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Ochsner Health System and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors' Report

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Ochsner Health System:

We have audited the accompanying consolidated balance sheets of Ochsner Health System (OHS) and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of OHS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OHS' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OHS as of December 31, 2011 and 2010, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Effective January 1, 2011, OHS elected to early adopt ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (see Note 1).

Deloitte & Touche LLP

April 19, 2012

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010
(In thousands)

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 123,974	$ 93,861
Assets limited as to use required for current liabilities	3,732	3,754
Patient accounts receivable — net	167,319	197,882
Accounts receivable other	32,731	16,850
Pledges receivable — net	1,517	1,614
Inventories	34,672	35,788
Prepaid expenses and other current assets	22,279	20,703
Estimated third-party payor settlements — net	13,886	5,675
Total current assets	400,110	376,127
ASSETS LIMITED AS TO USE:		
By board for capital improvements, charity, research, and other	313,146	319,779
Under bond indenture agreements	133,899	29,009
Under loan agreements	3,311	2,428
Under self-insurance trust fund	10,224	8,587
Donor-restricted long-term investments	43,820	45,831
Total assets limited as to use	504,400	405,634
Less assets limited as to use required for current liabilities	(3,732)	(3,754)
Noncurrent assets limited as to use	500,668	401,880
INVESTMENTS IN UNCONSOLIDATED AFFILIATES, REAL ESTATE AND OTHER	7,620	7,758
PROPERTY — Net	608,246	547,718
GOODWILL — Net	43,077	43,097
INTANGIBLE ASSETS — Net	11,433	11,556
OTHER ASSETS	16,510	16,230
TOTAL	$ 1,587,664	$ 1,404,366

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES:		
Accounts payable	$ 72,469	$ 73,993
Accrued interest	4,195	3,033
Accrued salaries, wages, and benefits	58,625	52,960
Accrued compensation for absences	34,642	31,768
Deferred revenue	10,109	2,759
Other	37,367	42,399
Pension and postretirement obligations — current portion	344	5,430
Bonds payable — current portion	5,360	5,100
Notes payable — current portion	52,969	52,969
Long-term debt — current portion	5,634	3,097
Total current liabilities	281,714	273,508
PENSION AND POSTRETIREMENT OBLIGATIONS	144,614	72,264
BONDS PAYABLE	583,085	439,415
LONG-TERM DEBT	83,521	73,405
OTHER LONG-TERM LIABILITIES	16,560	11,437
Total liabilities	1,109,494	870,029
COMMITMENTS AND CONTINGENCIES (Notes 5 and 14)		
NET ASSETS:		
Unrestricted	424,825	479,540
Temporarily restricted	30,792	32,432
Permanently restricted	22,553	22,365
Total net assets	478,170	534,337
TOTAL	$ 1,587,664	$ 1,404,366

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
UNRESTRICTED REVENUES:		
Patient service revenue — net of contractual allowances and discounts	$ 1,530,148	$ 1,455,427
Provision for bad debts	(83,069)	(126,955)
Net patient service revenue, less provision for bad debts	1,447,079	1,328,472
Premium revenue	298,222	287,442
Other operating revenue	47,505	78,925
Net assets released from restrictions used for operations	3,581	3,461
Total unrestricted revenues	1,796,387	1,698,300
EXPENSES:		
Salaries and wages	821,948	762,579
Benefits	121,820	112,910
Depreciation and amortization	62,085	57,659
Interest	28,059	26,027
Medical services to outside providers	123,019	124,933
Medical supplies and services	278,136	263,804
Other operating expenses	336,444	302,383
Total expenses	1,771,511	1,650,295
OPERATING INCOME	24,876	48,005
NONOPERATING GAINS AND LOSSES — Investment and other gains — net	11,072	14,172
EXCESS OF REVENUES OVER EXPENSES	35,948	62,177
CHANGE IN NET UNREALIZED (LOSSES) GAINS	(21,126)	15,176
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR CAPITAL ACQUISITIONS	1,461	4,564
INCREASE IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	16,283	81,917
PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(70,998)	(13,502)
OTHER		(120)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (54,715)	$ 68,295

See notes to consolidated financial statements.

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 35,948	$ 62,177
Change in net unrealized (losses) gains	(21,126)	15,176
Net assets released from restrictions used for capital acquisitions	1,461	4,564
Pension related changes other than net periodic pension costs	(70,998)	(13,502)
Other		(120)
(Decrease) increase in unrestricted net assets	(54,715)	68,295
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	4,534	10,774
Investment (loss) income — net of payments to beneficiaries	(1,132)	3,172
Net assets released from restrictions:		
Operations	(3,581)	(3,461)
Capital acquisitions	(1,461)	(4,564)
(Decrease) increase in temporarily restricted net assets	(1,640)	5,921
PERMANENTLY RESTRICTED NET ASSETS — Contributions	188	342
Increase in permanently restricted net assets	188	342
(DECREASE) INCREASE IN NET ASSETS	(56,167)	74,558
NET ASSETS — Beginning of year	534,337	459,779
NET ASSETS — End of year	$ 478,170	$ 534,337

See notes to consolidated financial statements.

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (56,167)	$ 74,558
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Pension related changes other than net periodic pension costs	70,998	13,502
Depreciation and amortization	62,085	57,659
Provision for bad debts	83,069	126,955
Contributions restricted for long-term investments	(132)	(342)
Contributions restricted for capital acquisitions	(187)	(563)
Net realized and unrealized gains (losses) on investments	13,895	(18,908)
Gain on acquisition of Ochsner Medical Center — Northshore LLC (Note 2)		(3,327)
Loss on disposal of fixed assets — net	127	111
Changes in operating assets and liabilities:		
Patient accounts receivable	(52,506)	(129,515)
Other current and noncurrent assets	(20,331)	(1,748)
Accounts payable	489	25,912
Accrued interest and other liabilities	11,806	11,105
Net cash provided by operating activities	113,146	155,399
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of assets whose use is limited and other investments	(217,555)	(76,491)
Acquisition of Ochsner Medical Center — Northshore LLC (Note 2)		(10,886)
Sales and maturities of assets whose use is limited and other investments	103,107	40,329
Capital expenditures	(96,329)	(74,272)
Proceeds from asset disposal	1,384	626
Acquisition of Ochsner DME, LLC (Note 2)		(730)
Net cash used in investing activities	(209,393)	(121,424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bonds payable and long-term debt	(20,152)	(8,450)
Proceeds from long-term borrowings	148,757	
Payments of bond issue costs	(2,564)	
Net draws on notes payable		20,790
Proceeds from contributions restricted for long-term investments	132	342
Proceeds from contributions restricted for capital acquisitions	187	563
Net cash provided by financing activities	126,360	13,245
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,113	47,220
CASH AND CASH EQUIVALENTS — Beginning of year	93,861	46,641
CASH AND CASH EQUIVALENTS — End of year	$ 123,974	$ 93,861
SUPPLEMENTAL DISCLOSURE — Cash paid for interest (net of amounts capitalized)	$ 25,015	$ 24,031
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property purchases included in accounts payable	$ 5,591	$ 3,578
Property purchases financed by capital lease and note payable	$ 26,620	$ -

The purchase of Ochsner Medical Center — Northshore LLC in April 2010 was funded partially by $23,640,000 in external financing.

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Ochsner Health System (OHS or "Ochsner") is a not-for-profit, non stock membership corporation formed during 2006 as the parent company of Ochsner Clinic Foundation (OCF) and Ochsner Community Hospitals (OCH).

In September 2006, OCF amended its articles of incorporation and by-laws to provide that OHS is the sole member of OCF with the authority to appoint the community directors of OCF, constituting a majority of its OCF board of directors. The consolidated balance sheets and statements of activities of OCF as of and for the years ended December 31, 2011 and 2010 have been included in the OHS consolidated financial statements.

OCF (formerly Alton Ochsner Medical Foundation or Foundation), located in New Orleans, Louisiana, is a not-for-profit institution reporting its activities in the following net asset categories:

Unrestricted:
- Foundation Activities
- Ochsner Foundation Hospital ("Hospital")
- Ochsner Foundation Hospital — Westbank Campus
- Research
- Education
- Elmwood Fitness Center
- Brent House Corporation
- Ochsner Clinic LLC ("Clinic")
- Gulf Cost Physician Network LLC (GCPN)
- Ochsner Bayou LLC
- East Baton Rouge Medical Center LLC ("Ochsner Medical Center — Baton Rouge")
- Ochsner HME LLC (formerly Ochsner DME LLC
- Ochsner System Protection Company
- Ochsner Medical Center — Northshore LLC (formed April 2010)

Temporarily restricted:
- Foundation Activities
- Research
- Education

Permanently restricted:
- Foundation Activities
- Research
- Education

On August 31, 2001, the Foundation and the Clinic effected a merger transaction resulting in the net assets of Ochsner Clinic, LLC being acquired by Alton Ochsner Medical Foundation. Ochsner Clinic, LLC is a multi-specialty group physician practice operating out of three primary locations and several satellite clinics in the New Orleans and Baton Rouge areas. In connection therewith, the name of Alton Ochsner Medical Foundation was changed to Ochsner Clinic Foundation (OCF), and the Clinic became a wholly owned subsidiary of OCF. As part of the merger transaction, the Foundation purchased the membership interests of the former members of the Clinic and the Foundation became the sole member of the Clinic.

The Hospital's medical and teaching staffs consist of physicians associated with the Clinic, a group practice of over 800 physicians. OCF also engages in a wide range of medical research, which is conducted by the Clinic's physicians. OCF established the Brent House Corporation to acquire and operate the Brent House Hotel for the general benefit of the patients of OCF.

In 2009, OCF formed Southeast Louisiana Homecare, LLC (SLH), a joint venture with a third party. Coincident therewith, OCF sold 100% of the assets of Ochsner Home Health Corporation and St. Anne Home Health, including related licenses, to SLH and a 25% membership interest in SLH. SLH operates as a home health agency and is being accounted for on the equity method of accounting by OCF subsequent to the sale. Also in 2009, Ochsner HME LLC and Ochsner System Protection Company LLC were established. Ochsner HME LLC was formed for the purpose of selling and leasing durable medical equipment and Ochsner System Protection Company, LLC operates as a wholly-owned captive insurance company domiciled in the state of Louisiana.

In 2010, OCF purchased Northshore Regional Medical Center from Tenet Healthcare Corporation and Healthcare Property Partners. The facility operates as Ochsner Medical Center – Northshore (see Note 2).

OHS is also the sole member of Ochsner Community Hospitals (OCH), a not-for-profit entity formed in July 2006 to acquire three former Tenet hospitals in the greater New Orleans area The acquisition of the hospitals took place on October 1, 2006. The individual hospitals were formed as not-for-profit, wholly owned limited liability subsidiaries of OCH and were as follows:

- Ochsner Medical Center Kenner, LLC — formerly Kenner Regional Medical Center in Kenner, Louisiana
- Ochsner Medical Center Westbank, LLC — formerly Meadowcrest Hospital in Gretna, Louisiana (until the facility's operations were transferred to OCF on September 14, 2008).
- Ochsner Baptist Medical Center, LLC — formerly Memorial Medical Center in New Orleans, 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. The consolidated financial statements include the accounts of OCF, OCH, and their wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Of particular significance to OHS' financial statements are pension assumptions, allowances for doubtful accounts and estimates of amounts to be received under government healthcare and other provider contracts. Actual results could differ from those estimates.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or under bond indenture agreements.

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

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.

Pledges receivable for the years ended December 31, 2011 and 2010 are expected to be realized as follows:

	2011	2010
In one year or less	$ 1,634	$ 1,691
Between one and five years	2,995	3,699
Greater than five years	1,125	1,650
	5,754	7,040
Less discount (ranging from and 1.25% - 4.50% and 1.00% - 4.63% at December 31, 2011 and 2010, respectively) and allowance for uncollectible pledges	(645)	(743)
Pledges receivable — net	$ 5,109	$ 6,297

Investments — 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, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. These investments are termed alternative investments in the notes to the financial statements and those without readily marketable fair values are accounted for under the equity method, which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses in unrestricted net assets (performance indicator) unless the income or loss is restricted by donor or law. Unrealized gains and losses on 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 the consolidated statements of operations. OHS recorded impairment charges on investment securities of approximately $3,301,000 and $813,000 for the years ended December 31, 2011 and 2010, 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 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 the Foundation 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	1–20

Impairment of Long-Lived Assets — OHS periodically 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. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Capitalization of Interest — OHS capitalizes interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating the OHS' average cost of borrowed funds for the project. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled $4,126,000 and $278,000 for the years ended December 31, 2011 and 2010, respectively.

Goodwill and Intangible Assets — Goodwill and intangible assets, consisting primarily of trade name and employment contracts, were recorded as a result of the Foundation's merger with the Clinic in 2001. Goodwill represents the excess of the fair value of the consideration conveyed in the acquisition over the fair value of net assets acquired. Goodwill arising from business combinations is not amortized. Goodwill and indefinite-lived intangible assets are required to be evaluated for impairment at the same time every year and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. The Company has selected December 31 as its annual testing date.

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.

Deferred Financing Costs — In connection with the issuance of the series 2007 and 2011 bonds and notes payable (see Notes 7 and 8), financing costs approximating $5,675,000 were capitalized and are being amortized over the respective lives of the bonds. Accumulated amortization of these deferred financing costs approximated $753,000 and $537,000 at December 31, 2011 and 2010, respectively.

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, 2011, may result in the assertion of additional claims. OHS participates in a risk management program to provide for professional and general liability coverage. Under this program, OCF carries professional and general liability insurance coverage for up to $40 million each of annual aggregate claims subject to certain deductible provisions and OCH carries professional and general liability insurance coverage for up to $25 million each of annual aggregate claims subject to certain deductible provisions.

OCF, with the exception of Ochsner Medical Center — West Bank, Ochsner Medical Center — North Shore, and Ochsner Medical Center — Baton Rouge, is self-insured with respect to the first $3,000,000 of each claim for professional liability with an aggregate exposure of $6,000,000. General liability claims are subject to a retention of $1,000,000 per claim and $2,000,000 aggregate (up to an annual combined aggregate of $8,000,000). For Ochsner Medical Center — West Bank and Ochsner Medical Center — Northshore LLC, the retention is reduced to $100,000 for each individual general and professional liability claim. OCH is self-insured with respect to the first $100,000 of each claim for professional liability. General liability claims are subject to a retention of $100,000 per claim.

Ochsner Medical Center — Baton Rouge has its own policy for professional liability claims, which does not include a retention. The estimated liability recorded by Ochsner Medical Center — Baton Rouge for claims at December 31, 2011 and 2010, based on the actuarial report discounted at 4.0% is approximately $590,000 and $531,000, respectively.

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 for participants in the fund. OCF and OCH have made contributions to a trust fund held by a financial institution. The amount to be contributed to this fund is determined annually by an independent actuary. Disbursements are made from the fund for self-insured professional and general liability claims, claims administration costs and legal fees. The trust fund assets total approximately $10,224,000 and $8,587,000 at December 31, 2011 and 2010, respectively. The estimated liability recorded by OHS for claims at December 31, 2011 and 2010, based on the actuarial report mentioned above is approximately $14,069,000 with estimated recoveries of $113,000 and $12,341,000 with estimate recoveries of $179,000 respectively. The estimated liability was discounted at 3.0% for OCF and 2.5% for OCH at December 31, 2011. The estimated liability was discounted at 3.5% for OCF and 2.7% for OCH at December 31, 2010. Amounts accrued relate to funding for fiscal 2011 and, upon payment, will increase the fund to a balance which approximates the actuarial liability. If the risk management program is terminated, the trust fund balance, if any, reverts to OHS after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

In 1975, the State of Louisiana enacted the Medical Malpractice Act. The Act established the Patient's Compensation Fund and limited recovery in medical malpractice cases to $500,000. OHS participates in the Patient's Compensation Fund. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by OHS for participation in the Patient's Compensation Fund for the years ended December 31, 2011 and 2010, were approximately $18,681,000 and $20,561,000, respectively.

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, totaling $10,032,000 and $8,383,000 at December 31, 2011 and 2010, respectively, include estimates for the ultimate costs for both reported claims and claims incurred but not reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*. 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.

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.

Consolidated Statement of Operations — For purposes of presentation, all revenues and expenses are reported as operating except for investment income, which is reported as nonoperating.

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 the 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 payment and adjustments are posted to the patient account. For those accounts with a patient balances after third party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters. Patients that express an inability to pay are reviewed for potential sources of financial assistance including our 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.

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 gross uncompensated revenue associated with providing care to charity patients. OHS' gross charity care revenue includes 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, 2011 and 2010, OHS' gross uncompensated charity revenue was approximately $37,301,000 and $2,335,000, respectively, and the estimated costs incurred by OHS to provide care to patients who met certain criteria under its charity care policy were approximately $23,937,000 and $1,476,000, respectively, in 2011 and 2010.

In 2010, OHS revised its charity care policy to include a graduated scale which allows partial charity care for the patient based on the patient's income level and family size as a percentage of the Federal Poverty Guidelines. During the fourth quarter of 2010 and the first quarter of 2011, procedures were implemented that streamlined efforts to properly classify patients as charity care within the revised OHS charity care policy guidelines, while providing enhanced supporting documentation with respect to the patient. These efforts resulted in an increase in the classification of charity care provided with a corresponding reduction in bad debt expense in 2011.

Community Benefit — Since December 2010, Ochsner and four other health care providers formed collaborations with the State and several units of local government in 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) to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. Ochsner and the four other health care providers formed five 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 these programs for the year ended December 31, 2011 was $13,110,000.

Provision and Allowance for Doubtful Accounts — Effective January 1, 2011, OHS adopted the provisions of ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). ASU 2011-07 requires the presentation of revenues net of the provision for doubtful accounts. Previously, OHS' provision for doubtful accounts was included as a component of operating expenses. The impact of the adoption of ASU 2011-07 on the income statement for the year ended December 31, 2010 is as follows (in thousands):

	As Originally Reported	Adjustments for the Adoption of ASU 2011-07	As Currently Reported
Total unrestricted revenues	$1,825,255	$(126,955)	$1,698,300
Total expenses	1,777,250	(126,955)	1,650,295
Operating loss	$ 48,005	$ -	$ 48,005

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 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.

Excess of Revenues over Expenses — The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, contributions of property and equipment, contributions used to acquire property and equipment, and pension related changes other than net periodic pension costs.

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.

Fair Value of Financial Instruments — 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.

Investments — The fair values of OHS' marketable equity and debt securities are based on quoted market prices in an active market. The carrying amounts reported in the consolidated balance sheets for OHS' other investments approximate fair value (See Note 3).

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, 2011 due to the variable nature of the interest rate.

Income Taxes — OHS and its subsidiaries qualify as tax exempt organizations under Section 501 (c)(3) and/or 509 (a)(1)/(3) of the Internal Revenue Code and are exempt from Federal and State income taxes.

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.

Reclassifications — We have recast certain amounts for prior periods to conform to our 2011 presentation. Premium revenue of $287,442,000 was reclassified from net patient service.

Correction of 2010 Financial Statement Amounts — Subsequent to the issuance of the 2010 financial statements, OHS discovered a misclassification in the current and noncurrent portion of pledge receivables based on the terms of the pledge agreements. As a result, management corrected the 2010 presentation and $4,700,000 in pledge receivables that were previously reported as current are reported as other assets – long-term in the 2010 consolidated balance sheet. There was no change in the amounts previously reported for total assets and total net assets for the year ended December 31, 2010.

New Accounting Pronouncements — Effective January 1, 2011, OHS adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which *clarifies that a health care entity should not net insurance recoveries against a related claim liability.* The adoption of ASU 2010-24 did not have a material impact on the 2011 and 2010 consolidated financial statements.

Effective January 1, 2011, OHS adopted ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure,* which requires that costs be used as the measurement basis of charity care disclosures and that cost be identified as the direct and indirect cost of providing the charity care. The adoption of ASU 2010-23 resulted in additional disclosures included in Note 1.

In January 2010, the FASB issued ASU 2010-06, which amends *Fair Values (Topic 954),* to add new disclosure requirements about recurring and non-recurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for reporting periods beginning after December 15, 2010. OHS adopted this guidance beginning January 1, 2011 and the adoption of ASU 2010-06 did not have a material impact on the 2011 and 2010 consolidated financial statements.

