LOUISIANA CHILDREN'S MEDICAL CENTER

Consolidated Financial Statements as of and for the Years Ended
December 31, 2018 and 2017,
Schedule of Expenditures of Federal Awards for the Year Ended
December 31, 2018, and
Independent Auditors Reports

LAPORTE
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Contents

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Independent Auditor's Report

To the Governing Board of Trustees
Louisiana Children's Medical Center

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Louisiana Children's Medical Center (the System) which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2018 and 2017, 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.

Emphasis of Matter
The 2017 consolidated financial statements have been restated to correct errors in financial measurements specific to 2017 operations as well as periods prior to 2017. The effects of the restatement are more fully disclosed in Note 23 to the consolidated financial statements. The auditor's opinion, presented above, is not modified with respect to the matter emphasized.

Other Matters

Other Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The supplemental consolidating balance sheets, statements of operations, and statements of changes in net assets as of and for the years ended December 31, 2018 and 2017 are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 30, 2019, on our consideration of the System'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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 System's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
May 30, 2019

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets
December 31, 2018 and 2017 (in Thousands)

	2018	2017 As Restated
Assets		
Current Assets		
Cash and Cash Equivalents	**$ 104,836**	$ 82,315
Assets Limited as to Use	**967**	976
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of $305,678 and $257,731, in 2018 and 2017, Respectively	**210,095**	163,202
Pledges Receivable, Net of Discount	**1,083**	1,020
Other Receivables	**81,293**	88,464
Inventories	**29,359**	27,854
Estimated Third-Party Payor Settlements	**30,978**	21,854
Prepaid Expenses	**55,988**	81,700
Total Current Assets	**514,599**	467,385
Assets Limited as to Use		
Investments Designated for Capital Projects and Specific Programs	**914,781**	1,003,589
Cash Restricted by Bond Indenture, Debt Service Reserve	**56,989**	109,602
Donor-Restricted Long-Term Investments	**10,894**	16,597
Restricted Other	**124**	285
Less: Amount Required for Current Obligations	**(967)**	(976)
Assets Limited as to Use, Net	**981,821**	1,129,097
Pledges Receivable, Net of Discount	**2,938**	2,160
Investments in Joint Ventures	**55,265**	60,360
Long-term Portion of Prepaid Leases	**416,894**	431,388
Property, Plant, and Equipment, Net	**523,903**	407,086
Other Assets	**46,501**	11,810
Total Assets	**$ 2,541,921**	$ 2,509,286

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets (Continued)
December 31, 2018 and 2017 (in Thousands)

	2018	2017 As Restated
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	**$ 157,288**	$ 134,990
Accrued Salaries and Benefits	**45,891**	44,173
Current Maturities of Bonds Payable	**2,840**	2,623
Current Portion of Estimated Employee Health and Workers' Compensation Claims	**9,454**	8,902
Current Portion of Estimated Professional Liabilities Claims	**3,230**	3,234
Current Portion of Contingent Performance Obligation	**-**	6,667
Estimated Third-Party Payor Settlements	**80,952**	60,511
Deferred Revenue	**53**	32
Line of Credit	**100,000**	75,000
Other Current Liabilities	**16,452**	11,178
Total Current Liabilities	**416,160**	347,310
Bonds Payable, Net of Current Portion	**376,482**	378,309
Note Payable	**252,368**	252,247
Estimated Employee Health and Workers' Compensation Claims, Net of Current Portion	**5,291**	5,391
Estimated Professional Liabilities Claims, Net of Current Portion	**18,457**	19,441
Employee Benefits	**16,265**	16,341
Other Long-Term Liabilities	**861**	2
Total Liabilities	**1,085,884**	1,019,041
Noncontrolling Interest	**577**	621
Net Assets		
Without Donor Restrictions	**1,444,231**	1,472,164
With Donor Restrictions		
Purpose Restrictions	**5,324**	9,617
Perpetual in Nature	**5,905**	7,843
Total Net Assets	**1,455,460**	1,489,624
Total Liabilities and Net Assets	**$ 2,541,921**	$ 2,509,286

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Operations
For the Years Ended December 31, 2018 and 2017 (in Thousands)

	2018	2017 As Restated
Unrestricted Revenues, Gains, and Other Support		
Net Patient Service Revenues	**$ 1,549,356**	$ 1,421,723
Provision for Doubtful Accounts	**59,753**	47,755
Net Patient Service Revenues Less Provision for Doubtful Accounts	**1,489,603**	1,373,968
Other Operating Revenues	**118,801**	76,673
Net Assets Released from Restrictions	**9,380**	2,330
Total Operating Revenues	**1,617,784**	1,452,971
Operating Expenses		
Employee Compensation and Benefits	**642,353**	594,559
Purchased Services	**217,925**	187,457
Professional Fees	**208,522**	193,357
Supplies and Other Expenses	**438,093**	392,710
Depreciation and Amortization	**65,915**	52,019
Interest	**19,710**	14,259
Total Operating Expenses	**1,592,518**	1,434,361
Income from Operations	**25,266**	18,610
Investment (Loss) Income	**(46,409)**	126,964
Other Nonoperating Income (Expense)	**5,203**	(2,965)
Community Support, Net	**(12,549)**	(9,638)
(Deficit) Excess of Revenues over Expenses	**$ (28,489)**	$ 132,971

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017 (in Thousands)

	2018	2017 As Restated
Changes in Net Assets Without Donor Restrictions		
Excess of Revenues over Expenses	**$ (28,489)**	$ 132,971
Excess of Revenues over Expenses Attributable to Noncontrolling Interests	**(117)**	(115)
Adjustment to Additional Minimum Pension Liability	**(670)**	3,060
Contribution of Right of Use Designated Equipment	**1,366**	1,383
Ownership Revisions	**(23)**	(9)
(Decrease) Increase in Net Assets Without Donor Restrictions	**(27,933)**	137,290
Changes in Net Assets With Donor Restrictions		
Contributions and Grants	**3,566**	2,830
Investment (Loss) Income	**(417)**	1,492
Net Assets Released from Restriction	**(9,380)**	(2,329)
(Decrease) Increase in Net Assets With Donor Restrictions	**(6,231)**	1,993
(Decrease) Increase in Net Assets	**(34,164)**	139,283
Net Assets, Beginning of Year	**1,489,624**	1,350,341
Net Assets, End of Year	**$ 1,455,460**	$ 1,489,624

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017 (in Thousands)

	2018	2017 As Restated
Cash Flows from Operating Activities		
(Decrease) Increase in Net Assets	$ (34,164)	$ 139,283
Adjustments to Reconcile Increase in Net Assets		
to Net Cash Provided by (Used in) Operating Activities		
Adjustment to Pension Liability	670	(3,060)
Noncontrolling Interest in Income of Consolidated Subsidiaries	117	115
Depreciation and Amortization	65,915	52,019
Depreciation Related to Community Support	714	764
Loss on Extinguishment of Debt	1,205	-
Amortization of Debt Issuance Costs and Premiums, Net	(112)	120
Net Loss on Disposal/Sale of Assets	-	218
Equity in Earnings of Investments in Joint Ventures	(7,538)	(9,478)
Net Realized and Unrealized Investment Loss (Income)	46,548	(125,734)
Provision for Doubtful Accounts	59,753	47,755
Non-Cash Reduction of Contingent Performance Obligation	(6,667)	(6,667)
(Increase) Decrease in:		
Patient Accounts Receivable	(106,646)	(57,658)
Other Receivables	6,330	(1,849)
Inventories	(1,505)	648
Prepaid Expenses	25,712	2,403
Other Assets	(34,691)	(6,345)
Increase (Decrease) in:		
Trade Accounts Payable	20,954	8,734
Accrued Salaries and Benefits	1,718	7,265
Third-Party Payor Settlements	11,317	(70,256)
Deferred Revenue	21	(48,580)
Other Liabilities	4,851	765
Net Cash Provided by (Used in) Operating Activities	54,502	(69,538)
Cash Flows from Investing Activities		
Investment in Joint Venture	(700)	(10,552)
Distributions of Earnings of Investments in Joint Ventures	8,286	5,304
Capital Expenditures	(167,608)	(124,540)
Purchases of Investments	(248,200)	(366,937)
Proceeds from Sales of Investments	348,937	263,827
Net Cash Used in Investing Activities	(59,285)	(232,898)

