

LAFAYETTE GENERAL HEALTH
(Lafayette General Health System, Inc. and Subsidiaries)

Consolidated Financial Statements

Years Ended September 30, 2017 and 2016



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Independent Auditor's Report

To the Board of Trustees
Lafayette General Health System, Inc. and Subsidiaries
Lafayette, Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization) which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the September 30, 2017 and 2016 financial statements of Lafayette General Surgical Hospital, LLC and Oil Surgical Center Plaza, LLC, partially owned subsidiaries, which statements reflect total assets of \$10,223,000 and \$10,464,000 as of September 30, 2017 and 2016, respectively, and total revenues of \$22,921,000 and \$22,746,000 for the years then ended, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lafayette General Surgical Hospital, LLC and Oil Surgical Center Plaza, LLC, as of September 30, 2017 and 2016, and for the years then ended, is based solely on the report of the other auditors. 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 consolidated financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lafayette General Health System, Inc. and Subsidiaries as of September 30, 2017 and 2016, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA
January 31, 2018

LAFAYETTE GENERAL HEALTH
Consolidated Balance Sheets
September 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 86,539,946	\$ 68,848,465
Short-Term Investments	12,283,927	10,387,749
Patient Accounts Receivable, Less Allowance for Doubtful Accounts \$41,693,485 in 2017 and \$53,340,383 in 2016	94,972,394	105,699,318
Amounts Due from Third-Party Payors	23,486,267	32,468,084
Inventories	17,773,790	18,729,750
Other Current Assets	23,724,837	17,480,977
Total Current Assets	258,781,161	253,614,343
Noncurrent Assets		
Assets Limited as to Use		
Under Debt Agreements Held by Third Party	112	8,967,071
Board Designated for Property and Equipment		
Additions and Replacements	94,187,234	88,013,679
Total Assets Limited as to Use	94,187,346	96,980,750
Investments in Joint Ventures	5,542,591	5,649,814
Property and Equipment, Net	284,059,293	290,465,734
Other Assets	25,501,402	24,151,410
Total Noncurrent Assets	409,290,632	417,247,708
Total Assets	\$ 668,071,793	\$ 670,862,051

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Balance Sheets (Continued)
September 30, 2017 and 2016

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 56,989,824	\$ 61,425,852
Salaries and Wages Payable	22,274,769	22,463,926
Amounts Due to Third-Party Payors	7,245,624	13,007,899
Line of Credit	15,000,000	18,352,938
Current Portion of Self-Insurance Reserves	4,898,325	5,058,256
Current Portion of Capital Lease Obligation	375,437	362,716
Current Maturities of Long-Term Debt	1,117,308	1,717,325
Total Current Liabilities	107,901,287	122,388,912
Noncurrent Liabilities		
Self-Insurance Reserves, Less Current Portion	1,508,224	1,491,637
Accrued Postretirement Benefit Costs	7,187,849	5,829,373
Capital Lease Obligation, Less Current Portion	3,297,988	3,582,658
Long-Term Debt, Less Current Portion, Net of Discount	251,442,959	252,565,336
Total Noncurrent Liabilities	263,437,020	263,469,004
Total Liabilities	371,338,307	385,857,916
Net Assets		
Unrestricted		
Controlling Interest	289,999,428	279,450,245
Noncontrolling Interest	4,637,500	4,200,087
Unrestricted Net Assets	294,636,928	283,650,332
Temporarily Restricted Net Assets	2,096,558	1,353,803
Total Net Assets	296,733,486	285,004,135
Total Liabilities and Net Assets	\$ 668,071,793	\$ 670,862,051

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains, and Other Support		
Net Patient Service Revenues	\$ 784,088,754	\$ 793,880,251
Provision for Bad Debts	(84,961,051)	(115,682,617)
Net Patient Service Revenues Less Provisions for Bad Debts	699,127,703	678,197,634
Other Operating Revenues	20,412,859	21,838,057
Total Revenues, Gains, and Other Support	719,540,562	700,035,691
Operating Expenses		
Salaries, Wages, and Benefits	309,316,196	314,331,184
Medical Supplies and Drugs	169,217,038	164,723,614
Contract Services	124,352,346	112,410,885
Utilities and Equipment Rentals	54,267,956	52,541,669
Depreciation and Amortization	25,143,208	24,336,560
Provision for Bad Debts	754,352	602,083
Interest Expense	10,606,822	10,486,982
Insurance Expense	7,506,174	7,810,078
Other Expenses	16,746,275	12,773,402
Total Operating Expenses	717,910,367	700,016,457
Operating Income	1,630,195	19,234
Non-Operating Income		
Interest and Dividend Income	2,666,391	2,752,919
Realized Gain (Loss) on Investments	4,319,040	(1,743,980)
Unrealized Gain on Investments	2,722,419	7,013,908
Gain on Sale/Disposal of Assets	9,900	48
Other Revenue, Net	2,608,325	6,742,150
Total Non-Operating Income	12,326,075	14,765,045
Excess of Revenues over Expenses	13,956,270	14,784,279
Attributable to Noncontrolling Interest	1,925,913	2,596,670
Excess of Revenues Over Expenses Attributable to the Health System	\$ 12,030,357	\$ 12,187,609

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Statements of Operations and Changes in Net Assets (Continued)
For the Years Ended September 30, 2017 and 2016

	September 30, 2017			September 30, 2016		
	Total	Controlling Interest	Noncontrolling Interests	Total	Controlling Interest	Noncontrolling Interests
Unrestricted Net Assets:						
Excess of Revenues over Expenses	\$ 13,956,270	\$ 12,030,357	\$ 1,925,913	\$ 14,784,279	\$ 12,187,609	\$ 2,596,670
Contributions from	-	-	-	-	-	-
Transfer to	-	-	-	(200,000)	(200,000)	-
Distributions Paid to	(1,488,500)	-	(1,488,500)	(2,937,500)	-	(2,937,500)
Increase (Decrease) in Unrestricted Net Assets	12,467,770	12,030,357	437,413	11,646,779	11,987,609	(340,830)
Temporarily Restricted Net Assets:						
Contributions from	742,755	742,755	-	888,444	888,444	-
Transfer from	(1,481,174)	(1,481,174)	-	200,000	200,000	-
Increase in Temporarily Restricted Net Assets	(738,419)	(738,419)	-	1,088,444	1,088,444	-
Increase (Decrease) in Net Assets	11,729,351	11,291,938	437,413	12,735,223	13,076,053	(340,830)
Net Assets:						
Beginning of the Year	285,004,135	280,804,048	4,200,087	272,268,912	267,727,995	4,540,917
End of the Year	\$296,733,486	\$292,095,986	\$ 4,637,500	\$285,004,135	\$280,804,048	\$ 4,200,087

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 11,729,351	\$ 12,735,223
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization	25,143,208	24,336,560
Provision for Doubtful Accounts	85,715,403	116,284,700
Gain on Sale/Disposal of Assets	(9,900)	(48)
Unrealized Gains in Investments	(2,722,419)	(7,013,908)
Gain on Forgiveness of Debt	-	(9,524,000)
Equity in Earnings of Joint Ventures	107,223	(683,175)
Noncontrolling Interests in Subsidiaries	1,925,913	2,596,670
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(74,988,479)	(144,043,773)
Amounts Due from/to Third-Party Payors	3,219,542	(6,396,111)
Inventories	955,960	(4,266,929)
Other Assets	(8,031,265)	(43,403)
Accounts Payable and Accrued Expenses	(4,625,185)	19,801,072
Self-Insurance Reserves	(143,344)	2,085,991
Other Liabilities	1,180,310	943,543
Net Cash Provided by Operating Activities	39,456,318	6,812,412
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(18,591,133)	(50,661,682)
Net Decrease (Increase) in Assets Whose Use is Limited	5,515,823	(1,158,143)
Net Increase in Short-Term Investments	(1,896,178)	(131,718)
Net Cash Used in Investing Activities	(14,971,488)	(51,951,543)
Cash Flows from Financing Activities		
Repayment of Long-Term Debt	(1,630,912)	(121,937,273)
Proceeds from Issuance of Long-Term Debt	-	183,045,000
Cash Paid to Issue New Debt	-	(1,180,952)
Principal Payments Under Capital Lease Obligations	(320,999)	(3,340,975)
Net Proceeds from Line of Credit Activity	(3,352,938)	(1,209,733)
Distributions, Net of Contributions	(1,488,500)	(2,937,500)
Net Cash (Used in) Provided by Financing Activities	(6,793,349)	52,438,567
Increase in Cash and Cash Equivalents	17,691,481	7,299,436
Cash and Cash Equivalents		
Beginning	68,848,465	61,549,029
Ending	\$ 86,539,946	\$ 68,848,465
Supplementary Disclosure of Cash Flow Information:		
Cash Paid During the Year for:		
Interest, Net of Amount Capitalized	\$ 10,658,644	\$ 8,448,089
Noncash Financing Transactions:		
Capital Lease Obligation	\$ 49,050	\$ -
Bank Note Payable	\$ 86,684	\$ -

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Reporting Entity and Nature of Business:

The accompanying consolidated financial statements include the accounts of the entities detailed below, which are collectively referred to as the Organization. There are no other entities whose financial statements should be consolidated and presented with these consolidated financial statements.

Lafayette General Health System, Inc. (LGHS) is a not-for-profit Louisiana corporation, organized on a non-stock basis to operate exclusively for the benefit of, perform functions of, and to carry out the purposes of Lafayette General Medical Center, Inc., Lafayette Health Ventures, Inc., St. Martin Hospital, Inc., University Hospital and Clinics, Inc., Acadia General Hospital, Inc., Lafayette General Foundation, Inc., Kaplan General Hospital, Inc., and MTS/LGH Therapy Services, LLC.

