.838	08-64-024	160	–	160
University of Medicine and Dentistry of New Jersey					
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	R01 NS38384	4,899	–	4,899
Regents of University of Minnesota					
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	N003439224	29,403	–	29,403
Total CFDA 93.853			34,302	–	34,302
John Hopkins University					
Allergy, Immunology and Transplantation Research	93.855	2002300301	198	–	198
The Board of Trustees of the University of Alabama					
Child Health and Human Development Extramural Research	93.865	000378020-005	82,639	–	82,639
Louisiana Hospital Association					
National Bioterrorism Hospital Preparedness Program	93.889	2013 – 2014 (Round 12)	–	107,850	107,850
Total U.S. Department of Health and Human Services			945,676	1,498,514	2,444,190

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other Federal Expenditures	Total Federal Expenditures
Corporation for National and Community Service					
Pass-Through From:					
Greater New Orleans Foundation					
Social Innovation Fund	94.019	–	$ –	$ 11,379	$ 11,379
Total Corporation for National and Community Service			–	11,379	11,379
U.S. Department of Homeland Security					
Pass-Through From:					
State of Louisiana Governor's Office of Homeland Security and Emergency Preparedness					
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	1156	–	3,937	3,937
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	1408	–	5,018	5,018
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	1409	–	1,819	1,819
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	1544	–	827,935	827,935
Total CFDA 97.036			–	838,709	838,709
Total U.S. Department of Homeland Security			–	838,709	838,709
Total Expenditures of Federal Awards			$ 945,676	$ 2,348,602	$ 3,294,278

See accompanying notes to schedule of expenditures of federal awards.

1. General

The schedule of expenditures of federal awards presents expenditures for all federal programs that were in effect during the year ended December 31, 2014.

2. Basis of Accounting

Expenditures are reported on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, with the exception of expenditures for Disaster Grants (see Note 4). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. Subrecipient Awards

Of the federal expenditures presented in the schedule, Ochsner Health System provided federal awards to subrecipients as follows:

Program	Amount
National Center for Advancing Translational Sciences – CFDA 93.350	$ 20,248
Healthcare Innovation Awards (HCIA) – CFDA 93.610	2,224
	$ 22,472

4. Disaster Grants – Public Assistance (Presidentially Declared Disasters)

In fiscal year 2014, Ochsner Health System received approval from the State of Louisiana Governor's Office of Homeland Security and Emergency Preparedness for reimbursement of eligible costs of $177,798 and $549,786 incurred in fiscal years 2012 and 2013, respectively. These 2012 and 2013 expenditures are included on the schedule of expenditures in the current year in accordance with guidance provided by the U.S. Department of Homeland Security based on the date funds were obligated versus expended.

Ochsner Health System and Subsidiaries

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

Section I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unmodified, qualified, adverse, or disclaimer):	**Unmodified**	
Internal control over financial reporting:		
Material weakness(es) identified?	____ **yes**	X **no**
Significant deficiency(ies) identified?	____ **yes**	X **none reported**
Noncompliance material to financial statements noted?	____ **yes**	X **no**

Federal Awards Section

Internal control over major programs:		
Material weakness(es) identified?	____ **yes**	X **no**
Significant deficiency(ies) identified?	____ **yes**	X **none reported**
Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse, or disclaimer):	**Unmodified**	
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	____ **yes**	X **no**

Section I – Summary of Auditor's Results (continued)

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
93.610	Health Care Innovation Awards (HCIA)
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: **$ 300,000**

Auditee qualified as low-risk auditee? _______ **yes** ___X___ **no**

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No findings were noted.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

No findings were noted.

Ochsner Health System and Subsidiaries

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2014

No uncorrected findings were noted in 2013 or 2012.

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