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2018 and 2017 (in Thousands)

		2018		2017 As Restated
Cash Flows from Financing Activities				
Proceeds from Issuance of Bonds		**202,485**		125,000
Proceeds (Payments) from Line of Credit, Net		**25,000**		(15,000)
Repayments of Bonds Payable		**(202,675)**		(2,520)
Return of Capital from Investment in Subsidiary		**5,047**		-
Payments of Debt Issuance Costs		**(2,392)**		(94)
Distributions Paid to Noncontrolling Interest		**(161)**		(113)
Net Cash Provided by Financing Activities		**27,304**		107,273
Net Increase (Decrease) in Cash and Cash Equivalents		**22,521**		(195,163)
Cash and Cash Equivalents, Beginning of Year		**82,315**		277,478
Cash and Cash Equivalents, End of Year	**$**	**104,836**	$	82,315
Supplemental Disclosures of Cash Flow Information				
Cash Paid for Interest	**$**	**31,171**	$	24,990
Non-Cash Disclosures:				
Property, Plant, and Equipment Purchases in Accounts Payable	**$**	**7,531**	$	8,875

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

Note 1. Organization

Louisiana Children's Medical Center (LCMC) is a Louisiana non-stock, not-for-profit corporation that was incorporated in 2009, with its founding member being Children's Hospital (Children's). Through a Health Care System Agreement between LCMC, Children's and its subsidiaries, Touro Infirmary and its subsidiaries (Touro), and Cooperative Endeavor Agreements (CEAs) with University Medical Center Management Corporation (UMCMC) and West Jefferson Holdings, LLC and its subsidiary (West Jefferson), these parties have determined that together they can provide a multi-hospital, not-for-profit community-based, system that will provide a continuum of care to the families of the Gulf South region. LCMC, Children's, Touro, UMCMC, West Jefferson, LCMC Health Anesthesia Corporation, and LCMC Health Clinical Services, LLC are hereinafter collectively referred to as the System. LCMC functions as the System parent with reserve powers to be exercised to promote the best interests of the System and its affiliates. All corporate powers of the System are vested in the Board of Trustees of LCMC.

Children's is Louisiana's only full-service hospital operated exclusively for children. Children's, together with its affiliate, the Children's Hospital Medical Practice Corporation (CHMPC), are tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the Code). Located in New Orleans, Louisiana, Children's includes a 224-bed medical center providing care for infants, children, and adolescents from birth to 21 years of age. It provides inpatient services in all pediatric, medical, surgical, and psychiatric subspecialties with a staff of more than 440 physicians. Outpatient services are provided in 58 subspecialties.

Children's provides a large array of community benefit and wellness programs including research activities, and special programs for the handicapped and medically underserved. CHMPC was incorporated to manage pediatric physician practices in a high-quality, cost-effective manner. Kids First, a division of CHMPC, provides pediatric care in medically underserved geographical areas.

Touro Infirmary, and its 280 staffed beds, is New Orleans' only community-based, not-for-profit, faith-based hospital. It is exempt from taxation under the Code. Touro Infirmary is the sole member of Woldenberg Village, Inc. (Woldenberg), and Touro Infirmary Foundation, both of which are non-stock, not-for-profit, and tax-exempt corporations. Touro Infirmary is the sole stockholder of Crescent City Physicians, Inc. (CCPI), a for-profit corporation; and holds a majority interest, together with Woldenberg, in TIJV, LLC, a for-profit limited liability company.

Note 1. Organization (Continued)

UMCMC operates as a corporation affiliated with Louisiana State University (LSU) as defined in LA R.S. 17:3390, with a principal purpose of supporting the programs, facilities and research and educational opportunities offered by LSU, and supporting research and educational opportunities, including, without limitation, medical training programs offered by the Administrators of the Tulane Educational Fund (Tulane), including, without limitation, the following: (i) operating University Medical Center in New Orleans (UMC); (ii) operating in a manner consistent with the best practices of private, nonprofit institutions; (iii) being a provider of financial assistance for the uninsured and playing a pivotal role as a statewide referral center for patients in need of tertiary care; (iv) providing medical and allied health training; and, (v) being recognized nationally as a leader in research, training, and excellence in transparent clinical and financial outcomes.

UMCMC, with its vision of being an integrated, world class academic medical center acknowledges that LCMC has the resources and expertise necessary to achieve its vision. LCMC is the sole corporate member of UMCMC. On May 29, 2013, UMCMC and LCMC, entered into an Amended and Restated CEA (UMC CEA) with the Board of Supervisors of LSU, the Louisiana Division of Administration, the State of Louisiana (the State), through its Division of Administration. The objective of the UMC CEA is to maintain the viability of operations and patient care services and programs at UMC, thereby stabilizing and preserving academic medicine in Louisiana.

The UMC CEA was entered into for the public purpose of creating an academic medical center in which the parties continuously work in collaboration and are committed and aligned in their actions and activities, in a manner consistent with a sustainable business model and adequate funding levels, to serve the State and its citizens: (i) as a premier site for graduate medical education, capable of competing in the health care marketplace, comparable among its peers, with the goal of attracting the best faculty, residents and students, to enrich the State's health care workforce and their training experience; (ii) in fulfilling the State's historical mission of assuring access to safety net services to all citizens of the State, including its medically indigent, high risk Medicaid and State inmate populations, and (iii) by focusing on and supporting the core services and key service lines, as defined and agreed by the parties, necessary to assure high quality programs and access to safety net services.

The UMC CEA also provides that UMCMC will enter into academic affiliation agreements with LSU, Tulane, Xavier University, Dillard University, University of New Orleans, Delgado Community College, and other academic institutions to strengthen and enhance opportunities to achieve the State's medical education, clinical care and research goals as part of a collaborative academic medical center (the AMC). UMCMC and LCMC commit to supporting the academic, clinical and research missions of the AMC.

Note 1. Organization (Continued)

The UMC CEA further provides that LSU will lease UMC and certain furniture, fixtures, and equipment used in connection with operating UMC to UMCMC, that LSU and the State will grant to UMCMC a right of use of the land upon which UMC is constructed and operated and certain land improvements surrounding UMC pursuant to a Right of Use agreement, and that UMCMC and LCMC will commit to supporting the academic, clinical and research missions of the AMC, as defined within the UMC CEA.

As prescribed in the UMC CEA, LCMC may withdraw as the sole member of UMCMC, without cause, upon providing sixty days advance written notice. For additional details of this UMC CEA see Note 18.

In November 2014, West Jefferson was formed pursuant to an operating agreement with LCMC being the sole member, having exclusive authority to direct, manage, control, and make all decisions regarding the business and affairs of West Jefferson to act in conjunction with the purposes of LCMC. West Jefferson operates a 435-bed hospital located in Marrero, Louisiana providing general acute care along with clinical and other health care operations at various other locations in the New Orleans metropolitan area.