Lafayette General Medical Center, Inc. (LGMC) is a not-for-profit Louisiana corporation, organized on a non-stock basis to provide medical care to the residents of southwest Louisiana. It is governed by a board of trustees. The trustees are elected from the general board membership, which consists of not more than 50 members. The operations of LGMC consist of the services provided in Lafayette, Louisiana, at the main campus as well as Lafayette General Southwest (LGSW) campus.

Lafayette Health Ventures, Inc. (LGMD) is operating as a non-profit Delaware corporation, effective May 2011. It primarily operates physician practices, with specialties including family practice, internal medicine, Ob/Gyn, medical oncology, orthopedics, plastics, and cardiology.

University Hospital & Clinics, Inc. (UHC), was incorporated on April 18, 2013 as a not-for-profit Louisiana corporation, and organized on a non-stock basis. LGHS became the sole member of UHC. On May 17, 2013, LGHS and UHC entered into a Cooperative Endeavor Agreement (CEA) with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU), the Louisiana Division of Administration, acting through the Commissioner (DOA), and the State of Louisiana, through the Division of Administration (the State), and the Louisiana Department of Health, acting through its Secretary (LDH). In accordance with and subject to the terms of the CEA, UHC assumes responsibility for operating the hospital known as University Medical Center in Lafayette, Louisiana (Hospital); LSU is leasing to UHC the hospital building and related facilities (Facility) in which LSU operated the Hospital together with all furniture, fixtures and equipment used in connection with the Hospital's operations; UHC purchased from LSU consumable inventory necessary for the continued operation of the Hospital; and, UHC and LGHS commit to support LSU's academic, clinical, and research missions. The CEA has an initial term of 10 years. On June 24, 2013, the lease between LSU and UHC officially commenced and UHC assumed operations for the Hospital. The lease agreement has an initial term of 10 years. See Notes 1 and 14 for further details on the CEA and lease agreement.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

St. Martin Hospital Inc. (SMH) is a non-profit Louisiana corporation that is currently a wholly owned subsidiary of LGMC. The entity operates a 25 licensed bed critical access hospital. SMH leases the hospital facilities under the terms of a twenty five year arrangement with Hospital Service District No. 2 of St. Martin Parish, LA. Under the terms of the lease, detailed more fully in Note 9, SMH assumed all operations for the Service District as of that date.

Acadia General Hospital, Inc. (AGH) is a non-profit Louisiana corporation incorporated on February 19, 2014 on a non-stock basis. The sole member of AGH is LGHS. The mission of AGH is to serve the City of Crowley, Louisiana and Acadia Parish, Louisiana community through the delivery of health care services. On May 6, 2014, AGH and American Legion Hospital, Inc. (ALH), a general medical and surgical hospital in Crowley, Louisiana, entered into an agreement whereby AGH will lease the facilities of ALH for a period of 10 years beginning on June 1, 2014.

Lafayette General Foundation, Inc. (LGF) is a non-profit Louisiana corporation incorporated on May 7, 2014 on a non-stock basis. The sole member of LGF is LGHS. LGF's mission is to enable the community to invest through philanthropy, in innovation that furthers the LGF's mission to restore, maintain, and improve health.

Kaplan General Hospital, Inc. (KGH) is a non-profit Louisiana corporation incorporated on December 5, 2014 on a non-stock basis. The sole member of KGH is LGHS. In June 2015, KGH assumed the operations of Abrom Kaplan Memorial Hospital (AKMH), a critical access hospital with 35 licensed beds located in Kaplan, Louisiana, through a building and equipment lease. The lease term runs until such date as the sales, use, and millage taxes, dedicated for the purpose of paying costs associated with operating, maintaining and improving AKMH, are not renewed by special election. The Board of Commissioners for Vermillion Parish Hospital Service District 1 (the District) still owns the property and equipment of AKMH.

MTS/LGH Therapy Services, LLC (MTS) operates a physical therapy clinic in Lafayette, Louisiana. LGHS has a 50% ownership interest in MTS. The operating agreement of MTS provides LGHS a controlling interest.

The consolidated financial statements also include the accounts of the following entities in which **LGMC** has a controlling interest:

Lafayette General Surgical Hospital, LLC (LGSH) operates a short-stay hospital in Lafayette, Louisiana. LGMC has a 50% ownership interest in LGSH. The operating agreement of LGSH provides LGMC a controlling interest.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Lafayette Investment Group, LLC (LIG) was organized to operate a short-stay hospital and medical office building in Lafayette, Louisiana, that houses LGSH and OCSP. LGMC has a 51.72% ownership interest in LIG, and LGSH has a 25.96% ownership interest in LIG.

Oil Center Surgical Plaza, LLC (OCSP) operates an ambulatory surgical center in Lafayette, Louisiana. LGMC has a 50% ownership interest in OCSP. The operating agreement provides LGMC a controlling interest.

The consolidated financial statements also include the accounts of the following entities in which LGF has a controlling interest:

Healthcare Innovation Fund, LLC is a wholly owned subsidiary of Lafayette General Foundation formed in July 2015. The fund will utilize capital, provided by the Louisiana Economic Development Corporation, to invest in start-up and early-stage firms that demonstrate significant growth potential for product development in the healthcare industry in Louisiana. A funding agreement was formed with the state in order to promote economic development in the State of Louisiana. It is anticipated that these activities will assist in seeking opportunities for the creation or enhancement of economic growth in Louisiana.

Significant Accounting Policies:

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Lafayette General Health System, Inc., its wholly owned subsidiaries, and entities in which the Organization has a controlling financial interest as indicated above. All significant inter-company balances and transactions have been eliminated in consolidation. Income from unconsolidated entities is included in consolidated excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets.

Accounting 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Of particular significance to the Organization's consolidated financial statements are estimates involving allowances for doubtful accounts, estimates of amounts to be received under government healthcare and other provider contracts, and determining fair value of certain financial instruments. Actual results could differ from those estimates.

Temporarily Restricted Net Assets: Temporarily restricted net assets are those assets whose use by the Organization has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are used in accordance with the donors' wishes. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted. Temporarily restricted net assets consist solely of controlling interests of the Organization.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash Equivalents: Cash equivalents include highly liquid investments with a maturity of three months or less when purchased.

Short-Term Investments: Short-term investments consist of investments with original maturities exceeding three months and up to one year. Short-term investments are stated at fair value based on quoted market values.

Inventories: Inventories, which consist primarily of drugs and supplies, are stated at the lower of average cost or market.

Assets Whose Use is Limited: Assets whose use is limited include investments held by trustees under indenture agreements, the Organization's self-insurance program, and assets designated by the board for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes. These investments are considered to be limited as to use; however, they are not considered to be restricted. Assets whose use is limited that are specifically held by the trustee to make bond principal payments are classified as current assets in the consolidated balance sheets.

Physician Recruiting Agreements: In order to recruit physicians to meet the needs of the facilities and the communities they serve, the Organization enters into certain minimum revenue guarantee and subsidy arrangements to assist the recruited physicians during the period they are relocating and establishing their practices. The funds expended under the arrangements are considered advances until the conclusion of the defined guarantee period when a note receivable is recorded. Once the notes are recorded, they bear interest at prevailing rates and are due in monthly installments (typically 36 months). The notes contain provisions that state the monthly payment will be forgiven if the physician is in compliance with the terms of the agreement. All forgiveness is recognized in the period incurred.

Investments: The Organization's investment portfolio is classified as trading with unrealized gains and losses included in revenues in excess of expenses. Investments in equity securities with readily determinable fair values are measured at fair values in the consolidated balance sheets. Other investments consist primarily of money market funds, equity mutual funds, and fixed income funds of the U.S. government and government agencies. Investments in equity mutual funds, with readily determinable fair values and all investments in fixed income funds are stated at fair value based on quoted market values. Investments in equity securities, equity mutual funds, and fixed income funds are classified as noncurrent due to the Organization's intent to hold the investment for long-term purposes. Investments classified as long-term may be sold before their maturities to fund working capital or for other purposes.

Realized and unrealized gains and losses on investments are recorded in the consolidated statements of operations and changes in net assets, unless their use is temporarily or permanently restricted by explicit donor stipulation or law. Dividends, interest, and other investment income are recorded as increases in unrestricted net assets unless the use is restricted by donor. Realized gains and losses are determined using the specific identification method.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investments in joint ventures and other investees are accounted for under the cost or equity method depending on the ownership percentage and the level of control exercised by the Organization.

Property and Equipment: Property and equipment are recorded at acquisition cost, including interest expense capitalized during construction. Interest cost of approximately \$70,000 and \$100,000, was capitalized in 2017 and 2016, respectively. Donated property and equipment are recorded at fair value at the date of donation, which is then treated at cost. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years.

Accrued Postretirement Benefits and Self-Insurance Reserves: The liabilities for accrued postretirement benefits and self-insurance reserves, which include health insurance, workers' compensation, and medical malpractice claims, include estimates for the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate past experience, as well as other considerations including the nature of claims, industry data, relevant trends, and the use of actuarial information.

Noncontrolling Interest: The consolidated financial statements include all assets, liabilities, revenues, and expenses of entities that are controlled by the Organization and therefore consolidated. Noncontrolling interests in the consolidated balance sheets represent the portion of net assets owned by entities outside the Organization, for those entities in which the Organization's ownership interest is less than 100%.

Impairment of Long-Lived Assets: When events or changes in circumstances indicate the carrying amount of property and equipment, and intangible or other long-lived assets related to specifically acquired assets may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed.