In April 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the 2011 and 2010 consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment (Topic 350),* which simplifies how entities test goodwill for impairment. Previous guidance required an entity to perform a two-step goodwill impairment test at least annually by comparing the fair value of a reporting unit with its carrying amount, including goodwill, and recording an impairment loss if the fair value is less than the carrying amount. This ASU allows an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines after that assessment that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. ASU 2011-08 is required to be applied to interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and will be adopted by OHS in 2012. The adoption of ASU 2011-08 is not expected to have a material impact on the consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations. Because of the tentative and preliminary nature of such proposed standards, OHS has not yet determined the effect, if any, that the implementation of such proposed standards would have on the consolidated financial statements.

2. BUSINESS COMBINATION AND PURCHASE ACCOUNTING

Ochsner Medical Center — Northshore LLC — On April 1, 2010, OHS purchased Northshore Regional Medical Center in Slidell, Louisiana from Tenet Healthcare Corporation and Healthcare Property Partners. The facility will operate as Ochsner Medical Center — Northshore LLC.

Total purchase price for the facility was approximately $32,800,000 in addition to net asset adjustments and closing costs of $617,000. The acquisition was funded through cash on hand at the date of acquisition as well as through external financing. As part of the acquisition, OHS allocated the purchase price to the acquired assets and liabilities.

The financial statements of the facility acquired primarily consist of property, plant, and equipment and working capital items. The following is a summary of the funding sources for these transactions (in thousands):

Cash	$ 10,886
External financing	23,640
Total sources of acquisition funding	$ 34,526

The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Inventory	$ 1,648
Prepaid expenses and other current assets	114
Property, plant, and equipment	32,800
Other assets	1,404
Total assets acquired	35,966
Total liabilities assumed	1,440
Purchase price	$ 34,526

Ochsner HME LLC — On December 27, 2010, OHS purchased Total Health Solutions, a healthcare products, supply and solutions business licensed to provide durable medical equipment from Healthcare Development Group, L.L.C. The entity will operate as Ochsner Home Medical Equipment, L.L.C. (Ochsner HME LLC).

Total purchase price for the facility was approximately $730,000 in addition to net asset adjustments. The acquisition was funded through cash on hand at the date of acquisition. As part of the acquisition, OHS allocated the purchase price to the acquired assets and liabilities.

The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Inventory	$ 214
Property, plant, and equipment	132
Goodwill	384
Total assets acquired	730
Purchase price	$ 730

3. INVESTMENTS AND ASC 820-10, FAIR VALUE MEASUREMENTS AND DISCLOSURES

ASC 820, *Fair Value Measurement and Disclosures* (ASC 820), establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles 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.

Assets and Liabilities Measured at Fair Value —

Recurring Fair Value Measurements — The fair value of assets and liabilities measured at estimated fair value on a recurring basis, including those items for which OHS has elected the fair value option, 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, 2011			
	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)	$178,430	$ -	$ -	$178,430
Fixed income investments (a)	78,907			78,907
Marketable equity securities (a)	148,746	33,849		182,595
Absolute return (d)			11,669	11,669
Private equity / venture capital (d)			8,024	8,024
Natural resources (b)	17,449	20,620	4,883	42,952
Real estate (c)		6,188		6,188
Unconsolidated affiliates (e)			3,251	3,251
Other			4	4
Total	$423,532	$60,657	$27,831	$512,020

	December 31, 2010			
	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)	$108,418	$ -	$ -	$108,418
Fixed income investments (a)	80,266			80,266
Marketable equity securities (a)	127,053	26,295		153,348
Absolute return (d)			11,985	11,985
Private equity / venture capital (d)			5,864	5,864
Natural resources (b)	22,439	14,392	3,550	40,381
Real estate (c)		5,441		5,441
Unconsolidated affiliates (e)			3,391	3,391
Treasury inflation protected securities (a)	4,293			4,293
Other			5	5
Total	$342,469	$46,128	$24,795	$413,392

(a) Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Marketable equity securities classified as Level 2 are principally valued using the market and income approaches. Valuation is based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities.

(b) Represents funds invested in common/collective trust funds. Investments classified as Level 1 represent a fund that is publidy traded. Valuation of this fund is based on unadjusted quoted prices in active markets that are readily and regularly available. Level 2 classification represents a fund invested in a common/collective trust fund that invests in futures and forward contracts, options, and securities sold not yet purchased. 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 effected. This fund provides reasonable levels of price transparency and can be corroborated through observable market data.

(c) Represents OHS' investments in real estate located in the New Orleans area. The estimated fair value is based on market prices for similar assets as these assets are not priced in active markets.

(d) In general, investments classified within Level 3 use many of the same valuation techniques and inputs as described above. However, if key inputs are unobservable, or if the investments are less liquid and there is very limited trading activity, the investment 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 toliquidate 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 investments 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 which management determines reasonably approximates the composition/nature of selected Level 3 investment.

(e) Represents OCF and OCH's 25% interest in Southeast Louisiana Homecare LLC and Louisiana Extended Care Hospital of Kenner, LLC, respectively, both joint ventures with a third party formed in 2009. Fair value is based on the operations of the joint venture.

A rollforward of the fair value measurements for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for year ended December 31, 2011 and 2010 is as follows (in thousands):

	Total Realized/Unrealized Gains (Losses) included in:				
Balance, December 31, 2010	Gains	Other Comprehensive Gains	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2011
$24,795	$359	$727	$1,929	$ 21	$27,831

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Total Realized/Unrealized Gains (Losses) included in:				
Balance, December 31, 2009	Gains	Other Comprehensive Gains	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2010
$20,584	$188	$1,814	$2,266	$ (57)	$24,795

The FASB issued a standards update pertaining to Fair Value Measurements and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share in September 2009. Fair values are determined by the use of calculated net asset value per ownership share. In complying with the update, the following disclosures regarding OHS' investments at December 31, 2011 that feature net asset value per share in Level 2 and Level 3:

	Fair Value (In thousands)	Unfunded Commitments	Redemption frequency if currently eligible	Redemption Notice Period
Emerging Market — City of London (f)	$21,077	$ -	Monthly	30 days
Natural Resources (g)	20,620		Monthly	By the 22nd business day prior to redemption
Hedge Fund (h)	11,669		Quarterly	90 days
Small Cap Growth (i)	6,436		15th and end of the month	5 business days prior to redemption
Total	$59,802	$ -		

(f) This is a commingled fund invested in equities

(g) This category includes an investment in a common trust fund comprised of approximately 55% equity, 25% commodity and 20% fixed income.

(h) This category includes investments in commingled hedge funds which invest in multi-strategy arbitrage, opportunities, distressed investment and long/short strategies.

(i) This is a commingled fund invested in small-cap growth equities.

Investment income and other gains and losses are classified as nonoperating and are comprised of interest and dividend income of $5,939,000 and $9,482,000 (net of expenses of $992,000 and $845,000 for the years ended December 31, 2011 and 2010, respectively) and realized net gains on sales of securities of $5,133,000 and $4,690,000 for the years ended December 31, 2011 and 2010, respectively.

Alternative Investments — Alternative investments include private equity funds, hedge funds, real estate funds, offshore fund vehicles, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. 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).

Investment Impairment — The investment securities on which the impairment charge was recorded were primarily equity securities, which are carried at fair value with changes in unrealized gains and losses generally being recorded as adjustments below the performance indicator. The fair value of investments is based on quoted market prices. Upon management's review and evaluation of the individual investment securities for year 2011, management deemed the market decline for certain investment securities (predominantly in the technology and communications industries as well as international securities) to be "other-than-temporary", primarily due to OHS' lack of ability to hold the securities until recovery due to the use of an investment manager to execute investment transactions and decisions. The related adjustment to fair value for these investment securities was recognized in realized losses as a part of the performance indicator.

As of December 31, 2011 and 2010, there were no investments with a decline in fair value from cost as all amounts were considered other than temporary impairments and, as noted above, were recognized as realized losses as a part of the performance indicator.

Investment in Equity Investees — OHS' investment in equity investees at December 31, 2011 and 2010 and its income from equity investees for the years then ended are as follows (in thousands):

2011	Ownership Interest	Investment in Equity Investees	Equity in Income of Equity Investees
Southeast Louisiana Homecare LLC	25 %	$2,914	$ 74
Louisiana Extended Care Hospital of Kenner, LLC	25	337	88
		$3,251	$ 162

2010	Ownership Interest	Investment in Equity Investees	Equity in Income of Equity Investees
Southeast Louisiana Homecare LLC	25 %	$2,892	$ 200
Louisiana Extended Care Hospital of Kenner, LLC	25	499	472
		$3,391	$ 672

4. PATIENT ACCOUNTS RECEIVABLE

At December 31, 2011 and 2010, OHS' patient accounts receivable balances were due from the following sources (in thousands):

	2011	2010
Managed care/indemnity	$ 139,047	$ 162,923
Government agencies	85,240	81,744
Patients	41,542	67,608
Total	265,829	312,275
Less allowance for doubtful accounts	(98,510)	(114,393)
Patient accounts receivable — net	$ 167,319	$ 197,882

5. PROPERTY — NET

OHS' investment in property at December 31, 2011 and 2010, is detailed as follows (in thousands):

	2011	2010
Land and improvements	$ 84,113	$ 81,906
Buildings	676,879	672,257
Leasehold improvements	58,029	45,162
Equipment, furniture, and fixtures	558,034	495,288
Building and building improvements held for lease	12,092	5,489
Construction in progress	59,946	28,153
Total property — at cost	1,449,093	1,328,255
Less accumulated depreciation	(840,847)	(780,537)
Property — net	$ 608,246	$ 547,718

Depreciation and amortization expense totaled approximately $62,085,000 and $57,659,000 for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, OHS has purchase commitments totaling approximately $39,856,000 and $18,064,000, respectively, toward additional capital expenditures.

6. GOODWILL AND INTANGIBLE ASSETS — NET

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, 2011 and 2010, are (in thousands):

	2011	2010
Goodwill — net	$43,077	$43,097
Trade name	$11,433	$11,433
Other		123
Intangible assets — net	$11,433	$11,556

Prior to January 1, 2010, OHS amortized goodwill and intangible assets on a straight line basis using 20 years as the useful lives. In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-07, which codifies ASC 350, Intangibles — Goodwill and Other. OHS adopted ASU 2010-07 on January 1, 2010 and as a result, goodwill and trade name were no longer amortized.

In 2010, OHS recorded an additional $384,000 goodwill in connection with the acquisition of Ochsner HME LLC (see Note 2).

7. NOTES PAYABLE

OCF has a loan agreement with a bank which provides a credit line. The loan agreement was amended on September 29, 2009 to establish the interest rate on outstanding borrowings as the 30 day LIBOR index plus one hundred (100) basis points (1.00%) and set an expiration/renewal date of September28, 2010. On March 31, 2010, the note was further amended to increase the amount available under the note from $33,000,000 to $53,000,000, modified the interest rate to 30 day LIBOR index plus one hundred fifty (150) basis points (1.50%), and set an expiration/renewal date of March 29, 2011. The line of credit was renewed through May 29, 2012. Borrowings under the arrangement are unsecured, however OCF must meet certain financial covenants. OCF was in compliance with these covenants at December 31, 2011 and 2010. At December 31, 2011 and 2010, OCF had borrowings outstanding under this arrangement of $52,969,000. At December 31, 2011 and 2010, the amount of line of credit reserved for three standby letters of credit with a utility provider amounted to $31,500. The interest rate on outstanding borrowings is based on LIBOR and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 1.77% and 1.76% at December 31, 2011 and 2010, respectively. All amounts are classified as current at December 31, 2011 and 2010.

8. BONDS PAYABLE

At December 31, 2011 and 2010, bonds payable consist of the following tax-exempt revenue bonds issued by the Louisiana Public Facilities Authority (LPFA) on behalf of OCF and OCH (in thousands):

	2011	2010
OCF Series 2007-A issued September 2007, due serially 2009–2047, annual interest rates ranging from 5.00% to 5.50%	$373,115	$377,450
OCH Series 2007-B issued September 2007, due serially 2009–2047, annual interest rates ranging from 5.00% to 5.50%	76,260	77,025
OCF Series 2011 issued May 2011, due serially 2017-2023, then on term in 2031, 2037 & 2041, at annual interest rates ranging from 4.00% to 6.75%	150,000	
Total	599,375	454,475
Less current portion	(5,360)	(5,100)
Less unamortized net bond discount	(10,930)	(9,960)
Noncurrent portion of bonds payable	$583,085	$439,415

The OCF Series 2007-A bonds were issued by the LPFA on behalf of OCF for the purpose of advance refunding the Series 2002A and 2002B bonds as well as providing funding for capital projects. The $380,030,000 Revenue Bonds were issued at fixed rates through the LPFA at a discount of approximately $9,000,000.

OCH issued the Louisiana Public Facilities Authority Bond Series 2007-B bonds for the purpose of refinancing a portion of the interim loan from Lehman Brothers, which was used to acquire the Tenet Hospitals, as well as providing funding for capital projects. The $83,910,000 Revenue Bonds were issued at fixed rates through the Louisiana Public Facilities Authority at a discount of approximately $1,896,000 and mature in May 2047.

The OCF Series 2011 bonds were issued by the LPFA on behalf of OCF for the purpose of providing funding for various capital projects. The $150,000,000 Revenue Bonds were also issued at fixed rates through the LPFA at a discount of approximately $1,300,000.

The Series 2007-A and 2007-B bonds are general obligations of OCF and OCH, respectively. The series 2011 bonds are general obligations of OCF. All present and future accounts receivable are pledged to repayment of both 2007-A and 2011 bonds. 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's as well as a pledge of revenues. Under this Guarantee Agreement, OCF will be obligated to pay the guaranteed bonds and notes payable 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 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. OCF is currently in compliance with these requirements.

At December 31, 2011, scheduled repayments of principal and sinking fund installments to retire the bonds payable are as follows (in thousands):

Years Ending December 31	
2012	$ 5,360
2013	5,635
2014	5,925
2015	6,230
2016	6,550
Thereafter	569,675
	$ 599,375

The estimated fair value of the 2007-A and B and 2011 Series bonds as of December 31, 2011 and 2010, is approximately $604,776,000 and $396,235,000.

9. LONG-TERM DEBT

A summary of long-term debt at December 31, 2011 and 2010 is as follows (in thousands):

	2011	2010
Notes payable $25 million, including interest at three-month LIBOR less 2.25% (0.00% at December 31, 2011 and 2010) due October 2014	$22,469	$23,094
Notes payable $22 million, including interest at three-month LIBOR less 2.35% (0.50% at December 31, 2011 and 2010) due February 2015	22,000	22,000
Working capital note, due May 2016, including accrued interest	8,141	8,029
Software loan, due September 2012	334	668
Loans on land and building, due April 2015	15,640	15,640
Less unamortized discount	(1,484)	(2,568)
Total loans on land and building	14,156	13,072
Software and implementation loan, due August 2016	23,019	
Less unamortized discount	(964)	
Software and implementation loan, net	22,055	-
Equipment loan, due December 2011		1,844
Equipment loan, refinanced in 2011 bond issue		7,795
Total long-term debt	89,155	76,502
Less current portion	(5,634)	(3,097)
Noncurrent portion of long-term debt	$83,521	$73,405

New Market Tax Credits — In 2007, OCH entered into three separate loans in the form of notes payable with three separate lenders totaling $25 million. The loans are eligible for federal income tax credits under the New Markets Tax Credits program implemented by Congress in December 2000. Borrowings under the notes payable bear interest at three-month LIBOR less 2.25% (0.00% at December 31, 2011 and 2010). Principal and interest payments are due in quarterly installments which commenced on October 1, 2007 and mature in October 2014. Each of the loans is guaranteed by OCF through the Guarantee Agreement through the Guarantee Agreement discussed in Note 8.

In 2008, OCH entered into a loan in with a financial institution in the form of a note payable totaling $22 million. The loan is eligible for the same federal income tax credits as the aforementioned $25 million loan. 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, 2011 and 2010). Interest payments are due in quarterly installments which commenced on April 1, 2008, and the loan matures in February 2015. The principal payment is due in one lump sum on the maturity date. This loan is 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"), who 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 (see further discussion at Note 14). As part of the agreement, OCF entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment. 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 1.08% and 1.49% at December 31, 2011 and 2010, respectively. All amounts are classified as non-current at December 31, 2011 and December 31, 2010 and are included in long-term debt on the consolidated balance sheets.

Software Loan — In July 2010, OHS entered into a loan to finance software purchases for $1,003,000. Borrowings under this loan are interest free. Principal payments are due in semi-annual installments which commenced on September 1, 2010 and mature in October 2012.

Software and Implementation Loan — In September 2010, OHS entered into an agreement to finance software purchases and related implementation costs, which were incurred beginning in January 2011. Principal and interest payments (ranging from 1.9% to 6.7%) are due in monthly installments which commenced on October 2010 and mature in September 2017.

Equipment Loan — In November 2009, OCF and OCH entered into an agreement to finance equipment purchases in the amount of $4,614,000. Equipment purchases were received by OCF and OCH in March 2010. Principal payments are due in semi-annual installments which commenced on December 31, 2009 and matured in December 2011.

Ochsner Medical Center — Northshore LLC — OCF's purchase of Northshore Regional Medical Center on April 1, 2010 was partially financed by an $8,000,000 equipment loan bearing interest at 8% per annum and a $15,640,000 loan on the land and buildings . The equipment loan which had an original term of 60 months with a balloon payment due on April 1, 2015 was refinanced by the 2011 bond issue on May 1, 2011 (see Note 8). The loan on land and buildings is due on April 1, 2015 and bears interest at 1% per annum.

Aggregate maturities of long-term debt at December 31, 2011, are as follows (in thousands):

Years Ending December 31	
2012	$ 5,634
2013	5,675
2014	25,648
2015	41,841
2016	11,168
Thereafter	1,637
	$91,603

10. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan — Certain employees of OCF and its subsidiaries are covered under a defined benefit pension plan. The plan is noncontributory 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 40 who elected to freeze their retirement plan benefits. OCF made an additional change to the 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 plan. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. OCF makes contributions to its qualified plan that satisfies 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):

	2011	2010
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 398,230	$366,112
Service cost	1,596	1,550
Interest cost	21,928	22,088
Actuarial loss	52,276	23,960
Benefits paid	(18,669)	(15,480)
Benefit obligation — end of year	455,361	398,230
Change in plan assets:		
Fair value of plan assets — beginning of year	328,557	300,319
Actual return on plan assets	6,324	35,665
Employer contributions	5,030	8,053
Benefits paid	(18,669)	(15,480)
Fair value of plan assets — end of year	321,242	328,557
Funded status	$(134,119)	$ (69,673)

	2011	2010
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations — current portion	$ -	$ -
Pension and postretirement obligations — noncurrent portion	(134,119)	(69,673)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	$ 167,222	$ 95,954
Prior service credit	(146)	(209)
Total amounts recognized	$ 167,076	$ 95,745
Other changes in plan assets and benefit obligations recognized in accumulated unrestricted net assets:		
Net gain	$ 73,007	$ 14,942
Recognized loss	(1,739)	(1,534)
Recognized prior service credit	63	63
Total amounts recognized	$ 71,331	$ 13,471

Weighted-average assumptions used to determine projected benefit obligations at December 31, 2011 and 2010, were as follows:

	2011	2010
Weighted-average discount rate	4.85 %	5.70 %
Rate of compensation increase	Graded	Graded

Net periodic pension cost for the years ended December 31, 2011 and 2010, includes the following component (in thousands):

	2011	2010
Service cost	$ 1,596	$ 1,551
Interest cost	21,928	22,088
Expected return on plan assets	(27,054)	(26,647)
Amortization of net loss	1,739	1,533
Recognized prior service credit	(63)	(63)
Net periodic pension benefit	$ (1,854)	$ (1,538)

Weighted average assumptions used to determine net periodic pension cost for the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Weighted average discount rate	5.70 %	6.15 %
Expected return on plan assets	8.40	9.00
Rate of compensation increase	Graded	Graded

The defined benefit pension plan assets were $321,242,000 and $328,557,000 at December 31, 2011 and 2010, respectively. The fair values of the pension plan assets at December 31, 2011 and 2010 are as follows (in thousands):

	December 31, 2011			
	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)	$ 9,603	$ -	$ -	$ 9,603
Fixed income investments (a)	115,768			115,768
Marketable equity securities (a)	60,967	18,198		79,165
Absolute return (c)			23,978	23,978
Private equity / venture capital (c)			44,989	44,989
Natural resources (b)	11,561	12,507	5,269	29,337
Other	28		18,374	18,402
Total	$197,927	$30,705	$92,610	$321,242

	December 31, 2010			
	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)	$ 4,626	$ -	$ -	$ 4,626
Fixed income investments (a)	110,542			110,542
Marketable equity securities (a)	70,388	23,787		94,175
Absolute return (c)			24,595	24,595
Private equity / venture capital (c)			43,613	43,613
Natural resources (b)	14,588	13,216	3,950	31,754
Other			19,252	19,252
Total	$200,144	$37,003	$91,410	$328,557

(a) Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Marketable equity securities classified as Level 2 are principally valued using the market and income approaches. Valuation is based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities.