West Jefferson operates via assets leased to it by Jefferson Parish Hospital District No. 1, Parish of Jefferson, State of Louisiana, d/b/a West Jefferson Medical Center (the District) under the terms of a CEA (WJ CEA) and a Master Hospital Lease. The WJ CEA was entered into on February 26, 2015, by and among LCMC, West Jefferson, and the District in order to maintain the viability of operations and range of patient care services and programs previously provided by the District. West Jefferson began operating the assets leased to it by the District effective October 1, 2015. The terms and conditions of the WJ CEA and the Master Hospital Lease are further described in Note 18.

On September 18, 2016, West Jefferson became the sole member of New Orleans Physician Services, Inc. (NOPS). NOPS is organized and operated exclusively for charitable, educational, and scientific purposes, and for the delivery of healthcare services, including free healthcare services to indigent persons, in Jefferson Parish.

Prior to February 6, 2017, Children's was the sole Member of its affiliate, Children's Hospital Anesthesia Corporation (CHAC), a tax-exempt corporation. CHAC was incorporated to provide high quality, comprehensive anesthesia services. Effective February 6, 2017, LCMC and Children's executed a Member Substitution agreement whereby LCMC became the sole Member of Children's Hospital Anesthesia Corporation (CHAC). This was a common control transaction and had no impact on the assets and liabilities of CHAC. The purpose of the Member substitution was to allow CHAC to become the primary provider of anesthesia services to the hospitals within the System. After the Member substitution, CHAC's name was changed to the LCMC Health Anesthesia Corporation (LHAC).

Note 1. Organization (Continued)

On November 20, 2017, LCMC Health Clinical Services, LLC, (LHCS) was formed by LCMC as its sole Member. LHCS had no activities from its inception through December 31, 2017. LHCS activities began January 1, 2018. The revenues generated at LHCS from unconsolidated affiliates do not support the costs of its operations, and the System records the activities of LHCS in community support, net in the consolidated statements of operations.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the System include the activities of LCMC, Children's, Touro, UMCMC, West Jefferson, LHAC, and LHCS. All significant intercompany transactions have been eliminated in consolidation.

The System also provides management services to New Orleans East Hospital (NOEH) as further described in Note 18. However, the activities of NOEH are not consolidated with the System because NOEH is controlled by another party.

Financial statement preparation follows accounting principles generally accepted in the United States of America (GAAP), which requires the System to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient revenue, which includes contractual allowances, discounts, provisions for bad debts and financial assistance; losses and expenses related to the self-insured workers' compensation, professional liabilities and employee health claims; and risks and assumptions for measurement of pension and other postretirement liabilities. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular facts and circumstances.

Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with a remaining maturity of three months or less when purchased, excluding assets whose use is limited or restricted.

Inventories

Inventory policies are unique to the entities within the System. Inventories are stated at either the lower of first-in, first-out cost, or at its market value at the date of the consolidated balance sheets.

Assets Limited as to Use

Assets whose use is limited primarily include assets held by trustees indenture agreements, investments with donor restrictions, and designated assets set aside by the Board of Trustees (Board) for future capital improvements and commitments, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

These investments are recorded at fair value with changes in fair value recorded in the consolidated statements of operations. Fair value estimates are made at a specific point in time, based on market conditions and information about the investments. These estimates are subjective in nature and involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

The investments in marketable alternative investments are valued by management at their equity in the net assets of the investment, which approximates fair value, utilizing the net asset valuation provided by the underlying investment companies, unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties or redemption restrictions as the System does not intend to sell such investments before the expiration of the early redemption periods.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, except for assets donated to the System. Donated assets are recorded at their estimated fair value at the date of donation.

Note 2. Summary of Significant Accounting Policies (Continued)

Property, Plant, and Equipment (Continued)

Depreciation and amortization, which includes amortization of assets under capital lease and the amortization of prepaid operating leases related to the UMC CEA and WJ CEA, are computed on the straight-line basis over term of the operating leases and the estimated useful lives, or shorter of useful life or lease term for capital leases, as follows:

Land Improvements	10 - 20 Years
Buildings	15 - 40 Years
Leasehold Improvements	3 - 5 Years
Fixed Equipment	10 - 20 Years
Major Moveable Equipment	3 -10 Years

Impairment of Long-Lived Assets

The System reviews its long-lived assets, including property and equipment and other intangibles, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable.

The System determines recoverability of the assets by comparing their carrying amount to the net future undiscounted cash flows that the asset is expected to generate or estimated fair values in the case of nonrevenue generating assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized.

Prepaid Expenses and Other Assets

In accordance with the UMC CEA mentioned in Notes 1 and 18, advance rent payments, in the amount of $253,000,000, were made on the UMC lease. Of this total, $110,000,000 represents a prepayment of a portion of the UMC facility, with the exception of its ambulatory care center and its garage, while $143,000,000 represents all future rent payments for the ambulatory care building and garage. Due to the notes payable, described in Note 10, being directly related to funding the advance rent payments, UMCMC deferred the recognition of interest payments made through August 1, 2015, which is when operations transitioned to the new facility. As described in Note 18, these advance payments and the deferred interest were applied to the annual rental requirements of UMC.

As of December 31, 2018 and 2017, the amounts classified as current were approximately $10,050,000 and are included within prepaid expenses on the consolidated balance sheets. As of December 31, 2018 and 2017, the amounts classified as non-current were approximately $235,783,000 and $245,832,000, respectively.

In accordance with the WJ CEA and the Master Hospital Lease, related to West Jefferson, mentioned in Notes 1 and 18, an advance rent payment in the amount of $200,000,000 was made on September 30, 2015. This advance payment is being applied to the annual rent requirements of West Jefferson over the lease terms.

Note 2. Summary of Significant Accounting Policies (Continued)

Prepaid Expenses and Other Assets (Continued)

As of December 31, 2018 and 2017, the amounts classified as current were approximately $4,444,000 and are included within prepaid expenses and other assets on the consolidated balance sheets. As of December 31, 2018 and 2017, the amounts classified as non-current were approximately $181,111,000 and $185,556,000.

Deferred Financing Costs and Original Issue Premium

Deferred financing costs and original issue premiums are netted with the related debt and are amortized over the period the obligation is outstanding using a method that approximates the interest method.

Deferred financing costs total approximately $5,428,000 and $4,342,000 at December 31, 2018 and 2017, respectively, and are presented net of accumulated amortization. Net deferred financing costs total approximately $3,728,000 and $2,765,000 at December 31, 2018 and 2017, respectively.

Original issue premiums total approximately $20,415,000 and $-0- at December 31, 2018 and 2017, respectively, and are presented net of accumulated amortization. Net original issue premiums total approximately $20,077,000 and $-0- at December 31, 2018 and 2017, respectively.

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

The System records the provisions for estimated medical, professional, and general liability, and workers' compensation claims based upon actual claims incurred, combined with an estimate of claims incurred but not reported. Claims expense is reduced by amounts recoverable through stop-loss insurance purchased by the System. Estimates recorded for these self-insured liabilities incorporate the System's past experience, as well as other considerations including the nature of claims, industry data, relevant trends, and/or the use of actuarial information.

The System follows Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability.

Pension and Other Postretirement Plans

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

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred Revenue
When the System receives payments for providing services in advance of it providing those services, recognition of revenue is deferred until the period in which the services are provided, and all obligations of the System are relieved.