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

Current Assets and Liabilities - The Organization 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 the Organization's marketable equity securities are based on quoted market prices in an active market. The carrying amounts of other investments approximate fair value. See Note 5 for further details.

Long-Term Debt - When practicable to estimate, the fair values of the Organization's long-term financial instruments are based on (a) currently traded values of similar financial instruments, (b) discounted cash flows methodologies utilizing currently available borrowing rates.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Statement of Operations and Changes in Net Assets: Transactions deemed to be ongoing, major, or central to the provision of health care services are reported within operating income. Peripheral or incidental transactions are reported as non-operating revenues and expenses. Investment income, which includes changes in unrealized gains and losses on investments, is reported as non-operating revenue.

Performance Indicator (Excess of Revenues Over Expenses): The performance indicator includes operating income and nonoperating income (losses). The performance indicator excludes, when present, certain changes in pension obligations and contributions for capital expenditures, contributions of capital, distributions, and net assets released from restricted funds.

Reclassifications: Certain reclassifications have been made to prior year balances to conform to the current year presentation.

Net Patient Service Revenues, Patient Accounts Receivable, and Amounts Due to or from Third-Party Payors: The Organization provides medical services to government program beneficiaries and has agreements with other third-party payors that provide payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, prospectively determined rates per procedure, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 61% and 55%, in 2017 and 2016, respectively.

SMH and AKMH are approved for "critical access" status under the Medicare Rural Hospital Flexibility Program. States were allowed to designate this status to rural facilities meeting the program criteria. Medicare payments for inpatient/outpatient services under critical access status are determined on the basis of reasonable allowable costs. Inpatient case services rendered to SMH and AKMH Medicaid program beneficiaries are paid at prospectively determined rates per day. Most outpatient services rendered to program beneficiaries are reimbursed under a cost reimbursement methodology subject to an outpatient adjustment determined by LDH.

LGMC and SMH formed collaborations with the State, units of state government in Louisiana, and other healthcare providers, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy population. The purpose of the collaborations is to create vehicles to provide charity care services in the providers' communities served. The provision of this care directly to low income and needy patients alleviates the expense of public funds the governmental entities previously expended on care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL).

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Federal matching funds are not available for Medicaid payments that exceed UPLs. Each state's UPL methodology must comply with its state plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Under this methodology, LGMC, AKMH, and SMH received funding from the State of Louisiana during the fiscal years ended September 30, 2017 and 2016, collectively totaling \$3,125,608 and \$5,140,906, respectively, which is included as a component of net patient service revenue.

As mentioned above, LGHS and UHC collaborated with the State of Louisiana through a CEA and related lease, assuming operational responsibility for LSU's teaching Hospital in Lafayette Louisiana. The Centers for Medicare & Medicaid Services (CMS) provides for direct graduate medical education payments and indirect medical education reimbursement (DGME and IME) to LSU. The DGME and IME payment rules establish "caps" on the number of residency positions that are reimbursable but allow the caps (the Residency Caps) to be shared among and/or affiliated to other hospitals under certain circumstances. In order for LSU to continue to effectively provide the LSU GME Programs, LSU transferred certain Residency Caps to Lafayette General Medical Center. The CEA also provides for other cost-based funding to LGMC and Louisiana Medicaid uncompensated care payments to UHC for the provision of health care services to UHC's Medicaid and self-pay / uninsured patients in a given State fiscal year. LGMC and UHC recognized a total of \$69,335,905 (\$2,983,757 and \$4,000,000 of which was paid to Lake Charles Memorial Hospital (LCM) and West Calcasieu Cameron Hospital (WC), respectively, as part of a community benefit agreement) and \$60,375,867 (\$3,070,813 of which was paid to LCM as part of a community benefit agreement), during fiscal year ended September 30, 2017 and 2016, respectively, as a component of net patient service revenue, in accordance with the terms of the CEA.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports and regulatory audit. Such settlements are estimated and recorded as amounts due to or from third-party payors in the consolidated financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in an increase to net patient service revenue of \$53,743,888 and \$65,747,917, in 2017 and 2016, respectively.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Organization's Medicare and Medicaid cost reports have been settled through the years ended September 30, as shown in the table below:

	Medicare	Medicaid
LGMC	2014	2010
SMH	2015	2012
LGSH	i	i
UHC	iii	ii
AGH	iii	iii
KGH	iv	iv

- i. LGSH has retained a December 31 year end for cost reporting purposes, As of September 30, 2017, the Medicare cost reports for the years ended December 31, 2015 and 2016 remain unsettled, and the Medicaid cost reports for the years ended December 31, 2014, 2015 and 2016 remain unsettled.
- ii. UHC has retained a June 30 year end for cost reporting purposes. As the effective date of the CEA was June 24, 2013, the last week of June 2013 was included in the June 30, 2014 cost report when filed for UHC. LSU has filed a closing cost report through June 23, 2013. Settlement or recoupment actions associated with the closing cost report remain the responsibility of LSU. The June 30, 2014 Medicare cost report has been settled while the June 30, 2015, 2016, and 2017 cost reports remain unsettled as of September 30, 2017. The June 30, 2014, 2015, 2016, and 2017 Medicaid cost reports remain unsettled as of September 30, 2017.
- iii. AGH filed a Medicare cost report for the period June 1, 2014 through September 30, 2014 which has been settled. The cost reports for the fiscal years ended September 30, 2015 and 2016 remain unsettled as of September 30, 2017. The Medicaid cost report for the period June 1, 2014 through September 30, 2014, as well as reports for the fiscal years ended September 30, 2015 and 2016 remain unsettled as of September 30, 2017.
- iv. KGH filed cost reports for the period June 1, 2015 through September 30, 2015, as well as for the fiscal year ended September 30, 2016. All cost reports remain unsettled as of September 30, 2017.

The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2017, will be reported in the Organization's consolidated operations as such determinations are made.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Organization believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrong doing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis. The programs use RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare and Medicaid reimbursement in an amount estimated to equal the overpayment.

The Organization will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated. Management has determined RAC and MIC assessments to be insignificant to date.

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Patients' accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patients' accounts receivable, the Organization analyzes its past history and identifies trends to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about the Organization's major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts, if necessary (e.g., for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients, those with no third-party coverage, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected, after all reasonable collection efforts have been exhausted, is written-off against the allowance for doubtful accounts.

The Organization's allowance for uncollectible accounts remained at 99% of self pay accounts receivable at September 30, 2017 and 2016. The Organization continues to experience high levels of charity care and bad debt write-offs as a result of rising patient responsibilities due in part to high deductible and high co-pay insurance plans.

The Organization did not change its charity care or uninsured discount policies during fiscal years 2017 or 2016.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Organization recognizes 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 do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided; thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided.

The percentage of patient service revenue, net of contractual allowance and discounts (but before the provision for bad debts), derived from these major payor sources as of September 30, 2017 and 2016 are as follows:

	2017	2016
Third-Party Payors	90%	76%
Self Pay	10%	24%
Total All Payors	100%	100%

Charity Care: The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, and these amounts are not expected to result in cash flows, they are not reported as revenue. Charges foregone, based on established rates and estimated charity care costs, are shown below for the years ended September 30, 2017 and 2016, respectively.

	2017		2016	
	Charges Foregone	Estimated Costs In Excess of Payments	Charges Foregone	Estimated Costs In Excess of Payments
Charity Care	\$ 42,342,566	\$ 13,195,012	\$119,649,918	\$39,955,767

The Organization estimates its cost of care provided under its charity care programs by applying the ratio of direct and indirect costs to charges, to gross uncompensated revenue associated with providing care to charity patients.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Income Taxes: LGHS, LGMC, UHC, LGMD, SMH, AGH, LGF, and KGH are exempt from federal income taxes on related income under Internal Revenue Code (IRC) Section 501(a) as organizations described in Section 501(c)(3). LGSH, OCSP, LIG, and MTS are for-profit Louisiana limited liability corporations.

Uncertain Tax Positions: The Organization accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740. FASB ASC 740 prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Organization's various federal income tax and exempt organization income tax returns (IRS Forms 1065, 1120, and 990), whether filed on a calendar or fiscal year basis, are subject to examination by the IRS. The income tax returns are subject to examination by the taxing authorities, generally for three years after they are filed.

Significant New Accounting Pronouncements Adopted:

In January 2015, the FASB issued Accounting Standards Update (ASU) 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. The provisions of this update eliminate from GAAP the concept of extraordinary items. This guidance is effective for the Organization beginning October 1, 2016. There was no impact on the consolidated financial statements upon adoption of this update.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015. The impact of adopting this Update is reflected in Note 8.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the consolidated balance sheets. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Significant New Accounting Pronouncements Adopted (Continued):

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented. The Organization adopted this Update for the year ended September 30, 2017, and it was retrospectively applied to the year ended September 30, 2016. Prior year disclosures have been revised to reflect the retrospective application of this Update. The impact of adopting this Update is reflected in Note 5.