(b) Represents funds invested in common/collective trust funds. 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 a fund invested in a common/collective trust fund that invests in futures and forward contracts, options, and securities sold not yet purchased. 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 use many of the same valuation techniques and inputs as described above. 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 investments 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 which management determines reasonably approximates the composition/nature of selected Level 3 investment.

The defined benefit pension plan asset allocation as of the measurement date (December 31, 2011 and December 31, 2010) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2011	2010	Target Allocation
Debt securities	36 %	34 %	25%–30%
Equity securities	25	41	37–59
Private equity/venture capital	14	2	0–7
Hedge funds	13	13	10–15
Natural Resources/REITs	9	10	3–10
Other	3	1	

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 plan.

The primary financial objectives of the plan are to (1) provide a stream of relatively predictable, stable, and constant earnings in support of the plan's annual benefit obligations; and (2) preserve and enhance the real (inflation-adjusted) value of the assets of the plan. The long-term investment objectives of the plan are to (1) attain the average annual total return assumed in the plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods; (2) outperform the 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 which enumerate types of investment allowed in each category.

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 expected long-term rate of return. Historical return patterns and correlations, consensus return forecast and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to assure that the probability of meeting actuarial assumptions is reasonable. OCF Treasury staff oversees the day-to-day activities involving assets of the Plan and the implementation of any changes adopted by the Investment Committee.

OCF currently expects to make a contribution to the defined benefit pension plan of approximately $15.7 million in 2012.

For 2011 and 2010, OCF's defined benefit plan had accumulated benefit obligations of approximately $452,884,000 and $395,047,000, respectively.

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is $3,938,000 and $1,812,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2011, are as follows (in thousands):

Years Ending December 31	
2012	$ 20,372
2013	21,640
2014	23,097
2015	24,274
2016	25,612
2017–2021	142,213
	$257,208

Defined Contribution Plans — All employees of OHS meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the "Plan"). Effective for the 2010 Plan year, OCF 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 may annually elect to make a match for eligible employees 50% of the first 4% the employees contribute into their 401(k). At December 31, 2011 and 2010, OHS has accrued $18,373,000 and $16,362,000 for matching contributions to the plan for the 2011 and 2010 fiscal years, respectively. The 2010 contribution was remitted to the Trustee in April 2011 and the 2011 contribution was remitted in April 2012.

Certain OHS 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 pension 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' consolidated balance sheets reflect a liability of $6,286,000 and $3,433,000 for the 457(f) plan at December 31, 2011 and 2010, 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 following table sets forth the plan's funded status and expense recognized by OCF as of and for the years ended December 31, 2011 and 2010, using the projected unit credit method (in thousands).

	2011	2010
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 2,680	$ 2,518
Interest cost	133	147
Benefits paid	(208)	(210)
Actuarial (loss) gain	(90)	225
Benefit obligation — end of year	$ 2,515	$ 2,680
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	208	210
Benefits paid	(208)	(210)
Fair value of plan assets — end of year	$ -	$ -
Funded status	$(2,515)	$(2,680)
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations — current portion	$ (204)	$ (241)
Pension and postretirement obligations — noncurrent portion	(2,311)	(2,439)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	836	978
Prior service credit	(123)	(143)

Components of net periodic cost at December 31, 2011 and 2010, are as follows (in thousands):

	2011	2010
Service cost	$ -	$ -
Interest cost	133	146
Recognized prior service cost	(20)	(20)
Recognized actuarial loss	52	57
Net periodic cost	$ 165	$ 183

	2011	2010
Weighted average assumptions — December 31:		
Discount rate on benefit obligation	4.85 %	5.70 %
Discount rate on net periodic cost	5.70	6.15

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is $62,000 and $76,000, respectively.

OCF currently expects to make a contribution to the other postretirement benefit plan of approximately $209,000 in 2012.

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, 2011, are as follows (in thousands):

Years Ending December 31	
2012	$ 209
2013	217
2014	209
2015	205
2016	207
2017–2021	972
	$2,019

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate was assumed to decrease gradually to 5.5% by 2012 and remain at that level thereafter (in thousands).

	One Percentage Point Increase	**One Percentage Point Decrease**
Effect on total of service and interest cost	$ 7	$ (6)
Effect on postretirement benefit obligation	$ 129	$ (114)

Executive Benefit Plan — Certain former Alton Ochsner Medical Foundation executives participate in an Executive Benefit Plan. The expense associated with this plan was $69,000 and $78,000, respectively, for the years ended December 31, 2011 and 2010. OCF's consolidated balance sheets reflect a liability of $1,338,000 and $1,272,000 for this plan at December 31, 2011 and 2010, respectively.

11. ENDOWMENT FUNDS AND TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

OHS has 608 temporarily restricted funds and 61 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 Topic 205-958-45, *Presentation — Not for Profit* Entities 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. 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. 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, 2011 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	$ 5,134	$16,511	$21,645
Education	3,548	2,691	6,239
Other	22,110	3,351	25,461
Total	$30,792	$22,553	$53,345

Restricted Net Assets as of December 31, 2010 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	$ 6,994	$16,474	$23,468
Education	3,845	2,627	6,472
Other	21,593	3,264	24,857
Total	$32,432	$22,365	$54,797

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$1,614	$22,553	$24,167
Board-designated funds	2,283			2,283
Total	$2,283	$1,614	$22,553	$26,450

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$4,066	$22,365	$26,431
Board-designated funds	2,571			2,571
Total	$2,571	$4,066	$22,365	$29,002

Changes in Endowment Net Assets for the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$2,571	$ 4,066	$22,365	$29,002
Investment loss	(181)	(1,093)		(1,274)
Contributions			188	188
Appropriations for expenditures	(107)	(1,359)		(1,466)
Ending balance	$2,283	$ 1,614	$22,553	$26,450

Changes in Endowment Net Assets for the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$2,745	$ 2,777	$22,023	$27,545
Investment (loss) income	(47)	2,687		2,640
Contributions			342	342
Appropriations for expenditures	(127)	(1,398)		(1,525)
Ending balance	$2,571	$ 4,066	$22,365	$29,002

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 accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies totaled $1,382,000 and $0 as of December 31, 2011 and 2010, respectively. Any such deficiencies resulted from unfavorable market fluctuations.

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.

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 funds' 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. 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:

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 Medicare reimbursement issues under appeal by OHS is reported as an increase in net patient service revenue in the year the issue is resolved. Home health services rendered to Medicare beneficiaries are reimbursed under the Medicare Home Health Prospective Payment System. The Medicare cost reports of the Hospital, Ochsner Bayou LLC, and Ochsner Medical Center — Baton Rouge have been settled by the fiscal intermediary through December 31, 2003, December 31, 2009, and September 30, 2006, respectively. The Medicaid cost reports of the Hospital, Ochsner Bayou LLC, and Ochsner Medical Center — Baton Rouge have been settled by the fiscal intermediary through December 31, 2002, December 31, 2009, and September 30, 2006, respectively. The Medicare cost reports of Kenner, Westbank (until the facility's operations were transferred to OCF on September 14, 2008), and Baptist have been settled by the fiscal intermediary through September 30, 2006, respectively. The 2007 year of audited cost reports for OCH have been held by OCH's Medicare fiscal intermediary due to the nationwide re-examination of the 2007 Supplemental Security Income ratio being performed by the Centers for Medicare and Medicaid, the federal agency which administers Medicare and Medicaid. The fiscal intermediary has not settled any of OCH's Medicaid cost reports as of December 31, 2011.

As a result of retroactive settlements of certain prior year cost reports, OHS recorded changes in estimates during the years ended December 31, 2011 and 2010. Operating revenues increased approximately $3,752,000 and $6,685,000 in 2011 and 2010.

Estimated amounts due OHS for Medicare and Medicaid services are included in receivables at year end. Net revenue from government health care programs included in net patient service revenue in 2011 and 2010 approximated $516,079,000 and $459,344,000, respectively.

Upper Payment Limit Program — Since December 2010, Ochsner and four other health care providers formed collaborations with the State and several units of local government in 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) to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. Ochsner and these four other health care providers formed five non-profit organizations, Louisiana Clinical Services, Inc. (LCS), Southern Louisiana Clinical Services, Inc. (SLCS), Eastern Louisiana Clinical Services, Inc. (ELCS), Natchitoches Clinical Services, Inc. (NCS), and Jefferson Clinical Services, Inc., with the purpose to create a vehicle to provide services to low income and needy patients in the providers' communities. These collaborations enable the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. Under the agreement between the collaborative members, the Program became effective on December 1, 2010, and the first year of the Program runs from December 1, 2010 to November 30, 2011. Ochsner received $8,000,000 from the State of Louisiana on December 31, 2010 for the first year of the Program. Because the program was not fully operational until fiscal 2011, Ochsner recorded this amount as deferred revenue in the 2010 consolidated balance sheet. In 2011, OHS recognized $25,732,000 in Medicaid net revenue related to this program and recorded deferred revenue of $2,629,000 at December 31, 2011.

Humana Inc. — OHS entered into a provider contract with Humana Inc. to provide services for its commercial and senior members. The commercial members are reimbursed 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. OHS provided services to the senior members under a capitation contract for both physician and hospital services. Net revenue from Humana Inc., net of medical services to outside providers, in 2011 and 2010 approximated $296,651,000 and $317,770,000, respectively.

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 that 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 patients will be incapable or reluctant to pay for the services provided. Therefore, OHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. For the years ended December 31, 2011 and December 31, 2010, OHS recorded a provision for bad debt of $83,069,000 and $126,955,000, respectively.

In 2010, OHS revised its charity care policy to include a graduated scale which allows partial charity care for the patient based on the patient's income level and family size as a percentage of the Federal Poverty Guidelines. During the fourth quarter of 2010 and the first quarter of 2011, procedures were implemented that streamlined efforts to properly classify patients as charity care within the revised OHS charity care policy guidelines, while providing enhanced supporting documentation with respect to the patient. These efforts resulted in an increase in the classification of charity care provided with a corresponding reduction in bad debt expense in 2011.

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

	2011	2010
Government agencies	$ 516,079	$ 459,344
Patients	79,679	92,878
Managed care/indemnity	934,390	903,205
Patient service revenue, net of contractual allowances and discounts	$1,530,148	$1,455,427

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, 2011 and 2010, are as follows (in thousands):

	2011	2010
Health care services	$1,305,480	$1,199,592
General and administrative	408,458	394,393
Medical education	33,284	32,685
Research	10,008	9,924
Fitness center	11,312	10,950
Hotel	2,969	2,751
	$1,771,511	$1,650,295

14. COMMITMENTS AND CONTINGENCIES

Lease Commitments — In 2011, OHS entered into a capital lease for software equipment for $1,602,000, which is included in equipment, furniture, and fixtures in the accompanying consolidated balance sheet for December 31, 2011. The net book value of the assets held under capital lease is $1,570,000 at December 31, 2011. Amortization expense applicable to the capital lease asset is included in depreciation and amortization in the accompanying 2011 consolidated statement of operations. The capital lease obligations are included in other current and noncurrent liabilities in the accompanying 2011 balance sheet. Additionally, OHS leases assets under various rental agreements. The following schedule summarizes OHS' future annual minimum rental commitments on leases with a remaining term in excess of one year, including capital leases, as of December 31, 2011 (in thousands):

	Lease Obligations	
	Capital	Operating
2012	$ 640	$24,927
2013	591	17,883
2014	541	8,603
2015		2,392
2016		1,364
Thereafter		12,446
Total minimum lease payments	1,772	$67,615
Amounts representing interest	(170)	
Present value of minimum lease payments	1,602	
Less current maturities	(640)	
Capital lease obligations — noncurrent	$ 962	

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was $44,011,000, and $40,667,000 for the years ended December 31, 2011 and 2010, respectively.

St. Anne's Transaction — On May 1, 2006, OCF entered into certain lease and management service agreements with Lafourche Parish Hospital Service District No. 2 ("Lafourche") to 1) lease the 35-bed hospital it owns and operates known as St. Anne General Hospital and its facilities ("St. Anne") located in Raceland, Louisiana, 2) purchase certain assets and liabilities of St. Anne, and 3) provide managerial, administrative, financial, and technical support services to operate the hospital. Under the lease agreement, OCF is required to pay $4.6 million in base rental payments for the use of the St. Anne buildings as well as make capital improvements to the facility based on predetermined levels of financial performance during the initial 15 year term. Total required rent payments, including the base rent and required capital improvements cannot exceed $15 million over the initial term of the lease. Amounts due under the terms of this agreement may be reduced through certain credits against required payments and capital improvements. All amounts owed under this agreement are payable on the last day of the lease term, but can be discharged, in whole or in part, before the end of the period. The term of the agreement is through 2021 with two options for renewal periods up to an additional 30 years. The building lease is accounted for as an operating lease under ASC 840, Leases, and lease commitments are included in the lease commitment schedule above.

In connection with the lease of the buildings, OCF purchased certain equipment and fixtures and the working capital of the hospital by issuing a note payable to Lafourche of $7.1 million (see Note 9). The note payable is due to Lafourche. In addition, OCF assumed Lafourche's outstanding bonds payable of $2.7 million which were subsequently paid in full by OCF. As noted above, OCF is required to make certain capital improvements over the term of the lease. Upon termination of the lease agreement, OCF is required to sell, and Lafourche is required to purchase, the assets included in the initial purchase, including any additional and replacement equipment similar to the type originally purchased, for a cash purchase price equal to the net book value of the assets as of the date of the lease termination. Revenues and expenses generated by St. Anne's operations since the inception of the lease are included in the consolidated statements of operations of OHS.

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 operating leases as of December 31, 2011 (in thousands):

Years Ending December 31	
2012	$2,186
2013	1,744
2014	700
Total minimum lease payments to be received	$4,630

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 the 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 its 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.

In September 2009, OHS indefinitely suspended operations at its in vitro fertilization (IVF) center due to the mislabeling of frozen embryos. There are 50 patients who have either filed a lawsuit or a claim before the Louisiana Patient Compensation Fund (PCF) alleging mishandling in the labeling and storage of embryos between 2004 and 2009. The Louisiana Patient's Compensation Fund has taken the position that this liability is not covered by the PCF. However, these cases are covered by Ochsner's professional liability coverage. Eight cases have been settled, one is currently in mediation, and six are scheduled for mediation in May 2012. The plaintiffs requested class certification for four classes of plaintiffs: 1) all patients who ever underwent IVF at Ochsner; 2) all patients who had FDA issues with respect to donor eggs; 3) all patients who had frozen embryos at Ochsner Fertility Center when it closed and 4) all patients with certain types of errors in documentation. The court denied class certification for 1 and 2 and granted class certification for 3 and 4. Both sides have filed appeals. OHS is in the process of submitting briefs.

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 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. The Affordable Care Act expanded the RAC program's scope by requiring all states to enter into contracts with RACs by December 31, 2010 to audit payments to Medicaid providers. CMS issued a letter to state Medicaid directors on October 1, 2010 that (1) provided preliminary guidance to states on the implementation of Medicaid RAC programs, (2) created a deadline of December 31, 2010 for states to establish RAC programs, and (3) established a deadline of April 1, 2011 for states to fully implement their RAC programs. On February 1, 2011, CMS issued a notice temporarily suspending the requirement that states implement their RAC programs until the final Medicaid RAC rule is issued. In September 2011, CMS issued a final rule requiring all states to implement a Medicaid RAC program effective January 1, 2012. Historically, RACs have conducted claims reviews on a post-payment basis. In February 2012, CMS announced that it was moving forward with a RAC prepayment demonstration in 11 states. OHS has established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable 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 pursue the reversal of payment denials. OHS expects the RACs will continue to seek CMS approval to review additional issues.

Management cannot predict with certainty the impact of the Medicare and Medicaid RAC program on OHS' future results of operations or cash flows.

During 2010, OHS was selected for review by RAC auditors which is on-going as of December 31, 2011. Management of OHS believes that the reserves it has established based on preliminary results are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on future results of operations or cash flows.

15. OTHER OPERATING REVENUE

The state of Louisiana, through its Medicaid program, appropriated funds for fiscal year 2008 through 2010 to hospitals demonstrating substantial financial and operational challenges in the aftermath of Hurricane Katrina. OHS received federal disaster relief funds of $32,600,000 for the year ended December 31, 2010, which is included in other operating revenue. No such amounts were received in 2011.

16. SUBSEQUENT EVENTS

OHS completed its subsequent events review through April 19, 2012, the date on which the financial statements were available to be issued.

* * * * * *

Ochsner Clinic Foundation and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors' Report

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Ochsner Clinic Foundation:

We have audited the accompanying consolidated balance sheets of Ochsner Clinic Foundation (OCF) and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of OCF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OCF as of December 31, 2011 and 2010, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Effective January 1, 2011, OCF elected to early adopt ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (see Note 1).

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2012, on our consideration of OCF's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

April 19, 2012

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 112,617	$ 83,418
Assets limited as to use required for current liabilities	3,640	3,662
Patient accounts receivable — net	143,751	171,709
Accounts receivable other	31,795	16,220
Pledges receivable — net	1,468	1,491
Inventories	30,176	31,391
Prepaid expenses and other current assets	13,856	15,038
Estimated third-party payor settlements — net	9,980	3,680
Total current assets	347,283	326,609
ASSETS LIMITED AS TO USE:		
By board for capital improvements, charity, research, and other	313,146	319,779
Under bond indenture agreements	129,043	21,280
Under self-insurance trust fund	9,104	7,490
Donor-restricted long-term investments	43,338	45,391
Total assets limited as to use	494,631	393,940
Less assets limited as to use required for current liabilities	(3,640)	(3,662)
Noncurrent assets limited as to use	490,991	390,278
INVESTMENTS IN UNCONSOLIDATED AFFILIATES, REAL ESTATE, AND OTHER	7,283	7,259
PROPERTY — Net	430,920	428,579
GOODWILL — Net	43,077	43,097
INTANGIBLE ASSETS — Net	11,433	11,556
DUE FROM RELATED PARTIES	166,109	89,885
NOTE RECEIVABLE — Related party	86	25,401
OTHER ASSETS	15,535	15,206
TOTAL	$1,512,717	$1,337,870

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	**2011**	**2010**
CURRENT LIABILITIES:		
Accounts payable	$ 59,683	$ 58,994
Deferred revenue	9,818	2,759
Accrued interest	3,658	2,491
Accrued salaries, wages, and benefits	47,561	39,527
Accrued compensation for absences	29,021	26,770
Notes payable	52,969	52,969
Other	32,858	33,528
Pension and postretirement obligations — current portion	344	5,430
Bonds payable — current portion	4,695	4,335
Long-term debt — current portion		1,860
Total current liabilities	240,607	228,663
OTHER LONG-TERM LIABILITIES	14,848	10,647
PENSION AND POSTRETIREMENT OBLIGATIONS	144,614	72,264
BONDS PAYABLE	509,180	364,893
LONG-TERM DEBT	22,297	28,602
Total liabilities	931,546	705,069
COMMITMENTS AND CONTINGENCIES (Notes 5 and 15)		
NET ASSETS:		
Unrestricted	528,368	578,585
Temporarily restricted	30,251	31,851
Permanently restricted	22,552	22,365
Total net assets	581,171	632,801
TOTAL	$1,512,717	$1,337,870

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
UNRESTRICTED REVENUES:		
Patient service revenue — net of contractual allowances and discounts	$1,379,980	$1,304,719
Provision for bad debts	(74,504)	(109,853)
Net patient service revenue, less provision for bad debts	1,305,476	1,194,866
Premium revenue	298,222	287,442
Other operating revenue	46,039	69,850
Net assets released from restrictions used for operations	3,531	3,413
Total unrestricted revenues	1,653,268	1,555,571
EXPENSES:		
Salaries and wages	752,424	691,246
Benefits	112,057	103,836
Depreciation and amortization	53,630	49,504
Interest	23,699	21,588
Medical services to outside providers	129,687	131,099
Medical supplies and services	244,570	231,126
Other operating expenses	307,699	270,420
Total expenses	1,623,766	1,498,819
OPERATING INCOME	29,502	56,752
NONOPERATING GAINS AND LOSSES — Investment and other gains — net	11,067	14,167
EXCESS OF REVENUES OVER EXPENSES	40,569	70,919
CHANGE IN NET UNREALIZED (LOSSES) GAINS	(21,126)	15,176
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR CAPITAL ACQUISITIONS	1,338	3,542
INCREASE IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	20,781	89,637
PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(70,998)	(13,502)
OTHER		(120)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (50,217)	$ 76,015

See notes to consolidated financial statements.