Fair Value of Financial Instruments
The System accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets in this category primarily include listed equities.

Level 2 - Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and for which all significant inputs are observable, either directly or indirectly, as of the measurement date. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swaps.

Level 3 - Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. Financial assets in this category generally include alternative investments.

Derivatives and Financial Instruments
The System uses interest rate swap and basis swap agreements to manage interest costs and the risk associated with changing interest rates. The fair value of these instruments is recorded in other receivables or other current liabilities on an instrument by instrument basis depending on the current value in the consolidated balance sheets. While the System's primary objective for the use of these instruments is to manage its cash flow requirements, unrealized gains and losses in the fair value of such instruments are reflected in investment income or loss in the consolidated statements of operations in accordance with the *Accounting for Derivative Instruments and Hedging Activities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Note 2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenues and Related Receivables

Net patient service revenues and receivables are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. The System provides care to patients even if they lack adequate insurance coverage or are covered by contractual payment arrangements that do not pay full charges. The payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations are based on the inpatient prospective payment system, per diem rates, or discounts from established charges.

Patient accounts receivables are reduced by an allowance for doubtful accounts. In establishing its estimate of collectability of accounts receivable, each entity within the System analyzes its past history and collection patterns of its major payor sources of revenue. These allowances are adjusted monthly for volume and service mix, and annually for rate increases.

For receivables associated with self-pay patients (which includes patients without insurance who are not covered by the financial assistance program of each entity within the System and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a 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 provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted are charged off against the allowance for doubtful accounts.

Advertising Expenses

The System expenses advertising costs as incurred. Advertising expense was approximately $2,887,000 and $3,086,000, for the years ended December 31, 2018 and 2017, respectively.

Grants, Contributions, and Gifts With Donor Restrictions

From time to time, the System receives grants from individuals, private, and public entities. Revenues from grants (including contributions of capital assets) are recognized when all of the eligibility requirements, including time requirements, are met, and when there is reasonable assurance that the grants will be received. Grants may be restricted for either specific operating purposes or for capital purposes. Amounts are recorded as either operating or non-operating revenue based upon their nature.

Note 2. Summary of Significant Accounting Policies (Continued)

Grants, Contributions, and Gifts With Donor Restrictions (Continued)

Unconditional promises to give cash and other assets which are expected to be collected within one year are reported at fair value at the date the promise is received. Contributions that are expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met, or the gift is received. Gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When an externally-imposed restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions.

Certain net assets with donor restrictions have been restricted by donors to be maintained by the System in perpetuity.

Contributions for which the restrictions are met in the same period in which the unconditional promise to give is received are recorded as revenue without donor restrictions in the accompanying consolidated financial statements.

Operating and Nonoperating Activities

The System's primary mission is to meet the healthcare needs in its market area through a broad range of general and specialized healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that are peripheral to the System's primary mission are considered to be nonoperating.

Excess of Revenues over Expenses

Excess of revenues over expenses includes all changes in net assets without donor restrictions except for the effect of changes in accounting principles, net assets released from restrictions used for purchase of property and equipment, change in funded status of pension obligations, change in the non-controlling interests, funds donated from unconsolidated sources for purchases of property and equipment, and the donation of property and equipment from unconsolidated sources.

Note 2. Summary of Significant Accounting Policies (Continued)

Financial Assistance Program

The System provides medical care without charge or at reduced costs to residents of its community through the provision of financial assistance. The System follows ASU 2010-23, *Health Care Entities (Topic 954)*, which requires that costs be used as the measurement basis of financial assistance disclosures and that costs be identified as the direct and indirect costs of providing the financial assistance. The entities within the System each have their own unique policy for determining costs. They either: (1) assign direct costs of their financial assistance program and complement those direct costs with estimates determined from Medicare and Medicaid cost reporting methodologies, or (2) calculate a ratio of costs to usual and customary charges and apply that ratio to the usual and customary uncompensated charges associated with providing care to patients that qualify for financial assistance. The System also follows the new regulation under Section 501(r) as established by the Affordable Care Act, which requires policies for financial assistance, emergency medical care, and billing and collections.

During the years ended December 31, 2018 and 2017, estimated costs associated with providing financial assistance, throughout the System, were approximately $41,342,000 and $35,752,000, respectively.

Newly Adopted Accounting Standard

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profit Entities*, which 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. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017. During the year ended December 31, 2018, the System implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented which did not have a material effect on the consolidated financial statement balances for the years ended December 31, 2018 and 2017.

Pending Accounting Pronouncements

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 provides a single comprehensive principles-based standard for the recognition of revenue through the application of the following processes:

1. Identify the contract(s) with a customer,
2. Identify the performance obligations in the contract,
3. Determine the transaction price,
4. Allocate the transaction price to the performance obligations in the contract, and
5. Recognize revenue when, or as, the entity satisfies a performance obligation.

Note 2. Summary of Significant Accounting Policies (Continued)

Pending Accounting Pronouncements (Continued)

Among other provisions, and in addition to expanded disclosures about the nature, timing, and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures, ASU 2014-09 changes the health care industry specific presentation guidance under ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2014-09 is effective for the System's annual reporting period beginning January 1, 2019. The System may use one of two methods for applying ASU 2014-09: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within the scope of ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined within ASU 2014-09. The System currently anticipates adopting the standard using the retrospective method with the cumulative effect of initially applying ASU 2014-09 recognized as a change in beginning net assets at the date of initial application.

The System is utilizing a comprehensive approach to assess the impact of the guidance on each of its operating segments' revenue streams. Additionally, the System is evaluating the impact of the new guidance on disclosures, as well as the impact on controls to support the recognition. Based on the foregoing, the System does not currently anticipate this standard having a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this topic supersedes Topic 840, *Leases*. The FASB is issuing this update to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 affects any entity that enters into a lease, as defined in the update, with some scope exemptions. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The effective date for the System is the year beginning January 1, 2019. The System is currently calculating the impact the adoption of this guidance will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations. The provisions of ASU 2017-07 are effective for the System starting January 1, 2019, including interim periods within that reporting period. Management notes the impact of adopting these amendments will be to presentation of defined benefits costs only.

Note 2. Summary of Significant Accounting Policies (Continued)

Income Taxes

LCMC, Children's, UMCMC, Touro, LHAC, and certain of their respective subsidiaries are not-for-profit entities under Section 501(c)(3) of the Code and are exempt from federal income taxation. West Jefferson and LHCS are considered disregarded entities for federal and state income tax purposes, with their profits and losses allocated to LCMC.

CCPI, a subsidiary of Touro, is a for-profit entity. The operations of CCPI have resulted in cumulative net operating losses for federal income tax purposes at December 31, 2018 and 2017, of approximately $51,000,000 and $46,000,000, respectively. These net operating loss carryforwards expire in varying amounts beginning in 2018 through 2036. No tax benefits related to these operating losses have been recognized in the accompanying consolidated financial statements.

Accounting for Uncertainty in Taxes

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Penalties and interest assessed by income taxing authorities, if any, would be included in income tax expense.

The System believes that it has appropriate support for any tax positions taken, and management has determined that there are no uncertain tax positions that are material to the financial statements.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format.

Note 3. Net Patient Service Revenues

The majority of the System's net patient service revenues for the years ended December 31, 2018 and 2017, respectively, are earned under agreements with third-party payors. These agreements with third-party payors provide for payments to the various System hospitals at amounts different from their established rates. These third-party payors include: the Medicare and Medicaid programs, health maintenance organizations, and various commercial insurance and preferred provider organizations.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term.