Note 2. Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2017 and 2016, were as follows:

	2017	2016
Gross Patient Service Revenue	\$ 2,861,458,223	\$ 2,581,277,180
Provisions for Contractual and Other Adjustments	(2,035,026,903)	(1,667,747,011)
Charges Forgone for Charity Care	(42,342,566)	(119,649,918)
Net Patient Service Revenue	\$ 784,088,754	\$ 793,880,251

Note 3. Business and Credit Concentration

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

As more fully discussed in Note 1, the Organization reports accounts receivable net of estimated allowances for uncollectible accounts and adjustments. To provide for accounts receivable that could become uncollectible in the future, the Organization establishes an allowance for uncollectible accounts to reduce the carrying amount of such receivables to their estimated net realizable value. The amount charged to the provision for doubtful accounts is based upon the Organization's assessment of historical and expected net collections, business and economic conditions, and trends in government reimbursement. Uncollectible accounts are written off when the Organization has determined the account will not be collected.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 3. Business and Credit Concentration (Continued)

The approximate percentages of net patient accounts receivable by payor at September 30, 2017 and 2016, were as follows:

	2017	2016
Managed Care \ Commercial	57 %	55 %
Medicare	23	21
Medicaid	3	5
Other Third-Party Payors	6	6
Self-Pay Patients	11	13
	<u>100 %</u>	<u>100 %</u>

The Hospital maintains cash balances at several financial institutions located primarily in Louisiana. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to an aggregate per depositor of \$250,000.

As of September 30, 2017 and 2016, the Organization reported cash and cash equivalents balances of \$86,539,946 and \$68,848,465, respectively. Certain deposits exceed the amount of insurance coverage. The Organization's policy is to place its cash and cash equivalent deposits with high credit quality financial institutions. Accordingly, management does not believe these excess deposits expose the Organization to a significant risk of loss.

The Organization has entered into a daily overnight repurchase agreement with one financial institution, which is a cash sweep service arrangement. The arrangement withdraws and deposits cash balances above a specified dollar amount from one of the Organization's deposit accounts daily and invests it in short-term government securities overnight. The dollar amount associated with this repurchase agreement and included in the total cash and cash equivalents balances referenced above was \$12,769,783 and \$18,030,347, as of September 30, 2017 and 2016, respectively.

Note 4. Short-Term Investments and Assets Limited as to Use

Short-term investments, at September 30, 2017 and 2016, were primarily invested in money market funds. The balance in short-term investments was \$12,283,927 and \$10,387,749, at September 30, 2017 and 2016, respectively.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 4. Short-Term Investments and Assets Limited as to Use (Continued)

Assets limited as to use at September 30, 2017 and 2016, were as follows:

	2017	2016
Under Debt Agreement Held by Third Party		
Cash and Cash Equivalents	\$ 112	\$ 8,967,071
	<u>112</u>	<u>8,967,071</u>
By Board for Property and Equipment Additions and Replacements		
Equity Mutual Funds	36,986,009	42,791,850
Fixed Income Funds	45,648,816	39,707,892
Cash and Cash Equivalents	132,753	4,480,759
Other	11,419,656	1,033,178
	<u>94,187,234</u>	<u>88,013,679</u>
Total Assets Whose Use is Limited	\$ 94,187,346	\$ 96,980,750

Note 5. Fair Value Measurements

The fair value measurements are based on a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
Level 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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

A description of the valuation methodologies used for assets measured at fair value is as follows:

- Common stocks, corporate bonds, and U.S. government securities, when present are valued at the closing price reported on the active market on which the individual securities are traded.
- Mutual Funds are valued at the net asset value (NAV) of shares held at year end.
- Money Market Funds and certificates of deposit are reported at the net asset value and amount reported by the issuing financial institution, respectively.
- Pooled Investment accounts are valued at the liquidation value of the underlying instruments.
- Insurance Company Group Annuity Contract is carried at contract value as reported by the insurance company, which approximates fair value. The concept of a value other than contract value does not apply to this insurance company issued general account backed evergreen (no maturity date) group annuity spread investment. This contract's operation is different than many other evergreen group annuity products in the market by virtue of the fact that a market value (fair value) adjustment does not apply upon discontinuance. There are no specific securities in the general account that back the liabilities of the annuity contract and it would be inappropriate to look to the market value of the securities within the insurer's general account to determine a fair value.

The following table sets forth, by level within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2017:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds				
Equity Funds	\$ 41,735,046	\$ 41,735,046	\$ -	\$ -
Asset Allocation Funds	7,243,861	7,243,861	-	-
Fixed Income Funds	57,453,636	51,752,411	5,701,225	-
Total Mutual Funds	106,432,543	100,731,318	5,701,225	-
Cash Equivalents, Money Market, and Certificates of Deposit	190,027	190,027	-	-
Marketable Equity Securities	4,029,764	4,029,764	-	-
Insurance Company Group Annuity Co	2,263,826	-	-	2,263,826
Investments Measured at NAV	4,252,260	-	-	-
Total	\$ 117,168,420	\$ 104,951,109	\$ 5,701,225	\$ 2,263,826

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

These instruments are included on the Organization's September 30, 2017, balance sheet under the following captions:

Short-Term Investments	\$ 12,283,927
Assets Limited as to Use	94,187,234
Items Included as a Component of Other Noncurrent Assets	
Marketable Equity Securities	4,029,764
Deferred Compensation Arrangement Assets	<u>6,667,495</u>
Total	<u>\$ 117,168,420</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2016:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds				
Equity Funds	\$ 40,790,856	\$ 40,790,856	\$ -	\$ -
Fixed Income Funds	49,844,468	49,844,468	-	-
Total Mutual Funds	<u>90,635,324</u>	<u>90,635,324</u>	-	-
Cash Equivalents, Money Market, and Certificates of Deposit	4,720,272	4,720,272	-	-
Pooled Investment Accounts	-	-	-	-
Marketable Equity Securities	2,729,790	2,729,790	-	-
Other	1,033,178	-	1,033,178	-
Investments Measured at NAV	<u>5,164,877</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 105,968,770</u>	<u>\$ 98,085,386</u>	<u>\$ 1,033,178</u>	<u>\$ 1,685,329</u>

These instruments are included on the Organization's September 30, 2016 balance sheet under the following captions:

Short-Term Investments	\$ 10,387,749
Assets Limited as to Use	88,013,679
Items Included as a Component of Other Noncurrent Assets	
Marketable Equity Securities	2,718,130
Deferred Compensation Arrangement Assets	<u>4,849,212</u>
Total	<u>\$ 105,968,770</u>

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

The following tables set forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended September 30, 2017 and 2016:

<u>September 30, 2017</u>	<u>Level 3</u>	<u>Total</u>
Beginning Balance	\$ 1,685,329	\$ 1,685,329
Total Gains or Losses (Realized and Unrealized) Included in Changes in Net Assets	-	-
Interest Reinvested	32,988	32,988
Purchases	616,894	616,894
Sales	(63,517)	(63,517)
Other	(7,868)	(7,868)
Ending Balance	<u>\$ 2,263,826</u>	<u>\$ 2,263,826</u>
<u>September 30, 2016</u>	<u>Level 3</u>	<u>Total</u>
Beginning Balance	\$ 1,512,076	\$ 1,512,076
Total Gains or Losses (Realized and Unrealized) Included in Changes in Net Assets	-	-
Interest Reinvested	29,571	29,571
Purchases	570,494	570,494
Sales	(241,892)	(241,892)
Other	(184,920)	(184,920)
Ending Balance	<u>\$ 1,685,329</u>	<u>\$ 1,685,329</u>

Changes in Fair Value Levels

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluate the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended September 30, 2017 and 2016, there were no transfers in or out of Level 3.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following tables represent the Organization's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

September 30, 2017					
Investment	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund	\$ 2,263,826	See Discussion Above	See Discussion Above	N/A	N/A

September 30, 2016					
Investment	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund	\$ 1,685,329	See Discussion Above	See Discussion Above	N/A	N/A

In estimating fair value of the investments in Level 3, management may use third-party pricing sources or appraisers. In substantiating the reasonableness of the pricing data provided by third parties, the Organization evaluates a variety of factors including review of methods and assumptions used by external sources, recently executed transactions, existing contracts, economic conditions, industry and market developments, and overall credit ratings.

Financial Instrument Fair Value Disclosures

At September 30, 2017 and 2016, the Organization's financial instruments included cash and cash equivalents, accounts receivable, investments, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term obligations, approximate their fair values.

The fair value of the Organization's Series 2010 debt at September 30, 2017 is estimated at \$89,413,102, compared to its carrying value of \$81,058,473 (net of unamortized original issue discount of \$536,527). The fair value of this instrument is based on currently traded values of similar financial instruments.

The fair value of remaining long-term debt instruments reasonably approximates the carrying value.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 6. Investments in Joint Ventures and Other Investees

The Organization holds a 50% interest in Lafayette General Endoscopy Center, Inc. (GI-ASC). This Company provides ambulatory surgical services in Lafayette, Louisiana. The investment in GI-ASC, accounted for under the equity method, is \$1,455,215 and \$1,624,372, as of September 30, 2017 and 2016, respectively. Equity method goodwill arising upon the 2005 acquisition of GI-ASC by LGMC is included as a component of the carrying amount of the investment. The carrying amount of the equity method goodwill component comprises the substantial portion of the investment balance as of September 30, 2017 and 2016.

Summarized financial information of GI-ASC as of September 30, 2017 includes total assets of \$517,283 and total liabilities of \$273,519. GI-ASC operates on a calendar year basis and reported \$1,368,232 of net income for the nine months ended September 30, 2017. Summarized financial information of GI-ASC as of September 30, 2016 includes total assets of \$455,100 and total liabilities of \$103,837, and net income of \$1,389,102 for the nine months ended September 30, 2016. Net income is routinely distributed to LGMC and the other IRS subchapter S-corporation shareholders each year.

The Organization holds interests in several other entities which are accounted for under the equity method. These investments total \$2,246,736 and \$1,000,000 at September 30, 2017 and 2016, respectively.

Investee companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Other Noncurrent Assets include \$95,812 and \$117,321, of investments accounted for under the cost method as of September 30, 2017 and 2016, respectively.