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 40,569	$ 70,919
Change in net unrealized (losses) gains	(21,126)	15,176
Net assets released from restrictions used for capital acquisitions	1,338	3,542
Pension related changes other than net periodic pension costs	(70,998)	(13,502)
Other		(120)
(Decrease) increase in unrestricted net assets	(50,217)	76,015
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	4,402	10,211
Investment (loss) income — net of payments to beneficiaries	(1,133)	3,172
Net assets released from restrictions:		
Operations	(3,531)	(3,413)
Capital acquisitions	(1,338)	(3,542)
(Decrease) increase in temporarily restricted net assets	(1,600)	6,428
PERMANENTLY RESTRICTED NET ASSETS — Contributions	187	342
Increase in permanently restricted net assets	187	342
(DECREASE) INCREASE IN NET ASSETS	(51,630)	82,785
NET ASSETS — Beginning of year	632,801	550,016
NET ASSETS — End of year	$581,171	$632,801

See notes to consolidated financial statements.

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (51,630)	$ 82,785
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Pension related changes other than net periodic pension costs	70,998	13,502
Depreciation and amortization	53,630	49,504
Provision for bad debts	74,504	109,853
Contributions restricted for long-term investments	(187)	(342)
Net realized and unrealized gains (losses) on investments	13,733	(18,908)
Gain on Ochsner Medical Center — Northshore, LLC (Note 2)		(3,327)
Loss on disposal of fixed assets	122	111
Changes in operating assets and liabilities:		
Accounts receivable	(60,368)	(115,916)
Other current assets	(79,959)	(22,256)
Other assets	(4,657)	720
Accounts payable	2,360	22,595
Accrued interest and other liabilities	18,308	(991)
Net cash provided by operating activities	36,854	117,330
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of assets whose use is limited and other investments	(217,555)	(76,360)
Sales and maturities of assets whose use is limited and other investments	103,107	40,329
Capital expenditures	(57,288)	(60,060)
Proceeds received from the sale of property and equipment	843	626
Acquisition of Ochsner Medical Center — Northshore, LLC (Note 2)		(10,886)
Acquisition of Ochsner HME, LLC (Note 2)		(730)
Net cash used in by investing activities	(170,893)	(107,081)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of bonds payable and long-term debt	(13,585)	(3,754)
Proceeds from long-term borrowings	148,757	
Repayments of note receivable from Ochsner Community Hospitals	25,315	13,072
Proceeds from contributions restricted for long-term investments	187	342
Payments of bond issue costs	2,564	
Net draws on notes payable		20,000
Net cash provided by financing activities	163,238	29,660
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,199	39,909
CASH AND CASH EQUIVALENTS — Beginning of year	83,418	43,509
CASH AND CASH EQUIVALENTS — End of year	$ 112,617	$ 83,418
SUPPLEMENTAL DISCLOSURE — Cash paid for interest (net of amounts capitalized)	$ 20,092	$ 20,574
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property purchases included in accounts payable	$ 5,148	$ 3,477

The purchase of Ochsner Medical Center — Northshore LLC in April 2010 was funded partially by $23,640,000 in external financing.

In 2011 and 2010, OCF transferred equipment to OHS and OCF recorded a correspondening non cash increase in due from related parties of $168,000 and $283,000, respectively (Note 5).

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Ochsner Clinic Foundation (formerly Alton Ochsner Medical Foundation or Foundation), located in New Orleans, Louisiana, is a not-for-profit institution reporting its activities in the following net asset categories:

Unrestricted:
- Foundation Activities
- Ochsner Foundation Hospital ("Hospital")
- Ochsner Foundation Hospital — Westbank Campus
- Research
- Education
- Elmwood Fitness Center
- Brent House Corporation
- Ochsner Clinic LLC ("Clinic")
- Gulf Coast Physician Network LLC (GCPN)
- Ochsner Bayou LLC
- East Baton Rouge Medical Center LLC ("Ochsner Medical Center — Baton Rouge")
- Ochsner HME LLC (formerly Ochsner DME, LLC)
- Ochsner System Protection Company
- Ochsner Medical Center — Northshore LLC (formed April 2010)

Temporarily restricted:
- Foundation Activities
- Research
- Education

Permanently restricted:
- Foundation Activities
- Research
- Education

During 2006, Ochsner Health System (OHS), a not-for-profit, non stock membership corporation was formed as the parent company of Ochsner Clinic Foundation (OCF or "Ochsner"). OCF amended its articles of incorporation and by-laws to provide that OHS is its sole member of OCF with the authority to appoint the community directors of OCF, constituting a majority of its OCF board of directors. Ochsner Health System is also the sole member of Ochsner Community Hospitals (OCH), a not-for-profit entity formed in 2006, whose consolidated financial statements include the accounts of Ochsner Medical Center — Kenner LLC, Ochsner Medical Center — Westbank LLC, and Ochsner Baptist Medical Center LLC.

The consolidated financial statements of Ochsner Clinic Foundation include the accounts of the Ochsner Foundation Hospital — Main Campus, Ochsner Foundation Hospital — Westbank Campus, the Clinic, and the Foundation's wholly owned not-for-profit subsidiaries, Gulf Coast Physician Network LLC, Brent House Corporation, Ochsner HME LLC, Ochsner Bayou LLC, East Baton Rouge Medical Center LLC (dba Ochsner Medical Center — Baton Rouge), Ochsner System Protection Company, and Ochsner Medical Center — Northshore LLC.

On August 31, 2001, the Foundation and the Clinic effected a merger transaction resulting in the net assets of Ochsner Clinic LLC being acquired by Alton Ochsner Medical Foundation. Ochsner Clinic LLC is a multi-specialty group physician practice operating out of three primary locations and several satellite clinics in the New Orleans and Baton Rouge areas. In connection therewith, the name of Alton Ochsner Medical Foundation was changed to Ochsner Clinic Foundation (OCF), and the Clinic became a wholly owned subsidiary of OCF. As part of the merger transaction, the Foundation purchased the membership interests of the former members of the Clinic and the Foundation became the sole member of the Clinic.

The Hospital's medical and teaching staffs consist of physicians associated with the Clinic, a group practice of over 800 physicians. OCF also engages in a wide range of medical research, which is conducted by the Clinic's physicians. The Foundation established the Brent House Corporation to acquire and operate the Brent House Hotel for the general benefit of the patients of the Ochsner Health System.

In 2009, OCF formed Southeast Louisiana Homecare LLC (SLH), a joint venture with a third party. Coincident therewith, OCF sold 100% of the assets of Ochsner Home Health Corporation and St. Anne Home Health, including related licenses, to SLH and received a 25% membership interest in SLH. SLH operates as a home health agency and is being accounted for on the equity method of accounting by OCF subsequent to the sale. Also in 2009, Ochsner HME LLC and Ochsner System Protection Company LLC were established. Ochsner HME LLC was formed for the purpose of selling and leasing durable medical equipment and Ochsner System Protection Company LLC operates as a wholly-owned captive insurance company domiciled in the state of Louisiana.

In 2010, OCF purchased Northshore Regional Medical Center from Tenet Healthcare Corporation and Healthcare Property Partners. The facility operates as Ochsner Medical Center — Northshore (see Note 2).

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. The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Of particular significance to OCF's financial statements are pension assumptions, allowances for doubtful accounts and estimates of amounts to be received under government healthcare and other provider contracts. Actual results could differ from those estimates.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or under bond indenture agreements.

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

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.

Pledges receivable for the years ended December 31, 2011 and 2010 are expected to be realized as follows:

	2011	2010
In one year or less	$ 1,577	$ 1,550
Between one and five years	2,995	3,699
Greater than five years	1,125	1,650
	5,697	6,899
Less discount (ranging from and 1.25% - 4.50% and 1.00% - 4.63% at December 31, 2011 and 2010, respectively) and allowance for uncollectible pledges	(637)	(725)
Pledges receivable — net	$ 5,060	$ 6,174

Investments — 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, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. These investments are termed alternative investments in the notes to the financial statements and those without readily marketable fair values are accounted for under the equity method, which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses in unrestricted net assets (performance indicator) unless the income or loss is restricted by donor or law. Unrealized gains and losses on 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 the consolidated statements of operations. OCF recorded impairment charges on investment securities of approximately $3,301,000 and $813,000 for the years ended December 31, 2011 and 2010, 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 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 the Foundation 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	10–40
Leasehold improvements	12–20
Equipment, furniture, and fixtures	2–20

Impairment of Long-Lived Assets — OCF periodically 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. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. There were no impairment charges for the years ended December 31, 2011 and 2010.

Capitalization of Interest — OCF capitalizes interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating the OCF's average cost of borrowed funds for the project. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled $4,126,000 and $278,000 for the years ended December 31, 2011 and 2010, respectively.

Goodwill and Intangible Assets — Goodwill and intangible assets, consisting primarily of trade name and employment contracts, were recorded as a result of the Foundation's merger with the Clinic in 2001. Goodwill represents the excess of the fair value of the consideration conveyed in the acquisition over the fair value of net assets acquired. Goodwill arising from business combinations is not amortized. Goodwill and indefinite-lived intangible assets are required to be evaluated for impairment at the same time every year and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. OCF has selected December 31 as its annual testing date.

Deferred Revenue — 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.

Deferred Financing Costs — In connection with the series 2007 and 2011 bonds (see Note 9), financing costs approximating $4,488,000 and $2,564,000, respectively, were capitalized and are being amortized over the respective lives of the bonds. Accumulated amortization of these deferred financing costs approximate $540,000 and $373,000 at December 31, 2011 and 2010, respectively.

Professional and General Liability Insurance — Professional and general liability claims have been asserted against OCF by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. Incidents occurring through December 31, 2011, may result in the assertion of additional claims. OCF participates in a risk management program to provide for professional and general liability coverage. Under this program, OCF carries professional and general liability insurance coverage for up to $40 million each of annual aggregate claims subject to certain deductible provisions.

OCF, with the exception of Ochsner Medical Center — West Bank, Ochsner Medical Center — North Shore, and Ochsner Medical Center — Baton Rouge, is self-insured with respect to the first $3,000,000 of each claim for professional liability with an aggregate exposure of $6,000,000. General liability claims are subject to a retention of $1,000,000 per claim and $2,000,000 aggregate (up to an annual combined aggregate of $8,000,000). For Ochsner Medical Center — West Bank and Ochsner Medical Center — Northshore LLC, the retention is reduced to $100,000 for each individual general and professional liability claim.

Ochsner Medical Center — Baton Rouge has its own policy for professional liability claims, which does not include a retention. The estimated liability recorded by Ochsner Medical Center — Baton Rouge for claims at December 31, 2011 and 2010, based on the actuarial report discounted at 4.0% is approximately $590,000 and $531,000, respectively.

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 for participants in the fund. OCF has made contributions to a trust fund held by a financial institution. The amount to be contributed to this fund is determined annually by an independent actuary. Disbursements are made from the fund for self-insured professional and general liability claims, claims administration costs and legal fees. The trust fund assets total approximately $9,104,000 and $7,490,000 at December 31, 2011 and 2010, respectively. The estimated liability recorded by OCF for claims at December 31, 2011 and 2010, based on the actuarial report mentioned above and discounted at 3.0% and 3.5%, respectively, is approximately $12,857,000 with estimated recoveries of $113,000 and $11,152,000 with estimated recoveries of $179,000, respectively. Amounts accrued relate to funding for fiscal 2011 and, upon payment, will increase the fund to a balance which approximates the actuarial liability. If the risk management program is terminated, the trust fund balance, if any, reverts to OCF after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

In 1975, the State of Louisiana enacted the Medical Malpractice Act. The Act established the Patient's Compensation Fund and limited recovery in medical malpractice cases to $500,000. OCF participates in the Patient's Compensation Fund. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by OCF for participation in the Patient's Compensation Fund for the years ended December 31, 2011 and 2010, were approximately $18,256,000 and $20,209,000, respectively.

Estimated Workers' Compensation and Employee Health Claims — OCF is self-insured for workers' compensation and employee health claims. The estimated liability for workers' compensation and employee health claims, totaling $8,895,000 and $7,529,000 at December 31, 2011 and 2010, respectively, include estimates for the ultimate costs for both reported claims and claims incurred but not reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*. These estimates incorporate OCF's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and the use of actuarial information.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by OCF 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 OCF in perpetuity.

Consolidated Statement of Operations — For purposes of presentation, all revenues and expenses are reported as operating except for investment income and other gains — net, which is reported as nonoperating.

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 OCF 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 the OCF's established billing rates. Additionally, to provide for accounts receivable that could become uncollectible in the future, OCF 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 payment 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 that express an inability to pay are reviewed for potential sources of financial assistance including our 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 OCF's 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.

Charity Care — OCF 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 OCF does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient revenue or in the provision for doubtful accounts. OCF estimates its costs of care provided under its charity care programs by applying a ratio of direct and indirect costs to charges to gross uncompensated revenue associated with providing care to charity patients. OCF's gross charity care revenue includes only services provided to patients who are unable to pay and qualify under OCF's charity care policies. The ratio of cost to charges is calculated based on OCF's total expenses divided by gross patient revenue. During the year ended December 31, 2011 and 2010, OCF's gross uncompensated charity revenue was approximately $29,614,000 and $2,149,000, respectively, and the estimated costs incurred by OCF to provide care to patients who met certain criteria under its charity care policy were approximately $18,502,000 and $1,343,000, respectively, in 2011 and 2010.

In 2010, OCF revised its charity care policy to include a graduated scale which allows partial charity care for the patient based on the patient's income level and family size as a percentage of the Federal Poverty Guidelines. During the fourth quarter of 2010 and the first quarter of 2011, procedures were implemented that streamlined efforts to properly classify patients as charity care within the revised OCF charity care policy guidelines, while providing enhanced supporting documentation with respect to the patient. These efforts resulted in an increase in the classification of charity care provided with a corresponding reduction in bad debt expense in 2011.

Community Benefit — Since December 2010, Ochsner and four other health care providers formed collaborations with the State and several units of local government in 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) to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. Ochsner and the four other health care providers formed five non-profit organizations with the purpose to create a vehicle to provide services to low income and needy patients. Expenditures recorded by OCF to fund these programs for the year ended December 31, 2011, was $13,110,000.

Provision and Allowance for Doubtful Accounts — Effective January 1, 2011, OCF adopted the provisions of ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). ASU 2011-07 requires the presentation of revenues net of the provision for doubtful accounts. Previously, OCF's provision for doubtful accounts was included as a component of operating expenses.

The impact of the adoption of ASU 2011-07 on the income statement for the year ended December 31, 2010, is as follows (in thousands):

	As Originally Reported	Adjustments for the Adoption of ASU 2011-07	As Currently Reported
Total unrestricted revenues	$ 1,665,424	$ (109,853)	$ 1,555,571
Total expenses	1,608,672	(109,853)	1,498,819
Operating loss	$ 56,752	$ -	$ 56,752

To provide for accounts receivable that could become uncollectible in the future, OCF 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 OCF's provision for doubtful accounts. Although OCF typically experiences ongoing managed care payment delays and disputes; OCF 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 uninsured and underinsured patients, the volume of patients through OCF's 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.

OCF 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 OCF 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 OCF's policies.

Excess of Revenues over Expenses — The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, contributions of property and equipment, contributions used to acquire property and equipment, pension related changes other than net periodic pension costs, other, and cumulative effect of change in accounting principle.

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.

Fair Value of Financial Instruments — The following methods and assumptions were used by OCF in estimating the fair value of its financial instruments:

Current Assets and Liabilities — OCF considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

Investments — The fair values of OCF's marketable equity and debt securities are based on quoted market prices in an active market. The carrying amounts reported in the consolidated balance sheets for OCF's other investments approximate fair value (see Note 3).

Bonds Payable — The fair values of OCF's revenue bonds are based on currently traded values of similar financial instruments as disclosed in Note 9.

Notes Payable and Long-Term Debt — OCF considers the carrying value of its notes payable and long-term debt to approximate fair value at December 31, 2011 due to the variable nature of the interest rate.

Related Party Receivables — Because of the related party nature of the due from related parties and notes receivable — related party, a determination of the fair value is not considered meaningful.

Income Taxes — OCF and its subsidiaries qualify as tax exempt organizations under Section 501 (c)(3) and/or 509 (a)(3) of the Internal Revenue Code and are exempt from Federal and State income taxes.

Concentration of Credit Risk — OCF grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Risks and Uncertainties — OCF's business could be impacted by continuing price pressure on new and renewal business, OCF's ability to effectively control health care costs, additional competitors entering OCF's markets, and Federal and State legislation in the area of health care reform. Changes in these areas could adversely impact OCF's operations in the future.

Reclassifications — We have recast certain amounts for prior periods to conform to our 2011 presentation. Premium revenue of $287,442,000 was reclassified from net patient service revenue.

Correction of 2010 Financial Statement Amounts — Subsequent to the issuance of the 2010 financial statements, OCF discovered a misclassification in the current and noncurrent portion of pledge receivables based on the terms of the pledge agreements. As a result, management corrected the 2010 presentation and $4,700,000 in pledge receivables that were previously reported as current are reported as other assets – long-term in the 2010 consolidated balance sheet. There was no change in the amounts previously reported for total assets and total net assets for the year ended December 31, 2010.

New Accounting Pronouncements — Effective January 1, 2011, OCF adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries,* which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The adoption of ASU 2010-24 did not have a material impact on the 2011 and 2010 consolidated financial statements.

Effective January 1, 2011, OCF adopted ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, which requires that costs be used as the measurement basis of charity care disclosures and that cost be identified as the direct and indirect cost of providing the charity care. The adoption of ASU 2010-23 resulted in additional disclosures included in Note 1.

In January 2010, the FASB issued ASU 2010-06, which amends Fair Values (Topic 954), to add new disclosure requirements about recurring and non-recurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for reporting periods beginning after December 15, 2010. OCF adopted this guidance beginning January 1, 2011 and the adoption of ASU 2010-06 did not have a material impact on the 2011 and 2010 consolidated financial statements.

In April 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the 2011 and 2010 consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment (Topic 350)*, which simplifies how entities test goodwill for impairment. Previous guidance required an entity to perform a two-step goodwill impairment test at least annually by comparing the fair value of a reporting unit with its carrying amount, including goodwill, and recording an impairment loss if the fair value is less than the carrying amount. This ASU allows an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines after that assessment that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. ASU 2011-08 is required to be applied to interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and will be adopted by OCF in 2012. The adoption of ASU 2011-08 is not expected to have a material impact on the consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations. Because of the tentative and preliminary nature of such proposed standards, OCF has not yet determined the effect, if any, that the implementation of such proposed standards would have on the consolidated financial statements.

2. BUSINESS COMBINATION AND PURCHASE ACCOUNTING

Ochsner Medical Center — Northshore LLC — On April 1, 2010, OCF purchased Northshore Regional Medical Center in Slidell, Louisiana from Tenet Healthcare Corporation and Healthcare Property Partners. The facility will operate as Ochsner Medical Center — Northshore LLC.

Total purchase price for the facility was approximately $32,800,000 in addition to net asset adjustments and closing costs of $617,000. The acquisition was funded through cash on hand at the date of acquisition as well as through external financing. As part of the acquisition, OCF allocated the purchase price to the acquired assets and liabilities.

The financial statements of the facility acquired primarily consist of property, plant, and equipment and working capital items. The following is a summary of the funding sources for these transactions (in thousands):

Cash	$ 10,886
External financing	23,640
Total sources of acquisition funding	$ 34,526

The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisitions (in thousands):

Inventory	$ 1,648
Prepaid expenses and other current assets	114
Property, plant, and equipment	32,800
Other assets	1,404
Total assets acquired	35,966
Total liabilities assumed	1,440
Purchase price	$ 34,526

Ochsner HME LLC — On December 27, 2010, OCF purchased Total Health Solutions, a healthcare products, supply and solutions business licensed to provide durable medical equipment from Healthcare Development Group, L.L.C. The entity will operate as Ochsner Home Medical Equipment, L.L.C. (Ochsner HME LLC).

Total purchase price for the facility was approximately $730,000 in addition to net asset adjustments. The acquisition was funded through cash on hand at the date of acquisition. As part of the acquisition, OCF allocated the purchase price to the acquired assets and liabilities.