Note 3. Net Patient Service Revenues (Continued)

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

Medicare
Touro, UMCMC, and West Jefferson are reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and are paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, Touro, UMCMC, and West Jefferson are paid prospectively for Medicare inpatient capital costs based on the federal specific rate.

Touro and West Jefferson's Medicare inpatient rehabilitation services are paid through the Inpatient Rehabilitation Facility Prospective Payment. Home health services (where applicable) rendered to Medicare program beneficiaries are reimbursed under a per-episode prospective payment system.

Touro, UMCMC, and West Jefferson outpatient services rendered to Medicare program beneficiaries are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which they are paid a predetermined amount for these procedures.

Children's is reimbursed on a reasonable cost basis subject to a predetermined cost limit. Per diem interim payments are received for inpatient and outpatient services subject to a final cost report settlement.

Touro, UMCMC, and West Jefferson qualify as disproportionate share providers as well as teaching hospitals under Medicare regulations and receive additional payments for Medicare inpatients served. Except for their disproportionate share and medical education reimbursements and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

Medicaid
In the context of healthcare reform, effective February 1, 2012, Louisiana Medicaid introduced Bayou Health (subsequently renamed Healthy Louisiana), a state-wide managed care Medicaid initiative. Medicaid recipients enroll in one of five available Healthy Louisiana plans. The plans are all accountable to the Louisiana Department of Health (LDH) and to the State. There are differences between these plans, including their provider networks, referral policies, health management programs, services and incentives offered to participants. Medicaid recipients can choose which Healthy Louisiana plan to enroll into.

Note 3. Net Patient Service Revenues (Continued)

Medicaid (Continued)

The System's reimbursements from the Healthy Louisiana plans follow the same methodology as Medicaid; that is, LDH's objective is to continue collecting all Medicaid hospital program services and costs through the annual cost report uniformly, whether the service is covered by traditional Medicaid fee for service or a prepaid plan.

Touro, UMCMC, and West Jefferson inpatient services rendered to Medicaid patients are paid on a prospective per diem system. Outpatient services rendered to Medicaid patients are reimbursed under a cost reimbursement methodology subject to certain limitations. Final settlement of outpatient reimbursements is determined after submission of annual cost reports and audits thereof performed by the Medicaid fiscal intermediary.

Children's participates primarily in the Medicaid program as a provider of medical services to program beneficiaries. All inpatient services, with the exception of transplants, are paid on a prospective per diem reimbursement scheme.

Children's, Touro, and West Jefferson outpatient services rendered to Medicaid patients are reimbursed under a cost reimbursement methodology subject to certain limitations. These hospitals are reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof performed by the Medicaid fiscal intermediary.

UMCMC qualifies as a disproportionate share provider in accordance with the State's Medicaid regulations and, as such, is entitled to additional payments. The Medicaid disproportionate share regulations are established by the LDH and are subject to review and approval by the Centers for Medicare and Medicaid Services. The System has included approximately $236,249,000 and $246,055,000 for Medicaid disproportionate share revenues in net patient service revenues, for the years ended December 31, 2018 and 2017, respectively.

Cost Reports

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives.

The System regularly evaluates the adequacy of the recorded settlements and does not anticipate significant adverse adjustments to the recorded settlements for these cost report years. Any changes in the estimated settlements are reported as adjustments to net patient service revenues in the year the final settlements are determined. For the years ended December 31, 2018 and 2017 changes in the estimates resulted in an increase to net patient service revenue of approximately $8,054,000 and $24,399,000, respectively.

Note 3. Net Patient Service Revenues (Continued)

Cost Reports (Continued)
The entities comprising the System have had their cost reports audited through various years, with open years including 2005, and 2009 through 2017.

Graduate Medical Education Supplement Payment
During 2018 and 2017, the System received approximately $8,989,000 and $3,568,000 from the State in the form of a Graduate Medical Education Supplement Payment.

Other Agreements
The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospective determined rates per discharge, discounts from established charges, prospectively determined daily rates and capitated per member per month rates.

Note 4. Assets Limited as to Use

At December 31, 2018 and 2017, assets limited as to use are invested as allowed and consist of the following investment categories (in thousands):

	2018	2017
Cash	**$ 67**	$ 10,390
U.S. Government Securities	**53,748**	106,002
Marketable Equity Securities	**507,981**	605,922
Other Fixed Income Securities	**411,923**	362,813
Mortgage-Backed Securities	**-**	247
Corporate Bonds	**760**	786
State of Israel Bonds	**500**	500
Money Market Funds, Certificates of Deposit, and Commercial Paper	**7,809**	43,413
Total	**$ 982,788**	$ 1,130,073

The System has approximately $8,150,000 in future commitments to current hedge fund managers. Some hedge fund managers have withdrawal restrictions established upon entering their funds which limit an investor's ability to withdraw amounts as a protection for their investments. There also may be fees associated with early withdrawal that generally lapse over defined time periods. These restrictions generally allow for quarterly withdrawals; however, in no case does the withdrawal limitation extend beyond one year.

Note 5. Derivative Instruments

The System entered into derivative instruments consisting of interest rate swap agreements.

At December 31, 2018, the instruments consist of the following:

Trade Date	Maturity	Notional Amount	Hedged Rate	Derivative Rate	Counterparty
August 15, 2005 (amended December 24, 2018)	**January 1, 2023**	**$ 14,785,000**	**6.125%**	**Variable rate: SIFMA Index plus a spread**	**Touro**
April 24, 2015 (amended December 24, 2018)	**October 1, 2023**	**$ 40,500,000**	**3.900%**	**Variable rate : SIFMA Index plus a spread**	**Touro**
April 1, 2014 (amended December 24, 2018)	**October 1, 2023**	**$125,000,000**	**5.65%***	**USD-LIBOR-BBA**	**Children's**
April 1, 2014 (amended December 24, 2018)	**October 1, 2021**	**$128,000,000**	**5.50%**	**USD-LIBOR-BBA**	**Children's**

* From the trade date to but not including October 1, 2019, 5.65%. From and including October 1, 2019 to the maturity date, 5.50%.

At December 31, 2017, the instruments consist of the following:

Trade Date	Maturity	Notional Amount	Hedged Rate	Derivative Rate	Counterparty
August 15, 2005 (and amended December 5, 2016)	January 1, 2019	$ 17,460,000	6.125%	Variable rate based on SIFMA Index	Touro
April 24, 2015 (and amended December 5, 2016)	January 1, 2019	$ 40,500,000	3.900%	Variable rate based on SIFMA Index	Touro
April 1, 2014	October 1, 2019	$ 125,000,000	5.65%	USD-LIBOR-BBA	Children's
April 1, 2014	October 1, 2021	$ 128,000,000	5.50%	USD-LIBOR-BBA	Children's

Interest expense associated with the debt instruments was reduced by the realized gains and interest earnings from the swaps' effectiveness by approximately $10,299,000 and $12,981,000 in 2018 and 2017, respectively. At December 31, 2018 and 2017, certain of these agreements had carrying values (which approximates fair value) in an asset position of approximately $2,040,000 and $3,004,000, respectively, which were recorded in other receivables.

Note 5. Derivative Instruments (Continued)

With respect to the derivative instruments held at December 31, 2018 and 2017, the System's exposure to credit-related losses in the event of nonperformance by counterparties is minimized because the counterparties are international banks with excellent credit ratings.

All derivative instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Exposure to market risk is managed in accordance with risk limits set by the investment committee of the LCMC Board of Trustees and by monitoring performance by investment managers in accordance with specified investment guidelines.