Under this method, the Organization's share of the earnings or losses of such investee companies is not included in the consolidated balance sheets or consolidated statements of operations; however, impairment charges are recognized in the consolidated statements of operations, if applicable. When circumstances suggest that the value of the investee company has subsequently recovered that recovery is not recorded.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 7. Property and Equipment

Property and equipment consists of the following:

	2017	2016
Land and Land Improvements	\$ 15,089,938	\$ 14,538,721
Buildings and Fixed Equipment	397,633,012	389,512,977
Major Movable Equipment	132,352,417	128,396,496
	<u>545,075,367</u>	<u>532,448,194</u>
Less: Accumulated Depreciation	271,796,968	247,561,139
	<u>273,278,399</u>	<u>284,887,055</u>
Construction in Progress	10,780,894	5,578,679
Total	<u>\$ 284,059,293</u>	<u>\$ 290,465,734</u>

Construction in Progress and Purchase Commitments

At September 30, 2017 the Organization was obligated under purchase commitments of approximately \$1,992,100, principally related to ongoing renovation projects, and \$166,300 related to other purchase commitments.

Note 8. Short-Term and Long-Term Debt

The following table summarizes the Organization's outstanding debt as of September 30, 2017 and 2016:

Line of Credit	2017	2016
Line of Credit - LGHS: Interest rate of LIBOR plus 1.75% (2.99% at September 30, 2017), due upon demand or maturity on August 12, 2018. (A)	\$ 15,000,000	\$ 18,352,938
Total Line of Credit	<u>\$ 15,000,000</u>	<u>\$ 18,352,938</u>
Long-Term Debt - Bonds Payable	2017	2016
Revenue and Refunding Bonds, Series 2010: Interest payable semi-annually at rates ranging from 2.0% to 5.5%. Principal is payable annually through 2041. (B)	\$ 81,595,000	\$ 81,595,000
Hospital Revenue Bonds, Series 2012B: Fixed interest at 2.46% through 2019. Principal payable annually through 2042, beginning in 2018. (C)	30,000,000	30,000,000
Revenue and Refunding Bonds, Series 2016A: Interest payable semi-annually at rates ranging from 3.25% to 5.0%. Principal is payable annually through 2045. (D)	65,295,000	65,295,000
Total Long-Term Debt - Bonds Payable	<u>176,890,000</u>	<u>176,890,000</u>

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 8. Short-Term and Long-Term Debt (Continued)

<u>Long-Term Debt - Notes Payable</u>	<u>2017</u>	<u>2016</u>
Bank Note Payable, Series 2016A: Variable interest of LIBOR plus Spread (2.92% at September 30, 2017), payable quarterly. Principal payable quarterly through 2039, beginning in 2019.	(E) 25,000,000	25,000,000
Bank Note Payable, Series 2016B: Variable interest of LIBOR plus Spread (2.92% at September 30, 2017), payable quarterly. Principal payable quarterly through 2041, beginning in 2019.	(F) 42,750,000	42,750,000
Bank Note Payable - LIG: Monthly principal and interest payments of \$25,730 and over a 10 year term. Interest rate of 4.99%.	(G) 2,295,389	2,465,855
Bank Note Payable - LIG: Variable interest at 4.50%, due in serial installments through July 2020.	(H) 1,780,037	2,270,039
Bank Note Payable - OCSP: Interest rate of 4.75% payable in monthly principal and interest installments through June 2022.	(I) 1,243,706	1,471,452
Equipment Note Payable - LGMC: Principal due in equal installments through the remainder of the vendor contract in 2017.	(J) 139,428	880,078
Bank Note Payable - MTS: Interest rate of 3.25% payable in monthly principal and interest installments through 2022.	(K) 40,938	-
Bank Note Payable - MTS: Interest rate of 3.25% payable in monthly principal and interest installments through 2023.	(L) 43,698	-
Total Long-Term Debt - Notes Payable	73,293,196	74,837,424
Total Long-Term Debt - Bonds and Notes Payable	250,183,196	251,727,424
Less: Original issue discount, less accumulated amortization of \$165,918	(536,527)	(559,770)
Plus: Original issue premium, less accumulated amortization of \$218,384.	5,469,636	5,688,020
Less: Unamortized Debt Issuance Costs	(2,556,038)	(2,573,013)
	252,560,267	254,282,661
Less: Current maturities of long-term debt	(1,117,308)	(1,717,325)
Total	\$ 251,442,959	\$ 252,565,336

(A) Revolving Credit Line: The Organization has an unsecured revolving line of credit from a bank that permits borrowings up to \$20,000,000, at an interest rate of LIBOR plus 1.75% (2.99% at September 30, 2017). The line of credit matures on July 13, 2018. At September 30, 2017 and 2016, the Organization had \$15,000,000 and \$18,352,938, respectively, of outstanding borrowings under this line of credit.

The Organization has also negotiated a secured revolving line of credit from a lender that permits borrowing up to \$20,000,000 at an interest rate of LIBOR plus 1% (2.32% at September 30, 2017). The line of credit is secured by the investment assets of the Organization. The line of credit is due upon demand. At September 30, 2017 and 2016, the Organization had \$0- of outstanding borrowings under this line of credit.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 8. Short-Term and Long-Term Debt (Continued)

- (B) Revenue and Refunding Bonds, Series 2010 - LGMC: During 2010, the Louisiana Public Facilities Authority (LPFA) issued \$84,840,000 of tax-exempt revenue and refunding bonds for which LGMC is obligated. The security for the 2010 series bonds is described later in this Note. These bonds are due serially through November 1, 2041.
- (C) Revenue Bonds Series 2012 A and B - LGMC: On July 1 2012, the LPFA authorized the issuance of \$30,000,000 Series 2012A and \$30,000,000 Series 2012B of hospital revenue bonds for which LGMC is obligated via an executed loan agreement issued as of that date. The purpose of the issue was to finance a portion of the costs of construction, expansion and renovations of operating room suites, the emergency room, and other portions of the main campus and additional construction of a multi-level parking facility. Both the Series A and B Bonds were issued as draw down bonds. The loan agreement requires debt service by LGMC in an amount sufficient to provide for principal and interest under the terms of each bond series. Interest on the outstanding principal balance of each series is payable monthly. Series A bonds bear interest at a variable rate through July 25, 2022. The Series B bonds bear interest at fixed rate of 2.46% per annum through July 25, 2019. Both Series contain provisions for rate resets in subsequent periods. Principal repayment requirements for both Series A and B are serial at scheduled amounts assuming the maximum authorized principal. Principal funding requirements begin November 1, 2018 and continue through 2042. The bonds contain optional redemption provision at the direction of LGMC. The Series A bonds were redeemed in 2016 in conjunction with the issuance of the Series 2016 Bonds. The security for these bonds is described later in this Note.
- (D) Revenue and Refunding Bonds, Series 2016A - LGMC: On November 1, 2016, the LPFA authorized the issuance of \$65,295,000 Series 2016A Hospital Revenue and Refunding Bonds and \$31,750,000 Series 2016B Taxable Hospital Revenue and Refunding Bonds for which LGHS is obligated via an executed loan agreement as of that date. The Series 2016 Bonds are being issued for the purpose of providing funds, together with other moneys of LGHS, to finance projects and refund indebtedness for LGHS and certain affiliates defined as the Obligated Group. The Series 2016A Bonds are subject to redemption prior to maturity at the option of LPFA at the request of LGHS on or after November 1, 2025. The Series 2016B Bonds may be redeemed at the option of LPFA, exercised by LGHS if no loan default exists, in whole or in part on any business day at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest. During the year ended September 30, 2016, LGHS redeemed in full the outstanding balance of the Series 2016B Bonds. The Series 2016A Bonds bear interest at rates ranging from 3.25% to 5% with interest payable semi-annually. Principle is payable annually beginning November 1, 2032 with the final payment on November 1, 2045. The Series 2016A Bonds require mandatory sinking fund redemptions beginning November 1, 2037. Security for the Series 2016A Bonds is described below.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 8. Short-Term and Long-Term Debt (Continued)

- (E) Series 2016A Note Payable - LGHS: On September 29, 2016, LGHS (as Borrower) executed a note with Iberia Bank (as Lender). The loan agreement was issued in the principal amount of \$25,000,000 for the purpose of refinancing debt. The note bears interest at the Special Bank Variable Rate, as defined, which shall be reset as defined. Interest is payable quarterly beginning November 1, 2016. Principal is payable quarterly beginning November 1, 2019 with maturity scheduled for November 1, 2039. This Note is subject to optional redemption by LGHS, in whole or in part, at the principal amount thereof plus accrued interest to the Redemption Date. This Note is secured by an Act of Assignment of Receipts and Security Agreement dated September 1, 2016 to which LGHS, as Obligated Group Agent, as defined, has assigned certain Receipts to the Master Trustee. Additionally, security includes the benefits of a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated August 10, 2010 by LGMC in favor of the Master Trustee, granting a mortgage lien on certain of the properties of LGHS.
- (F) Series 2016B Note Payable - LGHS: On September 29, 2016, LGHS (as Borrower) executed a note with Whitney Bank (as Lender). The loan agreement was issued in the principal amount of \$42,750,000 for the purpose of refunding the Series 2016B Bonds, raise capital to increase liquidity, refinance other debt, and pay certain related expenses incurred in connection with the issuance Note. The note bears interest at the Special Bank Variable Rate, as defined, which shall be reset as defined. Interest is payable quarterly beginning November 1, 2016. Principal is payable quarterly beginning November 1, 2019 with maturity scheduled for November 1, 2041. This Note is subject to optional redemption, in whole or in part, at the principal amount thereof plus accrued interest to the Redemption Date.