The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisitions (in thousands):

Inventory	$ 214
Property, plant, and equipment	132
Goodwill	384
Total assets acquired	730
Purchase price	$ 730

3. INVESTMENTS AND ASC 820-10, FAIR VALUE MEASUREMENTS AND DISCLOSURES

ASC 820, *Fair Value Measurement and Disclosures* (ASC 820), establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles 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.

OCF 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.

Assets and Liabilities Measured at Fair Value —

Recurring Fair Value Measurements — The fair value of assets and liabilities measured at estimated fair value on a recurring basis, including those items for which OCF has elected the fair value option, 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, 2011			
	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)	$ 169,484	$ -	$ -	$ 169,484
Fixed income investments (a)	78,084			78,084
Marketable equity securities (a)	148,746	33,849		182,595
Absolute return (d)			11,669	11,669
Private equity/venture capital (d)			8,024	8,024
Natural resources (b)	17,449	20,620	4,883	42,952
Real estate (c)		6,188		6,188
Unconsolidated affiliates (e)			2,914	2,914
Other			4	4
Total	$ 413,763	$ 60,657	$ 27,494	$ 501,914

	December 31, 2010			
	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)	$ 96,724	$ -	$ -	$ 96,724
Fixed income investments (a)	80,266			80,266
Marketable equity securities (a)	127,053	26,295		153,348
Absolute return (d)			11,985	11,985
Private equity/venture capital (d)			5,864	5,864
Natural resources (b)	22,439	14,392	3,550	40,381
Real estate (c)		5,441		5,441
Unconsolidated affiliates (e)			2,892	2,892
Treasury inflation protected securities (a)	4,293			4,293
Other			5	5
Total	$330,775	$46,128	$24,296	$401,199

(a) Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Marketable equity securities classified as Level 2 are principally valued using the market and income approaches. Valuation is based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques that use standard market observable inputs *such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration*, and trades of identical or comparable securities.

(b) Represents funds invested in common/collective trust funds. 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 a fund invested in a common/collective trust fund that invests in futures and forward contracts, options, and securities sold not yet purchased. 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) Represents OCF's investments in real estate located in the New Orleans area. The estimated fair value is based on market prices for similar assets as these assets are not priced in active markets.

(d) In general, investments classified within Level 3 use many of the same valuation techniques and inputs as described above. 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 investments 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 which management determines reasonably approximates the composition/nature of selected Level 3 investment.

(e) *Represents OCF's 25% interest in Southeast Louisiana Homecare LLC, a joint venture with a third party* formed in 2009. Fair value is based on the operations of the joint venture.

A rollforward of the fair value measurements for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for year ended December 31, 2011 and 2010 is as follows (in thousands):

	Total Realized/Unrealized Gains (Losses) Included in:				
Balance, December 31, 2010	Gains	Other Comprehensive Gains	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2011
$24,296	$521	$727	$1,929	$21	$27,494

	Total Realized/Unrealized Gains (Losses) Included in:				
Balance, December 31, 2009	Gains	Other Comprehensive Gains	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2010
$20,214	$188	$1,814	$2,137	$ (57)	$24,296

The FASB issued a standards update pertaining to Fair Value Measurements and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share in September 2009. Fair values are determined by the use of calculated net asset value per ownership share. In complying with the update, the following disclosures regarding OCF's investments at December 31, 2011 that feature net asset value per share in Level 2 and Level 3:

	Fair Value (In thousands)	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Emerging Market — City of London (f)	$21,077	$ -	Monthly	30 days
Natural Resources (g)	20,620		Monthly	By the 22nd business day prior to redemption
Hedge Fund (h)	11,669		Quarterly	90 days
Small Cap Growth (i)	6,436		15th and end of the month	5 business days prior to redemption
Total	$59,802	$ -		

(f) This is a commingled fund invested in equities.
(g) This category includes an investment in a common trust fund comprised of approximately 55% equity, 25% commodity and 20% fixed income.
(h) This category includes investments in commingled hedge funds which invest in multi-strategy arbitrage, opportunities, distressed investment and long/short strategies.
(i) This is a commingled fund invested in small-cap growth equities.

Investment income and other gains and losses are classified as nonoperating and are comprised of interest and dividend income of $5,934,000 and $9,477,000 (net of expenses of $992,000 and $845,000 for the years ended December 31, 2011 and 2010, respectively) and realized net gains on sales of securities of $5,133,000 and $4,690,000 for the years ended December 31, 2011 and 2010, respectively.

Alternative Investments — Alternative investments include private equity funds, hedge funds, real estate funds, offshore fund vehicles, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. 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).

Investment Impairment — The investment securities on which the impairment charge was recorded were primarily equity securities, which are carried at fair value with changes in unrealized gains and losses generally being recorded as adjustments below the performance indicator. The fair value of investments is based on quoted market prices. Upon management's review and evaluation of the individual investment securities, management deemed the market decline for certain investment securities to be "other-than-temporary", primarily due to OCF's lack of ability to hold the securities until recovery due to the use of an investment manager to execute investment transactions and decisions. The related adjustment to fair value for these investment securities was recognized in realized losses as a part of the performance indicator.

As of December 31, 2011 and 2010, there were no investments with a decline in fair value from cost as all amounts were considered other than temporary impairments and, as noted above, were recognized as realized losses as a part of the performance indicator.

Investment in Equity Investees — OCH's investment in unconsolidated affiliate totaling $2,914,000 and $2,892,000 at December 31, 2011 and 2010, respectively, represents its 25% ownership interest in Southeast Louisiana Homecare LLC. Equity in income of equity investees total $74,000 and $200,000 for the years ended December 31, 2011 and 2010, respectively.

4. PATIENT ACCOUNTS RECEIVABLE

At December 31, 2011 and 2010, OCF's patient accounts receivable balances were due from the following sources (in thousands):

	2011	2010
Government agencies	$ 75,280	$ 71,227
Patients	37,765	61,854
Managed care/indemnity	118,865	141,790
Total	231,910	274,871
Less allowance for doubtful accounts	(88,159)	(103,162)
Patient accounts receivable — net	$ 143,751	$ 171,709

5. RELATED-PARTY TRANSACTIONS

Due from OHS and OCH — OCF pays fees to OHS for administrative support and oversight. Fees incurred totaled $104,743,000 and $103,559,000 for the years ended December 31, 2011 and 2010, respectively, and are included in salaries and wages, benefits, depreciation and amortization, medical supplies and services, and other operating expenses in the consolidated statements of operations and changes in net assets. OCF also advanced interest free funds for operations to OHS and OCH. Such amounts relate to payment for payroll, rent, and invoices made by OCF on behalf of OHS and OCH and are included in due from related parties in the accompanying balance sheets. OCF advanced $58,740,000 and $8,130,000 to OHS for the years ended December 31, 2011 and 2010, respectively. OCF advanced $17,484,000 and $19,998,000 to OCH for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, amounts owed from OHS and OCH total $98,242,000 and

$39,503,000 and $67,867,000 and $50,382,000 respectively, and are included in due from related parties in the accompanying balance sheets.

Note Receivable — OCF has a note receivable with OCH in the original principal amount of $60 million which was primarily used to redeem the OCH Revenue Note Series 2006 bonds. Amounts advanced under the note receivable bear interest at the Prime Rate (3.25% at December 31, 2011 and 2010). Interest payments are due monthly and principal, accrued interest, and other charges are due and payable on demand. The note is secured by a Mortgage and Security Agreement Securing Future Advances granted by OCH. During 2011 and 2010, OCF recorded interest income totaling $393,000 and $916,000, respectively. The note receivable balance as of December 31, 2011 and 2010, is $86,000 and $25,401,000, respectively, and is recorded as notes receivable — related party in the accompanying consolidated balance sheets.

Financial Support Arrangement with OCH — Since commencing operations in 2006, OCH's operations and capital expenditures have been primarily funded (i) through the issuance of long-term notes payable and bonds payable of $44,469,000 and $76,260,000, respectively, at December 31, 2011, and $45,372,000 and $77,025,000, respectively, at December 31, 2010 to third parties guaranteed by OCF, and (ii) by cash advances and the issuance of notes payable due on demand of $86,000 and $25,401,000 respectively, at December 31, 2011 and 2010 from OCF (a related party under common ownership and control) (as noted above). OCH incurred a net operating loss of $4,626,000 and $8,749,000 for the years ended December 31, 2011 and 2010, respectively, and has liabilities that exceed assets by $103,005,000 and $98,466,000 at December 31, 2011 and 2010, respectively. OCF has committed to OCH to continue to provide or maintain financial support through the continuation of financing to enable OCH to meet and discharge its liabilities in the normal course of business for the next 12 months through January 1, 2013, as well as, committed not to demand repayment of the note payable due on demand during this time.

Insurance Coverage — Beginning May 31, 2010, OCF and OCH participate in a captive insurance program with OSPC which provides for certain of its property coverages accessed via the reinsurance market. Premiums paid by OCF total $3,356,000 and $2,528,000 for the years ended December 31, 2011 and 2010, respectively, and eliminate upon consolidation.

6. PROPERTY — NET

OCF's investment in property at December 31, 2011 and 2010, is as follows (in thousands):

	2011	2010
Land and improvements	$ 68,690	$ 68,823
Buildings	621,955	603,921
Leasehold improvements	52,441	42,404
Equipment, furniture, and fixtures	382,098	361,856
Building and building improvements held for lease	3,155	3,155
Construction in progress	20,928	21,087
Total property — at cost	1,149,267	1,101,246
Less accumulated depreciation	(718,347)	(672,667)
Property — net	$ 430,920	$ 428,579

Depreciation and amortization expense totaled approximately $53,630,000 and $48,406,000 respectively, for the years ended December 31, 2011 and 2010.

At December 31, 2011 and 2010, OCF has purchase commitments totaling approximately $28,070,000 and $10,685,000, respectively, toward additional capital expenditures.

7. GOODWILL AND INTANGIBLE ASSETS — NET

As stated in Note 1, on August 31, 2001, the Foundation 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 ofthe 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, 2011 and 2010, are (in thousands):

	2011	2010
Goodwill — net	$43,077	$43,097
Trade name	$11,433	$11,433
Other		123
Intangible assets — net	$11,433	$11,556

Prior to January 1, 2010, OCF amortized goodwill and intangible assets on a straight line basis using 20 years as the useful lives. In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-07, which codifies ASC 350, *Intangibles — Goodwill and Other*. OCF adopted ASU 2010-07 on January 1, 2010 and as a result, goodwill and trade name were no longer amortized.

In 2010, OCF recorded an additional $384,000 of goodwill in connection with the acquisition of Ochsner HME LLC (see Note 2).

8. NOTES PAYABLE

OCF has a loan agreement with a bank which provides a credit line. The loan agreement was amended on September 29, 2009 to establish the interest rate on outstanding borrowings as the 30 day LIBOR index plus one hundred (100) basis points (1.00%) and set an expiration/renewal date of September 28, 2010. On March 31, 2010, the note was further amended to increase the amount available under the note from $33,000,000 to $53,000,000, modified the interest rate to 30 day LIBOR index plus one hundred fifty (150) basis points (1.50%), and set an expiration/renewal date of March 29, 2011. The line of credit was renewed through May 29, 2012. Borrowings under the arrangement are unsecured, however OCF must meet certain financial covenants. OCF was in compliance with these covenants at December 31, 2011 and 2010. At December 31, 2011 and 2010, OCF had borrowings outstanding under this arrangement of $52,969,000. At December 31, 2011 and 2010, the amount of line of credit reserved for three standby letters of credit with a utility provider amounted to $31,500. The interest rate on outstanding borrowings is based on LIBOR and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 1.77% and 1.76% at December 31, 2011 and 2010, respectively. All amounts are classified as current at December 31, 2011 and 2010.

9. BONDS PAYABLE

At December 31, 2011 and 2010, bonds payable consist of the following tax-exempt revenue bonds issued by the Louisiana Public Facilities Authority (LPFA) on behalf of OCF for the purpose of refunding the Series 2002A and 2002B bonds as well as providing funding for capital projects (in thousands):

	2011	2010
Series 2007-A issued September 2007, due serially 2009–2047, annual interest rates ranging from 5.00% to 5.50%	$373,115	$377,450
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	
Less unamortized net bond discount	(9,240)	(8,222)
Total bonds	513,875	369,228
Less current portion	(4,695)	(4,335)
Noncurrent portion of bonds payable	$509,180	$364,893

The OCF Series 2007-A bonds were issued by the LPFA on behalf of OCF for the purpose of advance refunding the Series 2002A and 2002B bonds as well as providing funding for capital projects. The $380,030,000 Revenue Bonds were issued at fixed rates through the LPFA at a discount of approximately $9,000,000.

The OCF Series 2011 bonds were issued by the LPFA on behalf of OCF for the purpose of providing funding for capital projects. The $150,000,000 Revenue Bonds were issued at fixed rates through the LPFA at a discount of approximately $1,300,000.

Under the terms of the bond indentures, OCF is required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the financial statements. The bond indentures also place limits on the incurrence of additional borrowings and requires that OCF satisfy certain measures of financial performance as long as the bonds are outstanding. OCF is currently in compliance with these requirements.

The Series 2007 and Series 2011 bonds are general obligations of OCF, and all present and future accounts receivable are pledged to repayment of the bonds.

At December 31, 2011, scheduled repayments of principal and sinking fund installments to retire the bonds payable are as follows (in thousands):

Years Ending December 31	
2012	$ 4,695
2013	4,785
2014	5,475
2015	5,880
2016	6,260
Thereafter	496,020
	$ 523,115

The estimated fair value of OCF's 2007-A and 2011 Series bonds as of December 31, 2011 and 2010 is approximately $528,759,000 and $329,736,000 respectively.

10. LONG-TERM DEBT

A summary of long-term debt at December 31, 2011 and 2010, is as follows (in thousands):

	2011	2010
Working capital note, due May 2016, including accrued interest	$ 8,141	$ 8,029
Loans on land and building, due April 2015	15,640	15,640
Less unamortized discount	(1,484)	(2,568)
Total loans on land and building	14,156	13,072
Equipment loan, due December 2011		1,566
Equipment loan, refinanced in 2011 bond issue		7,795
Total long-term debt	22,297	30,462
Less current portion of long-term debt		(1,860)
Noncurrent portion of long-term debt	$ 22,297	$ 28,602

St. Anne — On May 1, 2006, OCF entered into lease and management services agreements with Lafourche Parish Hospital Service District No. 2 ("Lafourche"), who 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 (see further discussion at Note 15). As part of the agreement, OCF entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment. 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 1.08% and 1.49% at December 31, 2011 and 2010, respectively. All amounts are classified as non-current at December 31, 2011 and December 31, 2010 and are included in long-term debt on the consolidated balance sheets.

Ochsner Medical Center — Northshore LLC — OCF's purchase of Northshore Regional Medical Center on April 1, 2010 was partially financed by an $8,000,000 equipment loan bearing interest at 8% per annum and a $15,640,000 loan on the land and buildings. The equipment loan which had an original term of 60 months with a balloon payment due on April 1, 2015 was refinanced by the 2011 bond issue on May 1, 2011 (see Note 9). The loan on land and buildings is due on April 1, 2015 and bears interest at 1% per annum.

Equipment Loan — In November 2009, OCF entered into an agreement to finance equipment purchases in the amount of $3,917,000. Equipment purchases were received by OCF in March 2010. Principal payments are due in semi-annual installments which commenced on December 31, 2009 and matured in December 2011.

At December 31, 2011, scheduled repayments of long-term debt are as follows (in thousands):

Years Ending December 31	
2015	$ 15,640
2016	8,141
	$23,781

11. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan — Certain employees of OCF and its subsidiaries are covered under a defined benefit pension plan. The plan is noncontributory 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 40 who elected to freeze their retirement plan benefits. OCF made an additional change to the 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 plan. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. OCF makes contributions to its qualified plan that satisfies 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):

	2011	2010
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 398,230	$ 366,112
Service cost	1,596	1,550
Interest cost	21,928	22,088
Actuarial loss	52,276	23,960
Benefits paid	(18,669)	(15,480)
Benefit obligation — end of year	455,361	398,230
Change in plan assets:		
Fair value of plan assets — beginning of year	328,557	300,319
Actual return on plan assets	6,324	35,665
Employer contributions	5,030	8,053
Benefits paid	(18,669)	(15,480)
Fair value of plan assets — end of year	321,242	328,557
Funded status	$ (134,119)	$ (69,673)

	2011	2010
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations — current portion	$ -	$ -
Pension and postretirement obligations — noncurrent portion	(134,119)	(69,673)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	$ 167,222	$ 95,954
Prior service credit	(146)	(209)
Total amounts recognized	$ 167,076	$ 95,745
Other changes in plan assets and benefit obligations recognized in accumulated unrestricted net assets:		
Net gain	$ 73,007	$ 14,942
Recognized loss	(1,739)	(1,534)
Recognized prior service credit	63	63
Total amounts recognized	$ 71,331	$ 13,471

Weighted-average assumptions used to determine projected benefit obligations at December 31, 2011 and 2010, were as follows:

	2011	2010
Weighted-average discount rate	4.85 %	5.70 %
Rate of compensation increase	Graded	Graded

Net periodic pension cost for the years ended December 31, 2011 and 2010, includes the following component (in thousands):

	2011	2010
Service cost	$ 1,596	$ 1,551
Interest cost	21,928	22,088
Expected return on plan assets	(27,054)	(26,647)
Amortization of net loss	1,739	1,533
Recognized prior service credit	(63)	(63)
Net periodic pension benefit	$ (1,854)	$ (1,538)

Weighted average assumptions used to determine net periodic pension cost for the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Weighted average discount rate	5.70 %	6.15 %
Expected return on plan assets	8.40	9.00
Rate of compensation increase	Graded	Graded

The defined benefit pension plan assets were $321,242,000 and $328,557,000 at December 31, 2011 and 2010, respectively. The fair values of the pension plan assets at December 31, 2011 and 2010 are as follows (in thousands):

	December 31, 2011			
	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)	$ 9,603	$ -	$ -	$ 9,603
Fixed income investments (a)	115,768			115,768
Marketable equity securities (a)	60,967	18,198		79,165
Absolute return (c)			23,978	23,978
Private equity/venture capital (c)			44,989	44,989
Natural resources (b)	11,561	12,507	5,269	29,337
Other	28		18,374	18,402
Total	$ 197,927	$ 30,705	$ 92,610	$ 321,242

	December 31, 2010			
	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)	$ 4,626	$ -	$ -	$ 4,626
Fixed income investments (a)	110,542			110,542
Marketable equity securities (a)	70,388	23,787		94,175
Absolute return (c)			24,595	24,595
Private equity/venture capital (c)			43,613	43,613
Natural resources (b)	14,588	13,216	3,950	31,754
Other			19,252	19,252
Total	$ 200,144	$ 37,003	$ 91,410	$ 328,557

(a) Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Marketable equity securities classified as Level 2 are principally valued using the market and income approaches. Valuation is based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities.

(b) Represents funds invested in common/collective trust funds. 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 a fund invested in a common/collective trust fund that invests in futures and forward contracts, options, and securities sold not yet purchased. 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 use many of the same valuation techniques and inputs as described above. 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 investments 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 which management determines reasonably approximates the composition/nature of selected Level 3 investment.

The defined benefit pension plan asset allocation as of the measurement date (December 31, 2011 and December 31, 2010) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2011	2010	Target Allocation
Debt securities	36 %	34 %	25%–30%
Equity securities	25	41	37%–59%
Private equity/venture capital	14	2	0%–7%
Hedge funds	13	13	10%–15%
Natural Resources/REITs	9	10	3%–10%
Other	3	1	- %

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 plan.

The primary financial objectives of the plan are to (1) provide a stream of relatively predictable, stable, and constant earnings in support of the plan's annual benefit obligations; and (2) preserve and enhance the real (inflation-adjusted) value of the assets of the plan. The long-term investment objectives of the plan are to (1) attain the average annual total return assumed in the plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods; (2) outperform the 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 which enumerate types of investment allowed in each category.

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 expected long-term rate of return. Historical return patterns and correlations, consensus return forecast and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to assure that the probability of meeting actuarial assumptions is reasonable. OCF Treasury staff oversees the day-to-day activities involving assets of the Plan and the implementation of any changes adopted by the Investment Committee.

OCF currently expects to make a contribution to the defined benefit pension plan of approximately $15.7 million in 2012.

For 2011 and 2010, OCF's defined benefit plan had accumulated benefit obligations of approximately $452,884,000 and $395,047,000, respectively.