Note 6. Property, Plant, and Equipment

At December 31st, property, plant, and equipment consisted of the following (in thousands):

	2018	2017 As Restated
Land and Land Improvements	**$ 61,934**	$ 61,926
Leasehold Improvements	**1,442**	1,442
Buildings	**382,011**	332,011
Fixed Equipment	**157,064**	157,879
Major Moveable Equipment	**469,052**	347,798
	1,071,503	901,056
Less: Accumulated Depreciation	**(642,018)**	(601,386)
Construction in Progress	**94,418**	107,416
Property, Plant and Equipment, Net	**$ 523,903**	$ 407,086

Depreciation expense on depreciable assets was approximately $52,281,000 and $38,391,000 for the years ended December 31, 2018 and 2017, respectively.

Note 7. Investments in Joint Ventures

In January 2015, Touro Infirmary's subsidiary, CCPI, exchanged consideration of $44,100,000 for a 49% interest in Crescent City Surgical Center (CCSC). CCPI is able to exercise significant influence over the operations of CCSC. As such the investment is accounted for using the equity method. The income earned by CCPI for the years ended December 31, 2018 and 2017 is included within other operating revenues.

During the year ended December 31, 2017, CCPI purchased a 50% interest in Fairway Real Estate for a total capital investment of $9,700,000, which is being accounted for under the equity method.

The System has invested in various other joint ventures through Touro Infirmary and West Jefferson. Summarized financial information for the System's equity investments in its joint ventures for 2018 present (in thousands) equity earnings of $7,538, distributions of $13,333, capital contributions of $700, and total equity at December 31, 2018 of $55,265. For the year ended December 31, 2017, equity earnings were $9,478, distributions of $5,304 and capital contributions of $10,553. The total equity at December 31, 2017 was $60,360.

Note 8. Line of Credit

UMCMC entered into a $100,000,000 revolving line of credit agreement with J.P. Morgan Chase Bank, N.A. The advances bear interest from the borrowing date until they are paid in full, at a variable rate plus a margin, as defined in the agreement. The interest rate at December 31, 2018 and 2017 was 3.30% and 2.36%, respectively. Interest is payable quarterly on the first day of each January, April, July, and October.

In 2018, the agreement was amended to extend the maturity date to December 13, 2019. At December 31, 2018 and 2017, the amounts outstanding on the line of credit were $100,000,000 and $75,000,000, respectively. The line of credit is secured by the pledge of gross revenues from UMCMC and guarantees of LCMC and Children's. The lender to this borrowing has limited to $15,000,000 the amount of new debt that may be incurred by UMCMC without the prior written consent of the lender.

Note 9. Bonds Payable

At December 31st, bonds payable consist of the following tax-exempt revenue and refunding bonds issued by the Louisiana Public Facilities Authority on behalf of Touro and LCMC (in thousands):

	2018	2017
Series 1993 - Touro	**$ 14,785**	$ 17,460
Series 2015 - Touro	**40,500**	40,500
Series 2015A - LCMC	**182,070**	200,000
Series 2017 - LCMC	**125,000**	125,000
	362,355	382,960
Less: Current Maturities	**(2,840)**	(2,623)
Plus: Unamortized Original Issue Premuim	**20,077**	-
Less: Unamortized Original Issue Discount	**(92)**	(111)
Less: Debt Issuance Costs, Net of Amortization	**(3,018)**	(1,917)
Non-Current Portion of Bonds Payable	**$ 376,482**	$ 378,309

In August 1993, Touro entered into a Loan Agreement with the Louisiana Public Facilities Authority (LPFA) in connection with the issuance of revenue refunding bonds for the Touro Infirmary Project Series 1993 (Series 1993 Bonds) which provided funds for (i) refunding prior bonds, (ii) financing the acquisition, construction, installation of certain equipment, furnishings, fixtures, and other facilities at Touro and reimbursement of certain prior capital expenditures, (iii) paying the costs of issuance of the Series 1993 Bonds, and (iv) funding a debt service reserve fund. The loan originated at $59,150,000 and was subsequently reduced through a series of redemptions. The interest rate for the years ended December 31, 2018 and 2017 was 6.125% and will remain fixed at that amount through the date of maturity. Maturity is scheduled for August 15, 2023. Touro has granted a security interest in all of its presently existing and future accounts and revenues, as defined, as security for its obligation under the Loan Agreement. During the years ended December 2018 and 2017, Touro made its regularly scheduled principal payment of $2,675,000 and $2,520,000, respectively.

Note 9. Bonds Payable (Continued)

In April 2015, Touro entered into a Loan Agreement with the LPFA in connection with the LPFA issuing revenue refunding bonds for the Touro Infirmary Project Series 2015 (Series 2015 Bonds). The proceeds of the bond issuance provided $40,500,000, which was used to refund in entirety the balance of the Series 1999 Bonds. The Series 1999 Bonds were issued to provide funds to finance the cost of the construction, furnishing, and equipping of a 120-bed nursing home and a 60-bed assisted living facility at Woldenberg; the addition of a private room floor at the existing hospital campus; and for the funding of routine capital improvements and equipment. The Series 2015 Bonds bear interest at a rate of 3.90% per annum, with principal payments beginning in 2020 through maturity in 2029. Upon request of Touro, at the option of the LPFA, these bonds may be redeemed on or after February 15, 2020, in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest. These obligations are secured by a lien on, assignment of, and security interest in the revenues of Touro, as defined, in parity with the security interest in the revenues designated for the Series 1993 Bonds.

The Series 1993 Bonds and Series 2015 Bonds are general obligations of Touro, and future revenues are pledged to repayment of the bonds. Additionally, as mentioned above, under the terms of the indenture agreement, Touro is required to maintain certain deposits with a trustee. The related debt agreements also place limits on the incurrence of additional borrowings and require that Touro satisfy certain measures of financial performance as long as the bonds are outstanding. In 2018 and 2017, Touro met all measures of financial performance as defined in the loan agreements.

On April 1, 2014, LCMC and Children's entered into a Master Trust Indenture. All obligations under the Master Trust Indenture are the joint and several obligations of LCMC and Children's. These obligations are secured by the general credit of LCMC and Children's together with a lien on the pledged revenues, as defined, of LCMC and Children's. This Master Trust Indenture was amended and supplemented by a seventh supplemental indenture dated August 1, 2018, to facilitate the remarketing of outstanding bonds of LCMC.

Prior to the remarketing of the following Series 2015A Revenue Bonds and the Series 2017 Bonds in 2018, as described further below, the following were applicable as of and for the year ended December 31, 2017.

LCMC entered into a loan agreement with the LPFA relating to the issuance of the LCMC Project Series 2015A Revenue Bonds. The LPFA issued the bonds for LCMC's use for the West Jefferson acquisition. A trust indenture between the LPFA and the Trustee was executed as it relates for the issuance of the bonds, with the trust indenture establishing a trust estate as security for the bonds. Interest was calculated at 70% of the one-month LIBOR Index plus 0.50% (50 basis points) and was variable. The interest rate at December 31, 2017 was 1.47%. LCMC had the right to redeem any or all bonds prior to their maturity date of June 1, 2045, payable at 100% of the principal amount of bonds redeemed plus accrued interest.