This Note is secured by an Act of Assignment of Receipts and Security Agreement dated September 1, 2016 to which LGHS as Obligated Group Agent, as defined, has assigned certain Receipts to the Master Trustee. Additionally, security includes the benefits of a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated August 10, 2010 by LGMC in favor of the Master Trustee, granting a mortgage lien on certain of the properties of LGHS.

- (G) Bank Note Payable - LIG: A term loan was executed by and among Lafayette Investment Group, LLC (as Borrower) and Home Bank (as Lender). The note is payable over a ten year term ending in 2027. Monthly principal and interest installments of \$25,730 are due each month, with interest at 4.99%. The loan is secured by a security interest in deposit accounts with the lender, and certain real estate owned by LIG.
- (H) Bank Note Payable - LIG: On April 23, 2009, a loan agreement was executed by and among Lafayette Investment Group, LLC (as Borrower) and Home Bank (as Lender). The term loan agreement was issued for up to \$5,592,055 of principal to be utilized to pay off construction costs for Lafayette Surgical Hospital. The note has since been refinanced with the lender and bears interest at 4.5%. The remaining balance of the note is due serially in monthly installments through July 2020.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 8. Short-Term and Long-Term Debt (Continued)

- (I) Bank Note Payable - OCSP: The Organization has recorded a bank note payable with OCSP (as Borrower) and Home Bank (as Lender). The loan agreement was issued for up to \$1,900,000 of principal to be utilized to pay off construction costs for OCSP. The note bears interest at 4.75% with maturity in June 2022.
- (J) Equipment Note Payable - LGMC: The Organization has recorded a note payable with the food services facilities management provider for the renovation to and purchase of equipment at the hospital facilities. The note shall be paid off in equal monthly installments over a three year period beginning upon the final installation of the equipment in 2017.
- (K) Bank Note Payable - MTS: The Organization has recorded a bank note payable which was issued May 31, 2017. The balance is due in monthly principal installments of \$757 plus interest through March 30, 2022. The note bears interest at a rate of 3.25%.
- (L) Bank Note Payable - MTS: The Organization has recorded a bank note payable which was issued May 31, 2017. The balance is due in monthly principal installments of \$651 plus interest through March 30, 2023. The note bears interest at a rate of 3.25%.

LGHS and Whitney Bank, as master trustee (the Master Trustee) for the outstanding bonds have entered into, amended, restated and added supplements to the Master Trust Indenture, with the latest supplement dated January 1, 2016. LGHS and the LPFA have entered into a Loan Agreement documenting that LGMC, as Obligated Group Agent, has delivered a promissory note to the LPFA to evidence and secure its obligations to the LPFA.

As security for the Bonds, the LPFA has assigned and pledged to the Trustee, for the benefit of the owners of the Bonds, substantially all of LPFA's interest in the Series 2016, 2012, and 2010 loan agreements. Pursuant to the terms of the Amended and Restated Master Trust Indenture, LGHS, as Obligated Group Agent, may from time to time issue other notes or series of notes such that the holders of the Series 2016, 2012, and 2010 obligations are on a parity with respect to the holders of such other notes or series of notes entitled to the benefit of the Amended and Restated Master Trust Indenture.

Under the Series 2016, 2012, and 2010 bond obligations, LGHS is also subject to an Act of Assignment of Receipts and Security Agreement, which has been supplemented and amended and restated, with the latest change made effective January 1, 2016 (collectively, the Assignment), pursuant to which LGHS, as Obligated Group Agent, has assigned certain Receipts (as therein defined), to the Master Trustee, as assignee, for the benefit of the owners of the bonds and for the benefit of certain of the existing and future creditors of the Obligated Group Members. The provisions of the Series 2016, 2012, and 2010 bond obligations also contain a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated January 1, 2016 (the Mortgage) by LGMC in favor of the Master Trustee, as mortgagee, granting a mortgage lien on certain of the properties of LGMC.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 8. Short-Term and Long-Term Debt (Continued)

The Organization is required to comply with covenants contained in the Amended Master Trust Indenture, dated January 1, 2016. These covenants include, among other requirements, maintenance of proper debt service coverage ratio. For the years ended September 30, 2017 and 2016, the Organization was in compliance with these covenants.

At September 30, 2017, scheduled maturities of long-term debt for the years ending September 30, are as follows:

2018	\$	1,117,308
2019		1,027,983
2020		5,466,395
2021		5,757,293
2022		5,962,132
Thereafter		<u>230,852,085</u>
Total	\$	<u>250,183,196</u>

The Organization paid interest on its long-term debt totaling \$10,606,823 and \$8,553,181, during the years ended September 30, 2017 and 2016, respectively. See Note 1 for details of interest cost capitalized as a component of property and equipment.

Note 9. Capital Leases

The Organization leases certain equipment used in its operations under agreements that are classified as capital leases. The carrying amount of such equipment is not material to these financial statements and approximates the present value of the associated minimum lease payments. The lease obligations are secured by the leased equipment.

As mentioned in Note 1, SMH leases the physical assets of Hospital Service District No. 2 of St. Martin Parish, Louisiana (the Service District). Under the terms of the agreement, accounted for as a capital lease obligation, SMH became the lessee of substantially all of the land, buildings, and equipment associated with the Service District. SMH simultaneously became the operator of that facility and assumed responsibility for management. As a result of the arrangement, all financial results of the facility during the lease term flow directly to SMH.

During 2013, the lease was amended to include an additional 5,477 square feet of hospital space. The monthly lease obligation of \$28,833 was increased to \$29,365, effective May 1, 2013, and is due in monthly installments over the remainder of the original 25 year lease term and the original renewal term of an additional 24 year period, if exercised. The recorded cost of land, building, leasehold improvements, and equipment associated with this lease is \$5,080,639 and \$4,844,279, and the recorded cost of construction in progress associated with this lease is \$23,636 and \$21,081, as of September 30, 2017 and 2016, respectively. Accumulated amortization of the leased assets acquired was \$1,804,882 and \$1,542,977, as of September 30, 2017 and 2016, respectively.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 9. Capital Leases (Continued)

Future minimum lease payments and the present value of the minimum lease payments under all of the capital lease obligations discussed above are as follows as of September 30, 2017:

<u>Year Ending September 30:</u>	<u>Amount</u>
2018	\$ 648,511
2019	472,636
2020	374,704
2021	352,381
2022	352,381
2023-2027	1,761,906
2028-2032	1,761,906
2033-2037	646,034
Total Minimum Lease Payments	<u>6,370,459</u>
Less: Amount Representing Interest	<u>(2,697,034)</u>
Present Value of Minimum Lease Payments	3,673,425
Less: Current Maturities of Capital Lease Obligations	<u>(375,437)</u>
Long-Term Capital Lease Obligations	<u>\$ 3,297,988</u>

Note 10. Retirement Benefits

The Organization sponsors two defined contribution employee pension plans, one of which was frozen in 1998. Participation in the active plan is available to substantially all of the Organization's employees upon completion of one year of service and at least 750 hours of service during the plan year. Participating employees become 100% vested in the Organization's contributions to the active plan after three years of service.

The active plan contains both a contributory and a noncontributory component. For the contributory component, the Organization matches two-thirds of a participating employee's elective deferrals, up to a maximum of two-thirds of 3% of the employee's annual salary. In addition, during each plan year, participants may elect to defer up to 20% of their compensation to be contributed by the employee plan. For the noncontributory component, the Organization may contribute 1% to 5% (based on years of participation) of a participating employee's salary, but such contribution is not required. For the fiscal year end September 30, 2017 and 2016, management elected to suspend this contribution.

The frozen plan remains in existence and its assets are distributed to participants upon termination or retirement.

The Organization's policy is to fund all pension costs of the contributory component in the period earned by the employee and all pension costs of the noncontributory component annually at the end of the plan year. Defined contribution plan costs charged to operations for the years ended September 30, 2017 and 2016, were \$4,686,660 and \$4,528,370, respectively.

Note 10. Retirement Benefits (Continued)

The Organization has a deferred compensation arrangement with a group of its key employees. The purpose is to provide supplemental retirement benefits which, when integrated with the Organization's retirement income sources, provides a specified target level of retirement benefits for those employees. As of September 30, 2017 and 2016, the Organization had set aside \$6,667,495 and \$4,849,212, respectively, in a Rabbi Trust, which is included as a component of Other Noncurrent Assets on its consolidated balance sheets, in accordance with terms of the arrangement. As of September 30, 2017 and 2016, the Organization had recorded accrued liabilities of \$6,125,249 and \$4,563,673, respectively, which represents the estimated present value of the benefits earned under this agreement.

The Organization's invested assets associated with this deferred compensation arrangement include a benefit-responsive investment contract with an insurance company. The insurance company maintains the related portion of contributions in a general account which is credited with earnings on the underlying investments and charged for withdrawals and administrative expenses. The issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than 1.5%. Such interest rates are reviewed on a semi-annual basis for resetting. For the years ended September 30, 2017 and 2016, the effective yields and crediting interest rates ranged between 1.5% and 2.0%.

Note 11. Accrued Other Postretirement Benefits

The Organization provides certain health care benefits for retired employees. Under FASB ASC 715, the Organization is required to accrue the estimated cost of retiree health care benefits over the years that the employees render service.

The Organization's postretirement health care plan is contributory for retiree spouses and noncontributory for retirees. The health care plan covers all retirees, who retired before January 1, 2005, and their spouses. The Organization's current policy is to fund the cost of the postretirement health care plan on a pay-as-you-go basis.