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is $3,938,000 and $1,812,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2011, are as follows (in thousands):

Years Ending December 31	
2012	$ 20,372
2013	21,640
2014	23,097
2015	24,274
2016	25,612
2017–2021	142,213
	$257,208

Defined Contribution Plans — All employees of OCF meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the "Plan"). Effective for the 2010 Plan year, OCF 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 may annually elect to make a match for eligible employees 50% of the first 4% the employees contribute into their 401(k). At December 31, 2011 and 2010, OCF has accrued $16,257,000 and $13,673,000 for matching contributions to the plan for the 2011 and 2010 fiscal years, respectively. The 2010 contribution was remitted to the Trustee in April 2011 and the 2011 contribution were remitted in April 2012.

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 pension 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. OCF's consolidated balance sheets reflect a liability of $6,286,000 and $3,433,000 for the 457(f) plan at December 31, 2011 and 2010, 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 following table sets forth the plan's funded status and expense recognized by OCF as of and for the years ended December 31, 2011 and 2010, using the projected unit credit method (in thousands).

	2011	**2010**
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 2,680	$ 2,518
Interest cost	133	147
Benefits paid	(208)	(210)
Actuarial (loss) gain	(90)	225
Benefit obligation — end of year	$ 2,515	$ 2,680
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	208	210
Benefits paid	(208)	(210)
Fair value of plan assets — end of year	$ -	$ -
Funded status	$ (2,515)	$ (2,680)
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations — *current* portion	$ (204)	$ (241)
Pension and postretirement obligations — noncurrent portion	(2,311)	(2,439)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	$ 836	$ 978
Prior service credit	(123)	(143)

Components of net periodic cost at December 31, 2011 and 2010, are as follows (in thousands):

	2011	**2010**
Service cost	$ -	$ -
Interest cost	133	146
Recognized prior service cost	(20)	(20)
Recognized actuarial loss	52	57
Net periodic cost	$ 165	$ 183

	2011	2010
Weighted average assumptions — December 31:		
Discount rate on benefit obligation	4.85 %	5.70 %
Discount rate on net periodic cost	5.70	6.15

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is $62,000 and $76,000, respectively.

OCF currently expects to make a contribution to the other postretirement benefit plan of approximately $209,000 in 2012.

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, 2011, are as follows (in thousands):

Years Ending December 31	
2012	$ 209
2013	217
2014	209
2015	205
2016	207
2017–2021	972
	$2,019

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate was assumed to decrease gradually to 5.5% by 2012 and remain at that level thereafter (in thousands).

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost	$ 7	$ (6)
Effect on postretirement benefit obligation	$ 129	$ (114)

Executive Benefit Plan — Certain former Alton Ochsner Medical Foundation executives participate in an Executive Benefit Plan. The expense associated with this plan was $69,000 and $78,000, respectively, for the years ended December 31, 2011 and 2010. OCF's consolidated balance sheets reflect a liability of $1,338,000 and $1,272,000 for this plan at December 31, 2011 and 2010, respectively.

12. ENDOWMENT FUNDS AND TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

OCF has 598 temporarily restricted funds and 61 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 Topic 205-958-45, *Presentation — Not for Profit* Entities 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. UPMIFA requires OCF 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. During 2010, OCF retroactively adopted UPMIFA as of January 1, 2009.

UPMIFA also requires that OCF 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, 2011 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	$ 5,134	$16,511	$21,645
Education	3,548	2,691	6,239
Other	21,569	3,350	24,919
Total	$30,251	$22,552	$52,803

Restricted Net Assets as of December 31, 2010 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	$ 6,994	$16,474	$23,468
Education	3,845	2,627	6,472
Other	21,012	3,264	24,276
Total	$31,851	$22,365	$54,216

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$1,614	$22,553	$24,167
Board-designated funds	2,283			2,283
Total	$2,283	$1,614	$22,553	$26,450

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$4,066	$22,365	$26,431
Board-designated funds	2,571			2,571
Total	$2,571	$4,066	$22,365	$29,002

Changes in Endowment Net Assets for the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$2,571	$ 4,066	$22,365	$29,002
Investment loss	(181)	(1,093)		(1,274)
Contributions			188	188
Appropriations for expenditures	(107)	(1,359)		(1,466)
Ending balance	$2,283	$ 1,614	$22,553	$26,450

Changes in Endowment Net Assets for the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$2,745	$ 2,777	$22,023	$27,545
Investment (loss) income	(47)	2,687		2,640
Contributions			342	342
Appropriations for expenditures	(127)	(1,398)		(1,525)
Ending balance	$2,571	$ 4,066	$22,365	$29,002

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 OCF to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies totaled $1,382,000 and $0 as of December 31, 2011 and 2010, respectively. Any such deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters — OCF 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 OCF 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. OCF expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

Strategies Employed for Achieving Objectives — To satisfy its long-term rate-of-return objectives, OCF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. OCF 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 OCF's 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 funds' 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.

13. NET PATIENT SERVICE REVENUE

Net patient service revenue is recognized when services are provided. OCF has agreements with third-party payors that provide for payments to OCF 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:

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.

OCF 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 Medicare reimbursement issues under appeal by OCF is reported as an increase in net patient service revenue in the year the issue is resolved. The Medicare cost reports of the Hospital, Ochsner Bayou LLC, and Ochsner Medical Center — Baton Rouge have been settled by the fiscal intermediary through December 31, 2003, December 31, 2009, and September 30, 2006, respectively. The Medicaid cost reports of the Hospital, Ochsner Bayou LLC, and Ochsner Medical Center — Baton Rouge have been settled by the fiscal intermediary through December 31, 2002, December 31, 2009, and September 30, 2006, respectively.

As a result of retroactive settlements of certain prior year cost reports, OCF recorded changes in estimates during the year ended December 31, 2011 and 2010. Operating revenues increased approximately $3,121,000 and $7,071,000 in 2011 and 2010, respectively.

Estimated amounts due to OCF for Medicare and Medicaid services are included in receivables at year end. Net revenue from government health care programs included in net patient service revenue in 2011 and 2010, approximated $463,442,000 and $411,021,000, respectively.

Upper Payment Limit Program — Since December 2010, Ochsner and four other health care providers formed collaborations with the State and several units of local government in 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) to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. Ochsner and these four other health care providers formed five non-profit organizations, Louisiana Clinical Services, Inc. (LCS), Southern Louisiana Clinical Services, Inc. (SLCS), Eastern Louisiana Clinical Services, Inc. (ELCS), Natchitoches Clinical Services, Inc. (NCS), and Jefferson Clinical Services, Inc., with the purpose to create a vehicle to provide services to low income and needy patients in the providers' communities. These collaborations enable the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. Under the agreement between the collaborative members, the Program became effective on December 1, 2010, and the first year of the Program runs from December 1, 2010 to November 30, 2011. Ochsner received $8,000,000 from the State of Louisiana on December 31, 2010 for the first year of the Program. Because the program was not fully operational until fiscal 2011, Ochsner recorded this amount as deferred revenue in the 2010 consolidated balance sheet. In 2011, OCF recognized $24,274,000 in Medicaid net revenue related to this program and recorded deferred revenue of $2,483,000 at December 31, 2011.

Humana Inc. — OCF entered into a provider contract with Humana Inc. to provide services for its commercial and senior members. The commercial members are reimbursed 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. OCF provided services to the senior members under a capitation contract for both physician and hospital services. Net revenue from Humana Inc., net of medical services to outside providers, in 2011 and 2010 approximated $280,300,000 and $300,191,000 respectively.

Managed Care — OCF 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.

OCF 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 that are not eligible for charity care, OCF 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 OCF's uninsured patients will be incapable or reluctant to pay for the services provided. Therefore, OCF records a significant provision for bad debts related to uninsured patients in the period the services are provided. For the years ended December 31, 2011 and December 31, 2010, OCF recorded a provision for bad debt of $74,504,000 and $109,853,000, respectively.

In 2010, OCF revised its charity care policy to include a graduated scale which allows partial charity care for the patient based on the patient's income level and family size as a percentage of the Federal Poverty Guidelines. During the fourth quarter of 2010 and the first quarter of 2011, procedures were implemented that streamlined efforts to properly classify patients as charity care within the revised OCF charity care policy guidelines, while providing enhanced supporting documentation with respect to the patient. These efforts resulted in an increase in the classification of charity care provided with a corresponding reduction in bad debt expense in 2011.

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

	2011	2010
Government agencies	$ 463,442	$ 411,021
Patients	75,212	83,732
Managed care/indemnity	841,326	809,966
Patient service revenue, net of contractual allowances and discounts	$1,379,980	$1,304,719

14. FUNCTIONAL EXPENSES

OCF provides general health care services primarily to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2011 and 2010, are as follows (in thousands):

	2011	2010
Health care services	$1,199,822	$1,097,507
General and administrative	363,910	342,003
Medical education	34,847	34,251
Research	10,369	10,499
Fitness center	11,728	11,808
Hotel	3,090	2,751
	$1,623,766	$1,498,819

15. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments — OCF leases assets under various rental agreements. The following schedule summarizes OCF's future annual minimum rental commitments on leases with a remaining term, as of December 31, 2011, in excess of one year (in thousands):

Years Ending December 31	
2012	$17,956
2013	13,127
2014	6,194
2015	2,378
2016	1,364
Thereafter	12,446
Total	$53,465

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was $38,955,000 and $35,410,000, respectively, for the years ended December 31, 2011 and 2010.

Transfer of Westbank to OCF — On September 14, 2008, OCH executed a bill of sale, assignment and assumption agreement with OCF to transfer the operations of the Westbank facility to OCF. Coincident therewith, a 10-year lease was executed to lease the Westbank facility building to OCF, and, subsequent thereto, the facility is being operated and licensed as a remote satellite campus of OCF. Amounts incurred related to this lease agreement were $3,229,000 for the years ended December 31, 2011 and 2010 and are included in other operating expenses in the accompanying statement of operations. OCF's future annual minimum rental commitments related to this lease as of December 31, 2011 are as follows (in thousands):

Years Ending December 31	
2012	$ 3,148
2013	3,210
2014	3,275
2015	3,340
2016	3,407
Thereafter	5,971
Total	$22,351

St. Anne's Transaction — On May 1, 2006, OCF entered into certain lease and management service agreements with Lafourche Parish Hospital Service District No. 2 ("Lafourche") to 1) lease the 35-bed hospital it owns and operates known as St. Anne General Hospital and its facilities ("St. Anne") located in Raceland, Louisiana, 2) purchase certain assets and liabilities of St. Anne, and 3) provide managerial, administrative, financial, and technical support services to operate the hospital. Under the lease agreement, OCF is required to pay $4.6 million in base rental payments for the use of the St. Anne buildings as well as make capital improvements to the facility based on predetermined levels of financial performance during the initial 15 year term. Total required rent payments, including the base rent and required capital improvements cannot exceed $15 million over the initial term of the lease. Amounts due under the terms of this agreement may be reduced through certain credits against required payments and capital improvements. All amounts owed under this agreement are payable on the last day of the lease term, but can be discharged, in whole or in part, before the end of the period. The term of the agreement is through 2021 with two options for renewal periods up to an additional 30 years. The building lease is accounted for as an operating lease under ASC 840, *Leases*, and lease commitments are included in the lease commitment schedule above.

In connection with the lease of the buildings, OCF purchased certain equipment and fixtures and the working capital of the hospital by issuing a note payable to Lafourche of $7.1 million (see Note 10). The note payable is due to Lafourche. In addition, OCF assumed Lafourche's outstanding bonds payable of $2.7 million which were subsequently paid in full by OCF. As noted above, OCF is required to make certain capital improvements over the term of the lease. Upon termination of the lease agreement, OCF is required to sell, and Lafourche is required to purchase, the assets included in the initial purchase, including any additional and replacement equipment similar to the type originally purchased, for a cash purchase price equal to the net book value of the assets as of the date of the lease termination. Revenues and expenses generated by St. Anne's operations since the inception of the lease are included in the consolidated statements of operations of OCF.

OCH Debt Guaranty — OCF has provided a joint and several Guarantee Agreement for Ochsner Community Hospital's $83,910,000 LPFA bonds issued in 2007. The guaranty provided by OCF is secured by a mortgage and security interest in certain of OCH's assets as well as a pledge of revenues. OCF has also provided a joint and several Guarantee Agreement ("Guarantee Agreement") for OCH's notes payable of $22,000,000 and $25,000,000 issued in 2008 and 2007, respectively. The Guarantee Agreement provided by OCF is on parity with the guarantee above and secured by a mortgage and security interest in certain of OCH's assets as well as a pledge of revenues. Under this Guarantee Agreement, OCF will be obligated to pay the guaranteed bonds and notes payable should OCH fail to pay. The maximum exposure OCF has on its Guarantee Agreement for OCH's debt as of December 31, 2011 is $121,265,000, the amount of the outstanding debt, plus any accrued and unpaid interest. OCH is obligated to reimburse OCF for any amount OCF has to pay under the Guarantee Agreement, and the reimbursement obligation is secured by a mortgage and security interest on certain assets of OCH.

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 the time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. OCF and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of its business. Management of OCF 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 OCF's consolidated statements of financial position or results of operations.

In September 2009, OCF indefinitely suspended operations at its in vitro fertilization (IVF) center due to the mislabeling of frozen embryos. There are 50 patients who have either filed a lawsuit or a claim before the Louisiana Patient Compensation Fund (PCF) alleging mishandling in the labeling and storage of embryos between 2004 and 2009. The Louisiana Patient's Compensation Fund has taken the position that this liability is not covered by the PCF. However, these cases are covered by Ochsner's professional liability coverage. Eight cases have been settled, one is currently in mediation, and six are scheduled for mediation in May 2012. The plaintiffs requested class certification for four classes of plaintiffs: 1) all patients who ever underwent IVF at Ochsner; 2) all patients who had FDA issues with respect to donor eggs; 3) all patients who had frozen embryos at Ochsner Fertility Center when it closed and 4) all patients with certain types of errors in documentation. The court denied class certification for 1 and 2 and granted class certification for 3 and 4. Both sides have filed appeals. OCF is in the process of submitting briefs.

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 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. The Affordable Care Act expanded the RAC program's scope by requiring all states to enter into contracts with RACs by December 31, 2010 to audit payments to Medicaid providers. CMS issued a letter to state Medicaid directors on October 1, 2010 that (1) provided preliminary guidance to states on the implementation of Medicaid RAC programs, (2) created a deadline of December 31, 2010 for states to establish RAC programs, and (3) established a deadline of April 1, 2011 for states to fully implement their RAC programs. On February 1, 2011, CMS issued a notice temporarily suspending the requirement that states implement their RAC programs until the final Medicaid RAC rule is issued. In September 2011, CMS issued a final rule requiring all states to implement a Medicaid RAC program effective January 1, 2012. Historically, RACs have conducted claims reviews on a post-payment basis. In February 2012, CMS announced that it was moving forward with a RAC prepayment demonstration in 11 states. OCF has established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable 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, OCF will incur additional costs to respond to requests for records and pursue the reversal of payment denials. OCF expects the RACs will continue to seek CMS approval to review additional issues.

Management cannot predict with certainty the impact of the Medicare and Medicaid RAC program on OCF's future results of operations or cash flows.

During 2010, OCF was selected for review by RAC auditors which is on-going as of December 31, 2011. Management of OCF believes that the reserves it has established based on preliminary results are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on future results of operations or cash flows.

16. OTHER OPERATING REVENUE

The state of Louisiana, through its Medicaid program, appropriated funds for fiscal year 2008 through 2010 to hospitals demonstrating substantial financial and operational challenges in the aftermath of Hurricane Katrina. OCF received federal disaster relief funds of $26,000,000 for the year ended December 31, 2010, which is included in other operating revenue. No such amounts were received in 2011.

17. SUBSEQUENT EVENTS

OCF completed its subsequent events review through April 19, 2012, the date on which the financial statements were available to be issued.

* * * * * *

Ochsner Community Hospitals and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors' Report

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Ochsner Community Hospitals:

We have audited the accompanying consolidated balance sheets of Ochsner Community Hospitals and subsidiaries (OCH) as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net deficit, and cash flows for the years ended December 31, 2011 and 2010. These consolidated financial statements are the responsibility of OCH's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCH's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 14 to the financial statements, OCH relies upon Ochsner Clinic Foundation, a related party, to provide certain financial assistance and guarantees, in the absence of which OCH could experience difficulty in sustaining operations.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OCH as of December 31, 2011 and 2010, and the results of its operations, changes in its net deficit, and its cash flows for the years ended December 31, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

Effective January 1, 2011, OCH elected to early adopt ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (see Note 1).

Deloitte & Touche LLP

April 19, 2012

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,319	$ 6,300
Assets limited as to use required for current liabilities	92	92
Patient accounts receivable — net	23,568	26,173
Accounts receivable other	368	364
Pledges receivable — net	49	123
Inventories	3,751	3,603
Prepaid expenses and other current assets	2,186	1,947
Estimated third-party payor settlements — net	3,906	1,995
Total current assets	40,239	40,597
ASSETS LIMITED AS TO USE:		
Under bond indenture agreements	4,856	7,729
Under loan agreements	3,311	2,428
Under self-insurance trust fund	1,120	1,097
Donor restricted long-term investments	482	440
Total assets limited as to use	9,769	11,694
Less assets limited as to use required for current liabilities	(92)	(92)
Noncurrent assets limited as to use	9,677	11,602
INVESTMENT IN UNCONSOLIDATED AFFILIATE	337	499
PROPERTY — Net	92,941	92,924
OTHER ASSETS	1,665	1,572
TOTAL	$144,859	$147,194
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 8,915	$ 8,563
Accrued interest	537	542
Bonds payable — current portion	665	765
Long-term debt — current portion	625	903
Accrued salaries, wages, and benefits	3,686	3,603
Accrued compensation for absences	2,250	2,136
Other	1,790	724
Total current liabilities	18,468	17,236
BONDS PAYABLE	73,905	74,522
LONG-TERM DEBT	43,844	44,469
DUE TO RELATED PARTIES	110,121	82,693
NOTE PAYABLE — Related party	86	25,401
OTHER LONG-TERM LIABILITIES	1,440	1,339
Total liabilities	247,864	245,660
TOTAL NET DEFICIT:		
Unrestricted	(103,545)	(99,047)
Temporarily restricted	540	581
Total net deficit	(103,005)	(98,466)
TOTAL	$144,859	$147,194

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands)

	2011	2010
UNRESTRICTED REVENUES:		
Patient service revenue, net of contractual allowances and discounts	$ 158,480	$ 158,444
Provision for bad debts	(8,565)	(17,102)
Net patient service revenue, less provision for bad debts	149,915	141,342
Other operating revenue	10,434	17,157
Net assets released from restrictions used for operations	50	48
Total unrestricted revenues	160,399	158,547
EXPENSES:		
Salaries and wages	69,526	71,333
Benefits	9,807	9,117
Depreciation and amortization	8,514	8,192
Interest — net of capitalized interest	4,695	5,318
Medical supplies and services	35,210	34,248
Other operating expenses	37,273	39,088
Total expenses	165,025	167,296
OPERATING LOSS	(4,626)	(8,749)
NONOPERATING GAINS — Investment and other gains	5	5
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR CAPITAL ACQUISITIONS	123	1,022
INCREASE IN UNRESTRICTED NET DEFICIT	(4,498)	(7,722)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions — net of allowances	132	563
Net assets released from restrictions:		
Operations	(50)	(48)
Capital acquisitions	(123)	(1,022)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(41)	(507)
INCREASE IN NET DEFICIT	(4,539)	(8,229)
NET DEFICIT — Beginning of year	(98,466)	(90,237)
NET DEFICIT — End of year	$ (103,005)	$ (98,466)

See notes to consolidated financial statements.