Note 9. Bonds Payable (Continued)

On December 1, 2017, under a Trust Indenture, LCMC entered into a loan agreement with the LPFA for $125,000,000 relating to the issuance of the Hospital Revenue Bonds (Louisiana Children's Medical Center Project) Series 2017 (Series 2017 Bonds). The LPFA issued the bonds for LCMC's use for the Children's capital improvements project as defined in the agreement. A trust indenture between the LPFA and the Trustee was executed December 1, 2017, as it relates for the issuance of the bonds. The bonds were secured by the trust estate established under this indenture. Interest was calculated at the one-month LIBOR Index plus 0.75% (75 basis points) and was variable. The interest factor at December 31, 2017 was 2.31%. LCMC had the right to redeem any or all bonds prior to their maturity date of September 1, 2057, payable at 100% of the principal amount of bonds redeemed plus accrued interest.

In 2018, LCMC remarketed the Series 2015A Bonds and Series 2017 Bonds in order to amend the amortization of the bonds and to add one or more interest rate modes to the bonds, including a mix of fixed rate and term rate modes. The remarketing resulted in a reduction of the principal balance of the revenue bonds from $200,000,000 to $182,070,000. The revenue bonds were remarketed into multiple series as presented below. Loan agreements with the LPFA were amended, effective August 1, 2018, for both the Series 2015 and 2017 Bonds. The remarketing was determined to be an extinguishment of the original debt resulting in approximately $1,205,000 of deferred financing costs associated with the debt being charged to expense during the year ended December 31, 2018.

The Series 2015A1 Bonds include Serial Bonds in the amount of $27,515,000 bearing interest at a fixed rate of 5.00%, payable on June 1 and December 1 of each year, beginning December 1, 2018. Principal payments begin June 1, 2036 and continue through maturity on June 1, 2039. The Series 2015A1 Bonds also include Term Bonds that total $52,320,000 that are broken down into increments of $27,320,000 that bear interest at 5% and $25,000,000 that bear interest at 4%. Interest on the Term Bonds is payable on June 1 and December 1 of each year, beginning December 1, 2018. In total, the Series 2015A1 Bonds may be redeemed in whole or in part on or after June 1, 2028 at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest. The Series 2015A1 Term Bonds are subject to scheduled mandatory redemption beginning June 1, 2040 and continuing until final maturity on June 1, 2045.

Note 9. Bonds Payable (Continued)

The Series 2015A2 Bonds, totaling $75,140,000, were remarketed in the Term Rate Mode, with an initial rate of 5.00% under a term that ends on June 1, 2025. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2018. During the initial term rate period, holders of the Series 2015A2 Bonds will not have an option to tender the Bonds for purchase; however, on June 1, 2025, holders will be required to tender the Bonds for purchase by LCMC at a price equal to 100% of the principal amount plus accrued interest. If the Series 2015A2 Bonds are not successfully remarketed into a new Interest Rate Mode then LCMC is obligated to pay the purchase price of the tendered Series 2015A2 Bonds. The Series 2015A2 Bonds are subject to scheduled mandatory redemption beginning June 1, 2036 and continuing until final maturity on June 1, 2045.

The Series 2015A3 Bonds, totaling $27,095,000, were remarketed in the Term Rate Mode, with an initial rate of 5.00% under a term that ends on June 1, 2023. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2018. During the initial term rate period, holders of the Series 2015A3 Bonds will not have an option to tender the Bonds for purchase; however, on June 1, 2023, holders will be required to tender the Bonds for purchase by LCMC at a price equal to 100% of the principal amount plus accrued interest. If the Series 2015A3 Bonds are not successfully remarketed into a new Interest Rate Mode then LCMC is obligated to pay the purchase price of the tendered Series 2015A3 Bonds. The Series 2015A3 Bonds are subject to mandatory redemption beginning June 1, 2036 and continuing until final maturity on June 1, 2045.

The Series 2017 Bonds were remarketed in the Index Rate Mode with the Initial Index Rate Period ending September 1, 2023. The Initial Rate Index is the SIFMA Index plus 0.65% (65 basis points). Interest is payable on the first business day of each month, beginning September 4, 2018. During the initial Index Rate Period, holders will not have an option to tender the Series 2017 Bonds for purchase; however, on September 1, 2023, holders will be required to tender the Series 2017 Bonds for purchase by LCMC at a price equal to 100% of the principal amount plus accrued interest. The Series 2017 Bonds are subject to mandatory sinking fund redemption beginning September 1, 2046 and continuing through final maturity on September 1, 2057.

The Series 2015A and 2017 Bonds are general obligations of LCMC and Children's, and future revenues are pledged to repayment of the bonds. The related debt agreements require that LCMC and Children's satisfy certain measures of financial performance and reporting obligations. LCMC and Children's have met all measures of performance and their obligations.

Note 9. Bonds Payable (Continued)

At December 31, 2018, scheduled repayments of principal and sinking fund installments to retire the bonds are as follows (in thousands):

2019	$	2,840
2020		3,350
2021		4,610
2022		4,860
2023		3,870
2024-2028		29,210
2029-2033		6,545
2034-2038		45,610
2039-2043		92,690
2044-2048		70,320
2049-2053		50,885
2054-2057		47,565
Total	$	362,355

Note 10. Notes Payable

UMCMC entered into a trust indenture with the Bank of New York Mellon Trust Company relating to the issuance of the Series 2014 Notes totaling $253,000,000. The notes were issued in two series: (i) Series 2014-A1 Notes in the principal amount of $125,000,000 and (ii) Series 2014-A2 Notes in the principal amount of $128,000,000. These notes are the general obligations of UMCMC and are secured by the trust estate (described below).

The Series 2014-A1 Notes and 2014-A2 Notes mature on April 1, 2024 and bear interest at a rate of 7.25%. Interest only is payable on these notes on April 1st and October 1st. UMCMC has established a debt service fund for holding funds sufficient to support the debt service on these notes.

As security for payment of these notes, UMCMC pledges and assigns: (i) a security interest in their debt service fund mentioned above, (ii) pledged revenues that includes all receipts, income, rents, royalties, benefits and other revenue from the operation of UMCMC's facilities, exclusive of revenue from donors that have a restriction as to the use of the revenue and exclusive of revenues where applicable law precludes the granting of a security interest in those revenues, and (iii) any and all property of every kind that may be subjected to the lien of the Trust Indenture. Collectively, these three elements define the trust estate.

The Series 2014 Notes are presented net of unamortized debt issuance costs of approximately $633,000 and $753,000 at December 31, 2018 and 2017, respectively.

Note 11. Employee Retirement Plans

Defined Contribution Plans

In 2016, the Louisiana Children's Medical Center Retirement Savings Plan (LCMCRS Plan) was formed by LCMC as a Section 403(b) defined contribution employee benefit plan.

During the course of 2016, the existing plans of Children's, CHMPC, Touro Infirmary, Woldenberg, UMCMC, and West Jefferson were merged into the LCMCRS Plan.

The employees of Children's, CHMPC, Touro Infirmary, Woldenberg, UMCMC, and West Jefferson became participants in the LCMCRS Plan at varying times during 2016, with the employees' deferrals together with any employer contributions being directed to the investment options in the LCMCRS Plan.

Employer contributions for LCMC, Touro Infirmary, UMCMC, West Jefferson, and LHAC are comprised of a contribution of 2% of each eligible employee's compensation, a qualified matching contribution of 50% on an eligible employee's contribution up to 4% of the employee's eligible earnings, and an employer discretionary contribution up to 3% of each participant's compensation. Contributions by these entities during the years ended December 31, 2018 and 2017, were approximately $10,543,000 and $9,682,000, respectively.