FASB ASC 715 also requires the Organization to fully recognize and disclose as an asset or liability, the over-funded or under-funded status of its postretirement health care plan in its current year financial statements.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 11. Accrued Other Postretirement Benefits (Continued)

The plan's funded status, along with assumptions used to calculate that status at September 30, 2017 and 2016, were as follows:

	Fiscal Year Ending September 30,	
	2017	2016
Benefit Obligation Information:		
Accumulated Postretirement Benefit Obligation	\$ 1,194,000	\$ 1,404,500
Asset Information:		
Employer Contributions	\$ 133,700	\$ 152,800
Plan Participants' Contributions	-	-
Benefits Paid	\$ 133,700	\$ 152,800
Fair Value of Assets at End of Year	\$ -	\$ -
Funded Status at End of Year	\$ (1,194,000)	\$ (1,404,500)
Amounts Recognized in the Statement of Financial Position:		
Noncurrent Assets	\$ -	\$ -
Current Liabilities	(131,400)	(138,800)
Noncurrent Liabilities	(1,062,600)	(1,265,700)
Total	\$ (1,194,000)	\$ (1,404,500)
Amounts Recognized in Unrestricted Net Assets:		
Amount Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	\$ -	\$ -
Prior Service Cost/(Credit)	-	-
Net Actuarial (Gain)/Loss	(960,700)	(953,300)
Total	\$ (960,700)	\$ (953,300)
Total Amount Recognized in Unrestricted Net Assets	\$ (960,700)	\$ (953,300)
Assumptions for End of Year Disclosure:		
Discount Rate	2.96%	2.53%
Initial Medical Trend Rate	6.75%	7.00%
Ultimate Medical Trend Rate	5.00%	5.00%
Years from Initial to Ultimate Trend	7	8
Measurement Date	9/30/2017	9/30/2016
Census Date	9/30/2016	9/30/2016

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 11. Accrued Other Postretirement Benefits (Continued)

The following table presents expected future benefit payments to beneficiaries:

	Fiscal Year Ending September 30,	
	2017	2016
Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets:		
Net Periodic Benefit Cost		
Net Periodic Benefit (Income)/Expense	\$ 69,400	\$ 19,800
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	\$ -	\$ -
Prior Service Cost (Credit)	-	-
Net Loss (Gain)	(110,600)	(197,900)
Amortization of Transition Obligation/(Asset)	-	-
Amortization of Prior Service Cost	-	-
Amortization of Net Loss (Gain)	103,200	74,200
Total Change in Unrestricted Net Assets	\$ (7,400)	\$ (123,700)
Total Recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	\$ (76,800)	\$ (143,500)
Assumptions for Net Periodic Benefit Cost:		
Discount Rate	2.53%	3.35%
Initial Medical Trend Rate	7.00%	7.25%
Ultimate Medical Trend Rate	5.00%	5.00%
Years from Initial to Ultimate Trend	8	9
Measurement Date	9/30/2016	9/30/2015
Expected Benefit Payments:		
2018 Fiscal Year	\$ 131,400	
2019 Fiscal Year	\$ 128,200	
2020 Fiscal Year	\$ 124,200	
2021 Fiscal Year	\$ 119,100	
2022 Fiscal Year	\$ 113,100	
2023 - 2027 Fiscal Year	\$ 451,500	
Expected Employer Contributions Recognized for the 2018 Fiscal Year:	\$ 131,400	
Expected Amortization Amounts Included in Expense for the 2018 Fiscal Year:		
Transition Obligation/(Asset)	\$ -	
Prior Service Cost	\$ -	
Actuarial (Gain)/Loss	\$ (108,600)	

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 12. Functional Expenses

The Organization provides general health care services, including acute inpatient, sub acute inpatient, outpatient, ambulatory, and home care to residents within its geographic location.

Expenses related to providing these services for the years ended September 30, 2017 and 2016, were as follows:

	2017	2016
Health Care Services	\$ 574,328,294	\$ 560,088,914
General and Administrative	143,582,073	139,927,543
Total	\$ 717,910,367	\$ 700,016,457

Note 13. Income Taxes

The past operations of LGMD resulted in an estimated cumulative net operating loss for federal income tax purposes at September 30, 2011. These net operating loss carry-forwards expire in varying amounts through 2030. Because of uncertainty involving LGMD's ability to utilize the deferred tax benefit attributable to these losses, management has elected to establish a valuation allowance equal to the amount of the associated deferred tax asset. During March 2014, LGMD received approval of its application to be recognized as a 501(c)(3) organization.

Note 14. Commitments and Contingencies

Insurance Programs: During 1976, the state of Louisiana enacted legislation that placed a maximum limit of \$500,000 for each medical professional liability claim and established the Louisiana Patient's Compensation Fund (the Fund) to provide professional liability insurance to participating health care providers. The Organization participates in the Fund. The Fund provides up to \$400,000 coverage for settlement amounts in excess of \$100,000 per claim.

The Organization remains liable for \$100,000 per claim. The Organization also carries umbrella coverage for losses from \$1,000,000 to \$15,000,000 in the aggregate.

The Organization has a self-insurance program with respect to general and professional liability, and employee health claims. The Organization is also self insured for workers' compensation claims up to the deductible of its excess workers' compensation policy of \$400,000 per claim.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 14. Commitments and Contingencies (Continued)

Litigation: The Organization is involved in litigation arising in the ordinary course of business. Claims asserted against the Organization are currently in various stages of litigation. The Organization accrues for claims losses arising from litigation or self insurance programs when it is determined that it is probable that liabilities have been incurred and the amounts of losses can be reasonably estimated. It is the opinion of management that estimated costs resulting from pending or threatened litigation are adequately accrued.

Operating Lease Commitments: Rental expense for all operating leases totaled \$38,884,536 and \$37,076,650 for the years ended September 30, 2017 and 2016, respectively.

As initially detailed in Note 1, UHC entered into a lease agreement with LSU and the State to lease the facilities and equipment of University Medical Center. The initial lease term is for 10 years. Beginning on the expiration of the fifth year of the initial term and continuing on each annual anniversary date thereafter, the remaining portion of the initial term will automatically be extended for an additional one year period. Annual rent is \$15,790,500, payable in four quarterly installments. UHC was required to prepay one full year of rent which shall be considered payment of all quarterly rent due for the last year of the term. This prepayment is classified as a noncurrent asset and is included in Other Assets on the September 30, 2017 Balance Sheet.

The future minimum lease payments under non-cancelable operating leases for the years ending September 30th are as follows:

2018	\$ 25,592,607
2019	22,524,767
2020	20,929,319
2021	19,626,799
2022	18,264,085
Thereafter	<u>18,230,866</u>
Total	<u>\$ 125,168,443</u>

The Organization and its affiliates lease office space and clinical facilities, generally to members of the medical staff, under operating leases whose terms range from monthly up to five years. Assets held for lease, at September 30, 2017 and 2016, consist of buildings and improvements with an original cost of \$79,266,019 and \$78,992,288, respectively. Accumulated depreciation of the leased assets totaled \$46,294,173 and \$43,982,238, at September 30, 2017 and 2016, respectively.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 14. Commitments and Contingencies (Continued)

The future minimum lease payments to be received from these leases for the years ending September 30th are as follows:

2018	\$	3,581,318
2019		3,065,336
2020		2,340,768
2021		1,628,929
2022		1,309,116
Thereafter		-
Total	\$	11,925,467

Community Benefits - The Organization has committed, under Low Income and Needy Collaborative Care Agreements (LINCCA), to funding quality healthcare services to low income and needy residents in its community. During the years ended September 30, 2017 and 2016, the Organization recorded, within operating expenses on its consolidated statements of operations, payments of \$7,552,292 (\$2,983,757 and \$4,000,000 of which is attributed payments to LCM and WC, respectively, as part of the community benefit agreement) and \$3,396,494 (\$3,070,813 of which is attributed payments to LCM as part of the community benefit agreement), respectively, in accordance with the terms of its LINCCAs.

Other - As mentioned in Note 7, the Organization has commitments under construction contracts.

Note 15. Electronic Health Record (EHR) Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments. The Organization accounts for HITECH incentive payments under the grant accounting model as grants related to income. Income from Medicare incentive payments is recognized as revenue after the Organization has determined it is reasonably assured to comply with the meaningful use criteria over the entire applicable compliance period and the cost report period that will be used to determine the final incentive payment has ended.

Note 15. Electronic Health Record (EHR) Incentives (Continued)

The Organization recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling \$1,592,644 and \$3,833,493, for the years ended September 30, 2017 and 2016, respectively, are included in other operating revenue. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. The Organization's compliance with the meaningful use criteria is subject to audit by the federal government.

Note 16. Acadiana Radiation Therapy

During November 2014, LGMC entered into an agreement with Acadiana Radiation Therapy, LLC (ART) where LGMC acquired a 50% ownership interest in ART. In addition, LGMC entered into an agreement whereby ART will provide certain administrative and support services to the outpatient radiation therapy center (Radiation Therapy Center) operated by LGMC. The agreement is effective December 1, 2014, with an initial term of 10 years.

Note 17. Strategic Agreement

LGHS and Ochsner Health System (Ochsner) have entered into a strategic agreement focused on increasing local access to care, improving quality, and reducing the cost of healthcare for patients across southwest Louisiana, which has the purpose of improving the health of the Louisiana communities they both serve today and to meet the needs of new communities across the State. This agreement will create greater opportunity for alignment through a comprehensive clinically integrated physician network, joint investments in the resources needed to start new programs and the expansion of patient services and resources in the region. The key areas of initial focus for the strategic agreement include expanding pediatric subspecialty care, comprehensive stroke care and a telemedicine program.