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net deficit	$ (4,539)	$ (8,229)
Adjustments to reconcile increase in net deficit to net cash provided by operating activities:		
Depreciation and amortization	8,514	8,192
Provision for bad debts	8,565	17,102
Income from equity investee — net	162	
Gain on asset disposal	(2)	
Contributions restricted for capital acquisitions	(132)	(563)
Accounts receivable	(5,960)	(18,266)
Pledges and other receivables	70	407
Inventories	(148)	561
Prepaid expenses and other current assets	(239)	(825)
Assets limited as to use	1,925	(2,797)
Estimated third-party payor settlements	(1,911)	130
Accounts payable and other liabilities	2,053	1,925
Due to related parties	27,391	31,278
Net cash provided by operating activities	35,749	28,915
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(9,136)	(6,759)
Purchases of assets limited as to use and other investments		(131)
Proceeds from asset disposal	257	
Net cash used in investing activities	(8,879)	(6,890)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital acquisitions	132	563
Repayments of bonds payable and long-term debt	(1,668)	(4,574)
Repayments of note payable to Ochsner Clinic Foundation	(25,315)	(13,072)
Net cash used in financing activities	(26,851)	(17,083)
NET INCREASE IN CASH AND CASH EQUIVALENTS	19	4,942
CASH AND CASH EQUIVALENTS — Beginning of period	6,300	1,358
CASH AND CASH EQUIVALENTS — End of period	$ 6,319	$ 6,300
SUPPLEMENTAL DISCLOSURE — Cash paid for interest	$ 4,203	$ 4,310
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES — Purchases of property included in accounts payable	$ 443	$ 101

In 2011 and 2010, OCH transferred equipment to OHS and OCH recorded a corresponding non cash decrease in due to related parties of $107,000 and $1,000, respectively.

See notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ochsner Community Hospitals (OCH) is a not-for-profit institution formed on July 17, 2006, to acquire the three former Tenet hospitals in the greater New Orleans area. The acquisition of the hospitals took place on October 1, 2006. The individual hospitals were formed as not-for-profit, wholly owned limited liability subsidiaries of OCH and are as follows:

- Ochsner Medical Center Kenner, LLC ("Kenner") — formerly Kenner Regional Medical Center in Kenner, Louisiana
- Ochsner Medical Center Westbank, LLC ("Westbank") — formerly Meadowcrest Hospital in Gretna, Louisiana (until the facility's operations were transferred to OCF on September 14, 2008, see Note 12)
- Ochsner Baptist Medical Center, LLC ("Baptist") — formerly Memorial Medical Center in New Orleans, Louisiana

The sole member of Ochsner Community Hospitals is Ochsner Health Systems (OHS or "Ochsner"), a not-for-profit, nonstock membership corporation. Ochsner Health Systems is also the sole member of Ochsner Clinic Foundation (OCF), whose consolidated financial statements include the accounts of the Ochsner Foundation Hospital, Ochsner Clinic LLC, and its wholly owned not-for-profit subsidiaries, Brent House Corporation, Ochsner HME LLC, Ochsner Bayou LLC, Gulf Coast Physician Network LLC, East Baton Rouge Medical Center, LLC (dba Ochsner Medical Center – Baton Rouge), Ochsner System Protection Company LLC (OSPC) and Ochsner Medical Center – Northshore, LLC.

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

Basis of Presentation and Principles of Consolidation — The consolidated financial statements include the accounts of OCH and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting — The consolidated financial statements of OCH have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Of particular significance to OCH's financial statements are allowances for doubtful accounts and estimates of amounts to be received under government healthcare and other provider contracts. Actual results could differ from those estimates.

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

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

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.

Pledges receivable for the years ended December 31, 2011 and 2010 are expected to be realized as follows:

	2011	2010
Pledge receivables (in one year or less)	$ 57	$ 141
Less discount (2.13% and ranging from 2.13% - 4.50% at December 31, 2011 and 2010, respectively) and allowance for uncollectible pledges	(8)	(18)
Pledges receivable — net	$ 49	$ 123

Assets Limited as to Use — Assets limited as to use primarily include assets held by trustees under indenture agreements and self-insurance trust agreements. Amounts required to meet current liabilities of the OCH 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
Buildings and building improvements	30
Equipment, furniture, and fixtures	1–14

Impairment of Long-Lived Assets — OCH periodically 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. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. There were no impairment charges for the years ended December 31, 2011 and 2010.

Capitalization of Interest — OCH capitalizes interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating the OCH's average cost of borrowed funds for the project. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. OCH did not capitalize any interest costs in 2011 or 2010.

Deferred Financing Costs — In connection with the issuance of the Series 2007 bonds and notes payable (see Notes 6 and 7), financing costs approximating $1,187,000 were capitalized and are being amortized over the respective lives of the bonds and notes payable. Accumulated amortization of these deferred financing costs approximated $213,000 and $164,000 at December 31, 2011 and 2010, respectively.

Professional and General Liability Insurance — OCH participates in a risk management program with OCF to provide for professional and general liability coverage. Under this program, OCH carries professional and general liability insurance coverage for up to $25 million each of annual aggregate claims subject to certain deductible provisions.

OCH is self-insured with respect to the first $100,000 of each claim for professional liability. General liability claims are subject to a retention of $100,000 per claim. 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 for participants in the fund. OCH established a trust fund held by a financial institution. The amount to be contributed to this fund is determined annually by an independent actuary. Disbursements will be made from the fund for self-insured professional, general liability claims, administrative fees and legal fees. The trust fund assets total approximately $1,120,000 and $1,097,000 at December 31, 2011 and 2010, respectively. The estimated liability recorded by OCH for claims at December 31, 2011 and 2010, based on the actuarial report mentioned above and discounted at 2.5% and 2.7%, respectively, is approximately $1,212,000 and $1,189,000, respectively. Contributions made to the trust fund for the years ended December 31, 2011 and 2010, were $118,000 and $39,000, respectively. If the risk management program is terminated, the trust fund balance, if any, reverts to OCH after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

In 1975, the State of Louisiana enacted the Medical Malpractice Act. The Act established the Patient's Compensation Fund and limited recovery in medical malpractice cases to $500,000. OCH participates in the Patient's Compensation Fund. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by OCH for participation in the Patient's Compensation Fund for the years ended December 31, 2011 and 2010, were approximately $425,000 and $352,000, respectively.

Estimated Workers' Compensation and Employee Health Claims — OCH is self-insured for workers' compensation and employee health claims. The estimated liability for workers' compensation and employee health claims, totaling $754,000 and $432,000 at December 31, 2011 and 2010, respectively, include estimates for the ultimate costs for both reported claims and claims incurred but not reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*. These estimates incorporate OCH's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and the use of actuarial information.

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 OCH 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 OCH's established billing rates. Additionally, to provide for accounts receivable that could become uncollectible in the future, OCH 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 payment 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 that express an inability to pay are reviewed for potential sources of financial assistance including our 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 OCH's 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.

Charity Care — OCH 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 OCH does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient revenue or in the provision for doubtful accounts. OCH estimates its costs of care provided under its charity care programs by applying a ratio of direct and indirect costs to charges to gross uncompensated revenue associated with providing care to charity patients. OCH's gross charity care revenue includes only services provided to patients who are unable to pay and qualify under OCH's charity care policies. The ratio of cost to charges is calculated based on OCH's total expenses divided by gross patient revenue. During the year ended December 31, 2011, OCH's gross uncompensated charity revenue was approximately $7,687,000 and $186,000, respectively, and the estimated costs incurred by OCH to provide care to patients who met certain criteria under its charity care policy were approximately $5,435,000 and $133,000, respectively, in 2011 and 2010.

In 2010, OCH revised its charity care policy to include a graduated scale which allows partial charity care for the patient based on the patient's income level and family size as a percentage of the Federal Poverty Guidelines. During the fourth quarter of 2010 and the first quarter of 2011, procedures were implemented that streamlined efforts to properly classify patients as charity care within the revised OCH charity care policy guidelines, while providing enhanced supporting documentation with respect to the patient. These efforts resulted in an increase in the classification of charity care provided with a corresponding reduction in bad debt expense in 2011.

Provision and Allowance for Doubtful Accounts — Effective January 1, 2011, OCH adopted the provisions of ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). ASU 2011-07 requires the presentation of revenues net of the provision for doubtful accounts. Previously, OCH's provision for doubtful accounts was included as a component of operating expenses. The impact of the adoption of ASU 2011-07 on the income statement for the year ended December 31, 2010 is as follows (in thousands):

	As originally reported	Adjustments for the adoption of ASU 2011-07	As currently reported
Total unrestricted revenues	$ 175,649	$ (17,102)	$ 158,547
Total expenses	184,398	(17,102)	167,296
Operating loss	$ (8,749)	$	$ (8,749)

To provide for accounts receivable that could become uncollectible in the future, OCH 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 OCH's provision for doubtful accounts. Although OCH typically experiences ongoing managed care payment delays and disputes; OCH 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 uninsured and underinsured patients, the volume of patients through OCH's 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.

OCH 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 OCH 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 the Company's policies.

Consolidated Statements of Operations — For purposes of presentation, all revenues and expenses are reported as operating except for investment income and other gains, which are reported as nonoperating. The consolidated statements of operations and changes in net assets (deficit) include a decrease (increase) in unrestricted net assets (deficit), which is an indicator of financial performance.

Temporarily Restricted Net Assets — Temporarily restricted net assets are those whose use by OCH has been limited by donors to a specific time period or purpose.

Fair Value of Financial Instruments — The following methods and assumptions were used by OCH in estimating the fair value of its financial instruments:

Current Assets and Liabilities — OCH 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 value of OCH's revenue bond is based on currently traded values of similar financial instruments as disclosed in Note 6.

Long-Term Debt — OCH considers the carrying value of its notes payable and long-term debt to approximate fair value at December 31, 2011 due to the variable nature of the interest rate.

Related Party Payables — Because of the related party nature of the due to related parties and notes payable – related party, a determination of the fair value is not considered meaningful.

Income Taxes — OCH qualifies as a tax exempt organization under Section 501 (c)(3) and/or 509 (a)(1) of the Internal Revenue Code and is exempt from federal and state income taxes.

Concentration of Credit Risk — OCH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Risks and Uncertainties — OCH's business could be impacted by continuing price pressure on new and renewal business, OCH's ability to effectively control health care costs, additional competitors entering OCH's markets, Federal and State legislation in the area of health care reform. Changes in these areas could adversely impact OCH's operations in the future.

New Accounting Pronouncements — Effective January 1, 2011, OCH adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The adoption of ASU 2010-24 did not have a material impact on the 2011 and 2010 consolidated financial statements.

Effective January 1, 2011, OCH adopted ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, which requires that costs be used as the measurement basis of charity care disclosures and that cost be identified as the direct and indirect cost of providing the charity care. The adoption of ASU 2010-23 resulted in additional disclosures included in Note 1.

In January 2010, the FASB issued ASU 2010-06, which amends *Fair Values (Topic 954),* to add new disclosure requirements about recurring and non-recurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for reporting periods beginning after December 15, 2010. OCH adopted this guidance beginning January 1, 2011 and the adoption of ASU 2010-06 did not have a material impact on the 2011 and 2010 consolidated financial statements.

In April 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-04 in 2012 is not expected to have a material impact on OCH's financial condition, results of operations or cash flows.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations. Because of the tentative and preliminary nature of such proposed standards, OCH has not yet determined the effect, if any, that the implementation of such proposed standards would have on the consolidated financial statements.

2. INVESTMENTS AND ASC 820-10, FAIR VALUE MEASUREMENTS AND DISCLOSURES

ASC 820, *Fair Value Measurement and Disclosures* (ASC 820), establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles 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.

OCH 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.

Assets and Liabilities Measured at Fair Value —

Recurring Fair Value Measurements — The fair value of assets and liabilities measured at estimated fair value on a recurring basis, including those items for which OCH has elected the fair value option, 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, 2011			
	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
Assets:				
Money market (a)	$ 9,769	$ -	$ -	$ 9,769
Unconsolidated affiliate (b)			337	337
Total assets	$ 9,769	$ -	$ 337	$ 10,106

	December 31, 2010			
	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
Assets:				
Money market (a)	$11,694	$ -	$ -	$ 11,694
Unconsolidated affiliate (b)			499	499
Total assets	$11,694	$ -	$ 499	$ 12,193

(a) Valuation of these securities is based on unadjusted quoted prices in active markets that are readily and regularly available.

(b) Represents OCH's 25% interest in Louisiana Extended Care Hospital of Kenner, LLC, a joint venture with a third party formed in 2009. Fair value is based on the operations of the joint venture.

A rollforward of the fair value measurements for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for years ended December 31, 2011 and 2010 is as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
		Total Realized/Unrealized Gains (Losses) Included In:				
	Balance, December 31, 2010	Losses	Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2011
Unconsolidated affiliate	$ 499	$ (162)	$ -	$ -	$ -	$ 337

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
		Total Realized/Unrealized Gains (Losses) Included In:				
	Balance, December 31, 2009	Losses	Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2010
Unconsolidated affiliate	$ 368	$ -	$ -	$ 131	$ -	$ 499

Included in nonoperating gains in the consolidated financial statements for the years ended December 31, 2011 and 2010 is $5,000 of investment income.

Investment in Equity Investees — OCH's investment in unconsolidated affiliate totaling $337,000 and $499,000 at December 31, 2011 and 2010, respectively, represents its 25% ownership interest in Louisiana Extended Care Hospital of Kenner, LLC. Equity in income of equity investees total $88,000 and $472,000 for the years ended December 31, 2011 and 2010, respectively.

3. PATIENT ACCOUNTS RECEIVABLE

At December 31, 2011 and 2010, OCH's patient accounts receivable balances were due from the following sources (in thousands):

	2011	2010
Managed care/indemnity	$ 20,182	$ 21,133
Patients	3,777	5,754
Government agencies	9,960	10,517
	33,919	37,404
Less allowance for doubtful accounts	(10,351)	(11,231)
Patient accounts receivable — net	$ 23,568	$ 26,173

4. PROPERTY — NET

A summary of property as of December 31, 2011 and 2010, is as follows (in thousands):

	2011	2010
Land and improvements	$ 15,423	$ 13,083
Buildings	54,886	58,560
Equipment, furniture, and fixtures	45,100	40,418
Building and building improvements held for lease	8,937	5,489
Construction in progress	1,908	1,011
	126,254	118,561
Less accumulated depreciation	(33,313)	(25,637)
	$ 92,941	$ 92,924

Depreciation and amortization expense totaled approximately $8,514,000 and $8,094,000 for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, OCH has purchase commitments of approximately $1,886,000 and $1,156,000, respectively, relating to the completion of various construction projects and purchases of equipment.

5. RELATED-PARTY TRANSACTIONS

Due to OHS and OCF — OCH pays fees to OHS for administrative support and oversight. Fees incurred totaled $10,994,000 and $11,763,000 for the years ended December 31, 2011 and 2010, respectively, and are included in salaries and wages, benefits, depreciation and amortization, medical supplies and services, and other operating expenses in the consolidated statements of operations and changes in net assets. At December 31, 2011 and 2010, amounts owed to OHS total $42,254,000 and $32,311,000, respectively, and are included in due to related parties in the accompanying consolidated balance sheets. Payments for payroll, rent, and invoices were made by OCF on behalf of OCH totaling $17,484,000 and $19,998,000 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, amounts owed to OCF total $67,867,000 and $50,382,000, respectively for these interest free advances and are included in due to related parties in the accompanying consolidated balance sheets. See Note 14 for discussion related to the operations of OCH and the continuation of financing by related parties.

Note payable — OCH has a revolving note payable with OCF in the original principal amount of $60 million. Borrowings under the note payable bear interest at the Prime Rate (3.25% at December 31, 2011 and 2010). Interest payments are due monthly and principal, accrued interest, and other charges are due and payable on demand with no stated maturity date. The note is secured by a Mortgage and Security Agreement Securing Future Advances granted by OCH. During 2011 and 2010, OCH incurred interest expense totaling $393,000 and $916,000, respectively, to OCF. The notes payable balance as of December 31, 2011 and 2010, is $86,000 and $25,401,000, respectively, and is reported as notes payable — related party in the accompanying consolidated balance sheets.

Insurance coverage — Beginning May 31, 2010, OCF and OCH participate in a captive insurance program with OSPC which provides for certain of its property coverages accessed via the reinsurance market. Premiums paid by OCH total $1,682,000 and $1,541,000 for the years ended December 31, 2011 and 2010, respectively.

6. BONDS PAYABLE

In September 2007, OCH issued the Louisiana Public Facilities Authority Bond Series 2007-B bonds for the purpose of refinancing a portion of the interim loan from Lehman Brothers, which was used to acquire the Tenet Hospitals, as well as providing funding for capital projects. The $83,910,000 Revenue Bonds were issued at fixed rates through the Louisiana Public Facilities Authority at a discount of approximately $1,896,000 and mature in May 2047. At December 31, 2011 and 2010, bonds payable is as follows (in thousands):

	2011	2010
Louisiana Public Facilities Authority Bonds Series 2007-B, $83,910,000 tax exempt bonds; due in varying installments through 2047 with interest fixed at rates ranging from 5.00% to 5.50%	$ 76,260	$ 77,025
Less unamortized discount	(1,690)	(1,738)
Total bonds payable	74,570	75,287
Less current portion of bonds payable	(665)	(765)
	$ 73,905	$ 74,522

Also, under the terms of the bond indenture, OCH is required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the financial statements.

The Series 2007-B bonds are general obligations of OCH and no assets were pledged as security for the bonds. The bonds are guaranteed by OCF through a joint and several Guarantee Agreement ("Guarantee Agreement") secured by a mortgage and security interest in certain of OCF's assets as well as a pledge of revenues. Under this Guarantee Agreement, OCF will be obligated to pay the guaranteed bonds and notes payable should OCH fail to pay. OCH is obligated to reimburse OCF for any amount OCF has to pay under the Guaranty Agreement, and the reimbursement obligation is secured by a mortgage and security interest on certain assets of OCH and its subsidiaries.

At December 31, 2011, scheduled repayments of principal and sinking fund installments to retire the bonds payable are as follows (in thousands):

Years Ending December 31	
2012	$ 665
2013	850
2014	450
2015	350
2016	290
Thereafter	73,655
	$ 76,260

The estimated fair value of OCH's 2007-B Series bonds as of December 31, 2011 and 2010, respectively, is approximately $76,017,000 and $66,499,000.

7. LONG-TERM DEBT

A summary of long-term debt at December 31, 2011 and 2010 is as follows (in thousands):

	2011	2010
Notes payable $25 million, including interest at three-month LIBOR less 2.25% (0.00% at December 31, 2011 and 2010), due 2014	$22,469	$23,094
Notes payable $22 million, including interest at three-month LIBOR less 2.35% (0.50% at December 31, 2011 and 2010, due February 2015)	22,000	22,000
Equipment loan, due December 2011		278
Total long-term debt	44,469	45,372
Less current portion of long-term debt	(625)	(903)
	$43,844	$44,469

In 2007, OCH entered into three separate loans in the form of notes payable with three separate lenders totaling $25 million. The loans are eligible for federal income tax credits under the New Markets Tax Credits program implemented by Congress in December 2000. Borrowings under the notes payable bear interest at three-month LIBOR less 2.25% (0.00 % at December 31, 2011 and 2010). Principal and interest payments are due in quarterly installments which commenced on October 1, 2007 and mature in October 2014. Each of the loans is guaranteed by OCF through the Guarantee Agreement discussed in Note 6.

In 2008, OCH entered into a loan with another financial institution in the form of a note payable totaling $22 million. The loan is eligible for the same federal income tax credits as the aforementioned $25 million loan. 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, 2011 and 2010). Interest payments are due in quarterly installments which commenced on April 1, 2008, and the loan matures in February 2015. The principal payment is due in one lump sum on the maturity date. This loan is guaranteed by OCF through the Guarantee Agreement discussed in Note 6.

In November 2009, OCH entered into an agreement to finance equipment purchases in the amount of $697,000. Equipment purchases were received by OCH in March 2010. Principal payments were due in semi-annual installments commencing on December 31, 2009 and matured in December 2011.

Aggregate maturities of long-term debt at December 31, 2011 follow (in thousands):

Years Ending December 31	
2012	$ 625
2013	1,094
2014	20,750
2015	22,000
	$44,469

8. TEMPORARILY RESTRICTED NET ASSETS

OCH has 10 temporarily restricted funds established for a variety of purposes which are classified and reported based on the existence or absence of donor-imposed restrictions. OCH does not have any permanently restricted endowment funds.

ASC Topic 205-958-45, *Presentation – Not for Profit Entities*, 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. UPMIFA requires OCH 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 Management retroactively adopted UPMIFA as of January 1, 2009.

At December 31, 2011, temporarily restricted net assets totaled $540,000. This amount was decreased in 2011 by contributions of $132,000, net of appropriations for expenditures of $173,000. At December 31, 2010, temporarily restricted net assets totaled $581,000. This amount was decreased in 2010 by contributions of $562,000, net of appropriations for expenditures of $1,069,000.

9. NET PATIENT SERVICE REVENUE

Net patient service revenue is recognized when services are provided. OCH has agreements with third-party payors that provide for payments to OCH 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:

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. 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 procedure. 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.