Note 18. Collaboration Agreements

During November 2014, the Organization entered into a collaboration agreement with Opelousas General Hospital Authority, a public trust, d/b/a Opelousas General Health System (OGHS) effective January 1, 2015. The agreement shall be for a two year term. The agreement provides that the Organization will provide services to OGHS including guidance and professional oversight on operational and capital budgets, recommendations to OGHS leadership, and collaboration with OGHS leadership to improve day to day operations, physician relations and the patient experience.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 18. Collaboration Agreements (Continued)

Effective September 1, 2016, the Organization entered into a collaboration agreement with Hospital Service District No. 1 of Iberia Parish d/b/a Iberia Medical Center (IMC). The agreement shall be for a two year term. The agreement provides that the Organization will provide services to IMC including guidance and professional oversight on operational and capital budgets, recommendations to IMC leadership, collaboration with IMC leadership to improve day to day operations, physician relations, and the patient experience, and provide access to information technology tools, platforms and services.

Note 19. New and Pending Financial Accounting Standards Board (FASB) Pronouncements Not Yet Adopted

The FASB has issued several authoritative pronouncements not yet implemented by the Organization. The Statements which might impact the Organization in coming periods are as follows:

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance is effective for the Organization beginning October 1, 2019. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The AUS is effective for fiscal years beginning after December 15, 2018, for a not-for-profit entity that has issued, or is a conduit bond obligor. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

Note 20. Subsequent Events

In December 2017, the Organization entered into an agreement to establish a joint venture with a third party whereby reference labs will be created at two of the hospitals in the System. The Organization expects the joint venture to be operational within the next three months.

Management evaluated subsequent events through the date the consolidated financial statements were available to be issued, January 31, 2018, and determined that no additional events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

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

Independent Auditor's Report

To the Board of Trustees
Lafayette General Health System, Inc. and Subsidiaries
Lafayette, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's consolidated financial statements, and have issued our report thereon dated January 31, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaPorte".

A Professional Accounting Corporation

Metairie, LA
January 31, 2018



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Independent Auditor's Report on Supplementary Information

To the Board of Trustees
Lafayette General Health System, Inc. and Subsidiaries
Lafayette, Louisiana

We have audited the consolidated financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization), which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to January 31, 2018.

The accompanying supplementary information is presented for the purpose of additional analysis, as required by Louisiana Revised Statutes, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A Professional Accounting Corporation

Metairie, LA
January 31, 2018

LAFAYETTE GENERAL HEALTH

Schedule of Compensation, Benefits and Other Payments to Agency Head For the Year Ended September 30, 2017

Agency Head
David Callecod, FACHE
President/CEO

Purpose	Amount
Salary	\$0
Benefits - Insurance	\$0
Benefits - Retirement	\$0
Benefits - Other	\$0
Car Allowance	\$0
Vehicle Provided by Organization	\$0
Per Diem	\$0
Reimbursements	\$0
Travel	\$0
Registration Fees	\$0
Conference Travel	\$0
Continuing Professional Education Fees	\$0
Miscellaneous Expenses	\$0

Louisiana Revised Statute 24:513(A)(3) as amended by Act 706 of the 2014 Regular Legislative Session requires that the total compensation, reimbursements, and benefits of an agency head or political subdivision head or chief executive officer related to the position, including but not limited to travel, housing, unvouchered expense, per diem, and registration fees to be reported as a supplemental report within the financial statement of local government and quasi-public auditees. In 2015, Act 462 of the 2015 Regular Session of the Louisiana Legislature further amended R.S. 24:513(A)(3) to clarify that nongovernmental entities or not-for-profit entities that received public funds shall report only the use of public funds for the expenditures itemized in the supplemental report.

AGREED-UPON PROCEDURES REPORT
Lafayette General Health System, Inc. and Subsidiaries

Independent Accountant's Report
On Applying Agreed-Upon Procedures

For the Period October 1, 2016 – September 30, 2017

To the Board of Trustees
Lafayette General Health System, Inc. and Subsidiaries
Lafayette, Louisiana

We have performed the procedures enumerated below, which were agreed to by Lafayette General Health System, Inc. and Subsidiaries (the Organization), on the control and compliance (C/C) areas identified in the Organization's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal year October 1, 2016 through September 30, 2017. The Organization's management is responsible for those C/C areas identified in the SAUPs.

The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated results are as follows:

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
 - b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) ***Disbursements***, including processing, reviewing, and approving.
 - d) ***Receipts***, including receiving, recording, and preparing deposits.
 - e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

LOUISIANA • TEXAS

- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.
- h) **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofits.
- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Results: The Organization's written policies and procedures address each of the financial/business functions listed above in items a) through j).

Board (or Finance Committee, if applicable)

- 2. Obtain and review the board/committee minutes for the fiscal period, and:
 - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
 - b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
 - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
 - c) Report whether the minutes referenced or included non-budgetary financial information (e.g., approval of contracts and disbursements) for at least one meeting during the fiscal period.

Results: This Organization met monthly with no scheduled meeting July. The Organization discussed financial performance during the meeting. The Organization discussed non-budgetary financial information at the meeting.

Bank Reconciliations

- 3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

Results: Obtained a listing of client bank accounts from management and management's representation the listing is complete.

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three-year rotating basis (if more than five accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
 - a) Bank reconciliations have been prepared;
 - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
 - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Results: Selected all bank accounts and noted that all bank reconciliations have been prepared, all reconciliations include evidence that a member of management has reviewed the reconciliation, and the documentation contained evidence reflecting there was research of reconciling items that have been outstanding for more than 6 months.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

Results: Obtained a listing of cash/check/money order collection locations from management and management's representation the listing is complete. We noted that all public funds are received by electronic funds transfer.

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three-year rotating basis (if more than five locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each cash collection location selected:
 - a) Obtain existing written documentation (e.g., insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
 - b) Obtain existing written documentation (e.g., sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
- Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
 - Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

Results: Procedure not applicable.

7. Obtain existing written documentation (e.g., policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

Results: The Organization has a process specifically defined to determine completeness of the collection of public funds by a person who is not responsible for collections.

Disbursements - General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

Results: Obtained a listing of disbursements from management and management's representation that the listing was complete.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g., purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; (2) a receiving report showing receipt of goods purchased, or electronic equivalent; and (3) an approved invoice.

Results: The supporting documentation for the 25 randomly selected disbursements demonstrated each of the required elements in a), b), and c) listed above without exception.

10. Using entity documentation (e.g., electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

Results: The person responsible for processing payments does not have the ability to add vendors to the Organization's purchasing/disbursement system.

11. Using entity documentation (e.g., electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

Results: The persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

Results: No exceptions noted as a result of the procedure performed..

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Results: No exceptions noted as a result of the procedure performed.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Results: Obtained a listing of all active cards from management and management's representation that the listing is complete.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

Results: There was evidence that the monthly statements were reviewed or approved, in writing, by someone other than the authorized card holder. There were no finance charges or late fees assessed on the selected statements.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e., each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:
- An original itemized receipt (i.e., identifies precisely what was purchased).
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization).
- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e., transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g., cash advances or non-business purchases, regardless of whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Results: There were no exceptions identified to the criteria listed in a) through c) above.

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

Results: Procedure not applicable, public funds are not expended for travel and reimbursement expenses.

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

Results: Procedure not applicable, public funds are not expended for travel and reimbursement expenses.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.
- b) Report whether each expense is supported by:
 - An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
 - Documentation of the business/public purpose. (Note: For meal charges, there should also be documentation of the individuals participating.)
 - Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance).
- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g., hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Results: Procedure not applicable, public funds are not expended for travel and reimbursement expenses.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

Results: Obtained a listing of all contracts in effect during the fiscal year from management and management's representation that the listing is complete.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
 - If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder).
 - If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.
- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g., Lawrason Act or Home Rule Charter).

Results: We noted no public funds were expended from the account for the payment of contract vendors.

Payroll and Personnel

- 22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:
 - a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
 - b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

Results: Obtained the listing of employees with their related salaries and management's representation that the listing is complete. The compensation paid to the five selected employees was in accordance with the terms and conditions of the employment contract or pay rate structure and any changes made to pay rate during the fiscal year was approved in writing and in accordance with written policy.

- 23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:
 - a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

Results: All of the documentation listed in items a), b), and c) above were present for the 25 employees randomly selected.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

Results: Obtained the listing of employees terminated during the fiscal year and management's representation that the listing is complete. The two largest payments selected were made in accordance with policy.

25. Obtain supporting documentation (e.g., cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Results: The employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Ethics (excluding nonprofits)

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

Results: The Organization is a nonprofit and is excluded.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Results: The Organization is a nonprofit and is excluded.

Debt Service (excluding nonprofits)

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

Results: The Organization is a nonprofit and is excluded.

29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

Results: The Organization is a nonprofit and is excluded.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Results: The Organization is a nonprofit and is excluded.

Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Results: Our inquiry of management regarding misappropriations of public funds or assets identified no such instances of misappropriations.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

Results: The Organization has posted the notice required by R.S. 24:523.1

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

Results: No exceptions regarding management's representations noted.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to perform, and did not perform, an examination or review, the objective of which would be the expression of an opinion or conclusion. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of Lafayette General Health System, Inc. and Subsidiaries and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

The logo for Laforte is written in a cursive, handwritten style. The word "Laforte" is written in a dark grey or black ink, with the letters flowing together in a classic script.

A Professional Accounting Corporation

Metairie, LA
March 21, 2018