OCH 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 Medicare reimbursement issues under appeal by OCF is reported as an increase in net patient service revenue in the year the issue is resolved. The Medicare cost reports of Kenner, Westbank (until the facility's operations were transferred to OCF on September 14, 2008), and Baptist have been settled by the fiscal intermediary through September 30, 2006, respectively. The 2007 year of audited cost reports for OCH have been held by OCH's Medicare fiscal intermediary due to the nationwide re-examination of the 2007 Supplemental Security Income ratio being performed by the Centers for Medicare and Medicaid, the federal agency which administers Medicare and Medicaid. The fiscal intermediary has not settled any of OCH's Medicaid cost reports as of December 31, 2011.

Estimated amounts due to OCH for Medicare and Medicaid services are included in receivables at year end. Net revenues from government health care programs included in net patient service revenue for the years ended December 31, 2011 and 2010, were approximately $52,637,000 and $48,323,000, respectively.

As a result of retroactive settlements of certain prior year cost reports, OCH recorded changes in estimates during the year ended December 31, 2011 and 2010. Operating revenues increased approximately $631,000 in 2011 and decreased approximately $386,000 in 2010.

Upper Payment Limit Program — Since December 2010, Ochsner and four other health care providers formed collaborations with the State and several units of local government in 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) to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. These collaborations enable the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. In 2011, OCH recognized $1,458,000 in Medicaid net revenue related to this program and recorded deferred revenue of $146,000 at December 31, 2011.

Managed Care — OCH 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.

OCH 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 that are not eligible for charity care, OCH 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 OCH's uninsured patients will be incapable or reluctant to pay for the services provided. Therefore, OCH records a significant provision for bad debts related to uninsured patients in the period the services are provided. For the years ended December 31, 2011 and December 31, 2010, OCH recorded a provision for bad debt of $8,565,000 and $17,102,000, respectively.

In 2010, OCH revised its charity care policy to include a graduated scale which allows partial charity care for the patient based on the patient's income level and family size as a percentage of the Federal Poverty Guidelines. During the fourth quarter of 2010 and the first quarter of 2011, procedures were implemented that streamlined efforts to properly classify patients as charity care within the revised OCH charity care policy guidelines, while providing enhanced supporting documentation with respect to the patient. These efforts resulted in an increase in the classification of charity care provided with a corresponding reduction in bad debt expense in 2011.

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

	2011	2010
Government agencies	$ 52,637	$ 48,323
Patients	6,111	10,716
Managed care/indemnity	99,732	99,405
Patient service revenue, net of contractual allowances and discounts	$ 158,480	$ 158,444

10. OTHER OPERATING REVENUE

The state of Louisiana, through its Medicaid program, appropriated funds for fiscal year 2008 through 2010 to hospitals demonstrating substantial financial and operational challenges in the aftermath of Hurricane Katrina. OCH received federal disaster relief funds of $6,600,000 for the year ended December 31, 2010, which is included in other operating revenue. No such amounts were received in 2011.

11. DEFINED CONTRIBUTION PLAN

All employees of OCH meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan. Effective for the 2010 Plan Year, 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, OCH may annually elect to make a match for eligible employees 50% of the first 4% the employees contribute into their 401(k). At December 31, 2011 and 2010, OCH has accrued $1,210,000 and $1,282,000 for matching contributions to the plan for the 2011 and 2010 fiscal years, respectively. The 2010 contribution was remitted to the Trustee in April 2011 and the 2011 contribution was remitted in April 2012.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases — Lessee — OCH leases assets under various rental agreements. The following schedule summarizes OCH's future annual minimum rental commitments on leases with a remaining term, as of December 31, 2011 in excess of one year (in thousands):

Years Ending December 31	
2012	$2,638
2013	1,254
2014	381
2015	14
Total	$4,287

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was $3,938,000 and $3,547,000 for the years ended December 31, 2011 and 2010, respectively.

Operating Leases — Lessor — OCH leases office space to third parties in its medical office buildings. 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 operating leases as of December 31, 2011 (in thousands):

Years Ending December 31	
2012	$2,186
2013	1,744
2014	700
Total minimum lease payments to be received	$4,630

On September 14, 2008, OCH executed a bill of sale, assignment and assumption agreement with OCH to transfer the operations of the Westbank facility to OCH. Coincident therewith, a 10-year lease was executed to lease the Westbank facility building to OCH, and, subsequent thereto, the facility is being operated and licensed as a remote satellite campus of OCH. Amounts recorded related to this lease agreement were $3,229,000 for the years ended December 31, 2011 and 2010, and are included in other operating revenue in the accompanying statement of operations. OCH's future annual minimum rental receipts related to this lease as of December 31, 2011 is as follows (in thousands):

December 31	
2012	$ 3,148
2013	3,210
2014	3,275
2015	3,340
2016	3,407
Thereafter	5,971
Total	$22,351

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 the time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. OCH and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of its business. Management of OCH 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 OCH's consolidated statements of financial position or results of operations.

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 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. The Affordable Care Act expanded the RAC program's scope by requiring all states to enter into contracts with RACs by December 31, 2010 to audit payments to Medicaid providers. CMS issued a letter to state Medicaid directors on October 1, 2010 that (1) provided preliminary guidance to states on the implementation of Medicaid RAC programs, (2) created a deadline of December 31, 2010 for states to establish RAC programs, and (3) established a deadline of April 1, 2011 for states to fully implement their RAC programs. On February 1, 2011, CMS issued a notice temporarily suspending the requirement that states implement their RAC programs until the final Medicaid RAC rule is issued. In September 2011, CMS issued a final rule requiring all states to implement a Medicaid RAC program effective January 1, 2012. Historically, RACs have conducted claims reviews on a post-payment basis. In February 2012, CMS announced that it was moving forward with a RAC prepayment demonstration in 11 states. OCH has established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable 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, OCH will incur additional costs to respond to requests for records and pursue the reversal of payment denials. OCH expects the RACs will continue to seek CMS approval to review additional issues.

Management cannot predict with certainty the impact of the Medicare and Medicaid RAC program on OCH's future results of operations or cash flows.

During 2010, OCH was selected for review by RAC auditors which is on-going as of December 31, 2011. Management of OCH believes that the reserves it has established based on preliminary results are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on future results of operations or cash flows.

13. FUNCTIONAL EXPENSES

OCH provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2011 and 2010, respectively, are as follows (in thousands):

	2011	2010
Health care services	$ 115,114	$ 114,062
General and administrative	49,909	53,203
Medical education	2	31
	$ 165,025	$ 167,296

14. OPERATIONS OF OCH

Since commencing operations in 2006, OCH's operations and capital expenditures have been primarily funded (i) through the issuance of long-term notes payable to third parties guaranteed by OCH, and (ii) by cash advances and the issuance of notes payable due on demand from OCH (a related party under common ownership and control). Specifically, OCH's liabilities include a note payable due on demand in the amount of $86,000 and $25,401,000 at December 31, 2011 and 2010, respectively, with OCH and operating advances from OCH of $67,867,000 and $50,382,000 at December 31, 2011 and 2010, respectively (see Note 5). OCH also has bonds payable outstanding of $76,260,000 and $77,025,000 at December 31, 2011 and 2010, respectively, and notes payable outstanding to third parties of $44,469,000 and $45,372,000 at December 31, 2011 and 2010, respectively, which are guaranteed by OCH (see Notes 6 and 7). OCH incurred a net operating loss of $4,626,000 and $8,749,000 for the years ended December 31, 2011 and 2010, respectively, and had liabilities that exceeded assets by $103,005,000 and $98,466,000 at December 31, 2011 and 2010, respectively. Management believes that its available funds, cash generated by operating activities, and funds made available fromOCH will be sufficient to fund its working capital needs and planned capital expenditures for the next 12 months through January 1, 2013. OCH has committed to OCH to continue to provide or maintain financial support through the continuation of financing to enable OCH to meet and discharge its liabilities in the normal course of business as well as committed not to demand repayment of the note payable due on demand to OCH during this time. However, if OCH does not make available such additional funding to OCH when needed in the future, OCH could be unable to meet its obligations, including obligations under the bonds and notes payable, in the ordinary course of business. OCH requires the continued support from OCH until such time as it has sustained profitable operations and its financial condition is stable and no longer requires this support. Since 2006 significant capital investments of over $75 million have been made to revitalize OCH's facilities and expand operations. Management is of the opinion that OCH will return to profitable operations and sustain positive cash flows such that it will be able to discharge its liabilities in the normal course of business.

15. SUBSEQUENT EVENTS

OCH completed its subsequent events review through April 19, 2012, the date on which the financial statements were available to be issued.

* * * * * *

Ochsner Clinic Foundation

Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2011, and Independent Auditors' Reports

OCHSNER CLINIC FOUNDATION

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

To the Ochsner Clinic Foundation
New Orleans, Louisiana

We have audited the consolidated financial statements of Ochsner Clinic Foundation (the "Foundation") as of and for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting described as 2012-1. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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*.

This report is intended solely for the information and use of the Audit and Oversight Committee of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 19, 2012

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Ochsner Clinic Foundation
New Orleans, Louisiana

Compliance

We have audited the compliance of Ochsner Clinic Foundation (the "Foundation") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133 Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-02.

Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2012-2.

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

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of the Foundation as of and for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the members of the Audit and Oversight Committee of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 19, 2012 (June 11, 2012 as to Note 3)

OCHSNER CLINIC FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011

Description	CFDA/Contract Number	Federal Expenditures
RESEARCH AND DEVELOPMENT — CLUSTER:		
Department of Health and Human Services:		
National Institute of Health:		
Ochsner Community Clinical Oncology Program	93.395	$ 161,587
Effect of Intracellular Angiotensin II	93.837	103,901
p66/Insulin Like Growth Factor-1 Reno-Protection in Diabetes	93.847	87,498
B Cell Lymphoma Therapy	93.395	84,975
p66/Insulin Like Growth Factor-1 Reno-Protection in Diabetes — ARRA	93.701	41,278
Nicotine & Neuroprotection in Parkinson's Disease	93.853	29,599
Cohort Study of Medication Adherance Among Older Adults	93.866	24,487
Emergency Medical Services	93.241	1,366
Ochsner Community Clinical Oncology Program	93.399	1,170
Total National Institute of Health		535,861
Health Resources and Services Administration:		
Telestroke Network	93.283	68,370
Small Rural Hospital Improvement Grant Program	93.301	5,357
Total Health Resources and Services Administration		73,727
Passed Through Other Entities:		
Passed through Louisiana State University — Mentoring in Translational Research in Louisiana	93.389	139,781
Passed through Eastern Cooperative Oncology Group, Southwest Oncology Group, Gynecologic Oncology Group, Cancer & Leukemia Group B, North Central Cancer Treatment Center, Frontier Science & Technology Research Foundation, Comprehensive Cancer Center of Wake Forest University and American College of Radiology — Community Clinical Oncology Program Research	93.399	128,395
Passed through Louisiana Hospital Association — Health and Human Services Hospital Preparedness Grant	93.889	117,689
Passed through Louisiana State University Health Sciences Center — Interaction of EBV and HPV in the Development of Cervical Dysplasia in HIV+ Women — ARRA	93.701	21,812
Passed through Mayo Clinic Rochester — Renal Injury and Adaptation to Heme Proteins	93.847	16,918

(Continued)

OCHSNER CLINIC FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011

Description	CFDA/Contract Number	Federal Expenditures
Passed Through Other Entities:		
Passed through American College of Radiology Imaging Network — American College of Radiology	93.394	$ 12,648
Passed through Feinstein Institute for Medical Research — p66ShcA in HIV associated Nephropathy	93.847	8,306
Passed through University of Medicine and Dentistry of New Jersey — Carotid Revascularization Endarterectomy (Crest) Trial	93.854	6,073
Passed through Louisiana State University — Clinical Research Network for the Treatment of Acute Lung Injury (ALI) and the Acute Respiratory Distress Syndrome (ARDS)	93.838	5,506
Passed through American College of Radiology Imaging Network — Phase II Study of 3'-deoxy-3'-18F Fluorothymidine (FLT) in Invasive Breast Cancer — ARRA	93.701	4,674
Passed through John Wayne Cancer Institute — A Phase III, Randomized Trial of Surgical Resection With or Without BCG versus Best Medical Therapy as Initital Treatment in Stage IV Melanoma — ARRA	93.701	884
Passed through Seattle Institute for Cancer Research — Sudden Cardiac Death in Heart Failure Trial 10 Year Follow-up — ARRA	93.701	618
Passed through Cornell University and University of Rochester — Alias Phase III Albumin in Acute Ischemic	93.853	(2,039)
Passed through Louisiana State University — Mentoring in CV Biology	93.389	(13,556)
Passed through Columbia Presbyterian Medical Center, Duke University, Tulane University, Health Sciences Center, National Heart, Lung & Blood Institute — Heart and Vascular Diseases Research	93.837	(46,493)
Passed through Mayo Foundation, ACOSOG for Medical Education and Research and University of Mississippi Medical Center — Gynecologic Oncology Group	93.395	(83,221)
Total Passed Through Other Entities		317,996
TOTAL RESEARCH AND DEVELOPMENT — CLUSTER		927,583

(Continued)

OCHSNER CLINIC FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Description	CFDA/Contract Number	Federal Expenditures
DEPARTMENT OF EDUCATION — Mental Health Plan for Schools	84.027A	$ 197,971
DEPARTMENT OF HEALTH AND HUMAN SERVICES — Incentives for the Use of Health Information Technology, Section 3012, Health Information Technology Implementation Assistance — ARRA	93.718	137,620
DEPARTMENT OF HOMELAND SECURITY — Public Assistance Grants — passed through the State of Louisiana Governor's Office of Homeland Security and Emergency Preparedness	97.036	23,673
TOTAL		$ 1,286,847

See notes to Schedule of Expenditures of Federal Awards.

(Concluded)

OCHSNER CLINIC FOUNDATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011

1. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Ochsner Clinic Foundation (the "Foundation") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal direct programs are presented by federal department and by individual federal awards.

Contract or Catalog of Federal Domestic Assistance (CFDA) numbers are presented for all individual awards scheduled.

2. SUBRECIPIENT AWARDS

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

Program Title	Contract/ CFDA Number	Amount Provided to Subrecipients
p66/Insulin Like Growth Factor-1 Reno-Protection in Diabetes	93.847	$ 71,930
Cohort Study of Medication Adherence Among Older Adults	93.866	1,550
Total		$ 73,480

3. ADDITIONAL MAJOR PROGRAM

Subsequent to the original completion of the audit in accordance with OMB Circular A-133, the Incentives for the Use of Health Information Technology, Section 3012, Health Information Technology Implementation Assistance – ARRA program (CFDA # 93.718) was identified and included in the Schedule of Expenditures of Federal Awards and was audited as a major program in accordance with the audit provisions of OMB Circular A-133.

* * * * * *

OCHSNER CLINIC FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

PART I — SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the financial statements expressed an unqualified opinion.

2. A significant deficiency in internal control over financial reporting was disclosed by the audit; such condition was not considered to be a material weakness.

3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.

4. The statement that significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.

5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.

6. The audit disclosed one finding required to be reported by OMB Circular A-133.

7. The Foundation's major programs were:

Name of Federal Program or Cluster	CFDA Number
Research and Development — Cluster	various
DEPARTMENT OF HEALTH AND HUMAN SERVICES — Incentives for the Use of Health Information Technology, Section 3012, Health Information Technology Implementation Assistance — ARRA	93.718

8. A threshold of $300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

9. The Foundation did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II — FINANCIAL STATEMENT FINDINGS SECTION

Finding 2012-1 — Financial Close and Reporting Process

Background/Observation — During the performance of our year-end audit procedures, we noted a total of 72 journal entries recorded by management subsequent to the normal year-end close process with posting dates ranging from February 17, 2012 through March 21, 2012. Although we would expect certain post-close journal entries outside of the normal close process timeframe relating to any items that are material in nature to occur during our final audit fieldwork, such as 1) adjustments for events or circumstances that occur subsequent to year-end, 2) immaterial adjustments identified subsequent to the closing to year-end that in the aggregate are significant to a specific financial statement line-item, and/or 3) adjustments resulting from additional information allowing for more precise management estimates that are significant, of these 72 entries, we noted approximately 45 entries (comprised of 375 individual account adjustments) were a result of late adjustments and/or untimely account reconciliations. We noted the deficiency could not be isolated to one financial statement line item but impacted numerous amounts in the financial statements.

The Company's policy primarily states that account reconciliations will be prepared on a monthly basis by the 17th work day which is typically the 24th or 25th calendar day of the subsequent month. We noted that during our testing of account reconciliations throughout the year that only one of the 32 reconciliations did not comply with this policy.

Impact — In general, companies typically adjust their financial statements subsequent to that period for the items noted above. Although we did not identify any material misstatements during the performance of our audit procedures, the deficiency noted above indicates the operation of controls involved in the timely preparation of financial statements did not operate effectively at year-end.

Recommendation — We recommend that management refine the financial close and reporting policy and adhere to it at year-end. We recommend that management also establish dollar thresholds for evaluation of individual and cumulative adjustments that are identified subsequent to these deadlines in order to determine whether a post-close journal entry should be recorded.

Management Response — In the last several years, management has adopted a shorter year-end close period to facilitate the issuance of an earlier audit report. Year-end preparation work and audit field work were scheduled prior to year-end in order to meet the accelerated time line. A portion of the journal entries noted after February 17th were for known open items and since a final trial balance had not been produced, some additional journal entries were added that otherwise would have been booked in 2012. Management will review the current policy on the timing of account reconciliations and focus on a firm cutoff date for the year-end close. Going forward, all adjustments identified after the cutoff date will be subject to a senior management review for materiality to determine whether a post-close journal entry should be made or if the adjustment should be recorded in the ensuing period.

Ochsner's current reconciliation policy requires reconciliations to be completed 17 work days after completion of the financial statements. The rationale behind this deadline was to delay documentation of the reconciliations due to resource constraints until after the financial statements were produced. Blackline, a financial close accelerator and documentation archive, has been purchased to facilitate journal entries and the reconciliation and documentation process. Reconciliation deadlines will be evaluated to take into consideration workflow efficiencies provided by Blackline. Staffing and workload balancing will also be evaluated in light of internal limitations and heightened control expectations.

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Finding 2012-2 — Reporting of the Schedule of Expenditures of Federal Awards

Criteria — All expenditures of federal awards are to be identified in a timely manner by management and reported in the Schedule of Expenditures of Federal Awards ("SEFA").

Condition — Subsequent to the completion of the year-end audit procedures on Foundation's SEFA, management identified an additional federal award from the Department of Health and Human Service funded by the American Recovery and Reinvestment Act. The award relates to Incentives for the Use of Health Information Technology, Section 3012, Health Information Technology Implementation Assistance.

Effect — The deficiency above indicates the design of controls involved in the timely reporting of federal awards to the appropriate department was not implemented effectively at year-end.

Cause — The award relates to Incentives for the Use of Health Information Technology, Section 3012, Health Information Technology Implementation Assistance. As such, the award and related documentation was processed by the Foundation's Information Systems Department ("IS") as opposed to the Research Department, to which the awards are customarily directed. IS was not aware of the reporting requirements under OMB Circular A-133 and therefore, did not report the grant and related funding to the Financial Reporting Department for inclusion in the SEFA. IS received notification from the granting agency inquiring as to when the audit of the SEFA would be completed and the report submitted to them as stated in the terms of their agreement. IS then contacted Financial Reporting Department for assistance on this matter.

Recommendation — All departments receiving grant awards should be required to submit to the Financial Reporting Department the grant document and detail of related expenditures at least on a quarterly basis. Subsequently, the Financial Reporting Department should review the grant document and reporting requirements to ensure compliance with such requirements.

Views of responsible officials and planned correction actions — A reporting policy related to the communications for all federal awards and funding was in place prior to 2011. Departments with receipt of federal awards are required to provide documentation stating whether the grant is subject to OMB Circular A-133 reporting. In 2011, the Foundation received two grants related to information technology: $6.4 million in American Recovery and Reinvestment Act ("ARRA") incentive payments from Medicaid programs for the adoption of a certified electronic health records ("EHRs") and $138,000 related to Incentives for the Use of Health Information Technology, Section 3012, Health Information Technology Implementation Assistance ("HIT"). Both grants were communicated to the Financial Reporting Department, but IS did not provide the granting agency reporting requirements for the HIT grant. As a result, the $138,000 HIT grant was treated similarly to the $6.4 million ARRA incentive, which was not required to be reported under *OMB Circular A-133*. Additional procedures will be added to the process to ensure all documentation is provided to the Financial Reporting Department and evaluated for appropriate treatment in the SEFA.

OCHSNER CLINIC FOUNDATION

SUMMARY OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

None.