Through March 31, 2018, employer contributions for Children's were comprised of a contribution of 3% of each eligible employee's compensation, a qualified matching contribution of 50% on an eligible employee's contribution up to 7% of the employee's eligible earnings, and an employer discretionary contribution up to 3% of each participant's compensation. Beginning April 1, 2018, Children's moved to the System's structure described in the previous paragraph. Contributions by Children's during the years ended December 31, 2018 and 2017, were approximately $3,375,000 and $4,102,000, respectively.

Through March 31, 2018, employer contributions for CHMPC are comprised of a contribution of 1.5% of each eligible employee's compensation, a qualified matching contribution of 50% on an eligible employee's contribution up to 7% of the employee's eligible earnings, and an employer discretionary contribution up to 3% of each participant's compensation. Beginning April 1, 2018, CHMPC moved to the System's structure described above. Contributions by CHMPC during the years ended December 31, 2018 and 2017, were approximately $383,000 and $351,000, respectively.

Eligible employees of Woldenberg who participate may make tax-deferred contributions; however, Woldenberg does not match any portion of the employees contributions nor does it make any discretionary contribution.

CCPI and NOPS sponsor their own 401(k) defined contribution employee benefit plan.

Note 11. Employee Retirement Plans (Continued)

Defined Contribution Plans (Continued)

Employees of CCPI may contribute to the Plan through salary deferrals. CCPI makes qualified matching contributions of 100% of an eligible employee's contribution up to 3% of their eligible earnings, plus 50% of an eligible employee's contribution in excess of 3% of their eligible earnings up to 5% of their eligible earnings. Contributions by CCPI during the years ended December 31, 2018 and 2017, were approximately $856,000 and $648,000, respectively

NOPS employees, too, may contribute to the Plan through salary deferrals. Eligible employees receive a non-elective safe harbor contribution of 3% of their compensation. In addition, NOPS matches 100% of an eligible employee's contribution up to 2% of the employee's eligible earnings. Contributions by NOPS during the year ended December 31, 2018 and 2017 were approximately $547,000 and $493,000, respectively.

Defined Benefit Pension Plan

Through December 31, 2015, Touro Infirmary's defined benefit pension plan (the Plan) covers substantially all full-time employees. The Plan is noncontributory and provides benefits that are based on the participants' years of service and level of compensation. Through December 31, 2015, each participant is entitled to an account balance that grows each year with pay, transition, employer match, and interest credits. Effective January 1, 2016, the Plan was amended to eliminate pay credits and to eliminate the addition of participants. Pay credits shall not be credited with respect to any compensation that is earned after December 31, 2015. Further, an employee who is not a participant in the Plan on December 31, 2015 may not become a participant after December 31, 2015.

Touro's funding policy is based on the minimum and maximum funding standards under the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, as well as the Highway and Transportation Funding Act, as determined by its consulting actuaries.

The System's consolidated financial statements include net periodic pension benefit of approximately $190,000 and cost of approximately $495,000 for the years ended December 31, 2018 and 2017, respectively. Touro made contributions of $800,000 and $1,753,000 during the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the System has included its unfunded liability associated with this plan on its consolidated balance sheets within accrued salaries and benefits. These unfunded liabilities totaled approximately $9,417,000 and $9,738,000, as of December 31, 2018 and 2017, respectively.

Note 11. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

The tables that follow set forth the Plan's components of net periodic pension cost, change in projected benefit obligation, change in plan assets, funded status, and pension expense recognized by Touro Infirmary as of and for the years ended December 31, 2018 and 2017 using the projected unit credit method with salary progression (in thousands).

		2018		2017
Change in Benefit Obligation				
Benefit Obligation at Beginning of Year	**$**	**42,320**	$	43,610
Service Cost		**-**		-
Interest Cost		**1,429**		1,700
Curtailment / Settlement		**-**		-
Actuarial (Gain) Loss		**(3,140)**		(690)
Benefits Paid		**(3,007)**		(2,300)
Benefit Obligation at End of Year		**37,602**		42,320
Change in Plan Assets				
Fair Value of Plan Assets at Beginning of Year		**32,582**		29,556
Actual Return on Plan Assets		**(2,190)**		3,573
Benefits Paid		**(3,007)**		(2,300)
Employer Contributions		**800**		1,753
Fair Value of Plan Assets at End of Year		**28,185**		32,582
Funded Status (Underfunded)	**$**	**(9,417)**	$	(9,738)
Net Periodic Pension Cost				
Service Cost	**$**	**-**	$	-
Interest Cost		**1,429**		1,699
Actuarial Loss (Gain) on Plan Assets		**2,190**		(3,574)
Net Amortization		**(3,809)**		2,370
Net Periodic (Benefit) Cost	**$**	**(190)**	$	495

Included in net assets at December 31st, are the following amounts that have not yet been recognized in net periodic postretirement benefit cost (in thousands):

		2018		2017
Unrecognized Net Actuarial Loss	**$**	**10,231**	$	9,561
Unrecognized Prior Service Cost		**-**		-
Total Accrued Benefit Cost	**$**	**10,231**	$	9,561

Amounts included in net assets at December 31, 2017, that are expected to be amortized into net periodic post-retirement cost during 2018 total approximately a credit of $308,000.

Note 11. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

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

	2018	2017
Discount Rate, Obligation	**4.10%**	3.50%
Discount Rate, Periodic Cost	**3.50%**	4.00%
Expected Return on Plan Assets	**7.00%**	7.00%
Rate of Compensation Increase	**N/A**	N/A
Cash Balance Interest Credit Rate	**3.00%**	4.00%

The defined benefit pension plan asset allocation as of the measurement date (January 1st) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2018	2017	Target Allocation
Domestic Equity	**18.2%**	18.4%	18%
International Equity	**19.9%**	20.0%	20%
Fixed Income	**45.2%**	52.5%	45%
Cash/Short-Term Fixed Income	**9.8%**	2.0%	10%
Liquid Absolute Return	**3.9%**	3.1%	3%
Real Assets	**3.0%**	4.0%	4%

The Plan invests in a diversified mix of traditional asset classes, including equities, government and corporate fixed income debt securities, and cash and cash equivalents. The Plan's overall allocation is based on mean variance optimization modeling using certain assumptions regarding expected return, risk, and correlations among various asset classes. Asset allocation analysis considers various potential outcomes and probabilities of returns given current capital markets assumptions.

Note 11. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

As discussed in Note 2, the System uses a fair value hierarchy for valuation inputs.

The following tables set forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2018 and 2017 (in thousands):

2018	**Level 1**	**Level 2**	**Total**
Domestic Equity	**$ 5,129**	**$ -**	**$ 5,129**
International Equity	**5,593**	**-**	**5,593**
Fixed Income	**8,517**	**4,235**	**12,752**
Cash/Short-Term Fixed Income	**2,755**	**-**	**2,755**
Liquid Absolute Return	**1,099**	**-**	**1,099**
Real Assets	**857**	**-**	**857**
Total	**$ 23,950**	**$ 4,235**	**$ 28,185**

2017	Level 1	Level 2	Total
Domestic Equity	$ 6,004	$ -	$ 6,004
International Equity	6,525	-	6,525
Fixed Income	4,356	12,745	17,101
Cash/Short-Term Fixed Income	654	-	654
Liquid Absolute Return	1,005	-	1,005
Real Assets	1,293	-	1,293
Total	$ 19,837	$ 12,745	$ 32,582

In general, equity securities (both value and growth and active and passive) are utilized to provide expected returns above those of fixed income securities. Fixed income securities are utilized to provide a more stable and less volatile series of returns. The fixed income portfolio contains only securities considered investment grade by maintaining a rating of at least BAA/BBB by Moody's or Standard and Poor's rating agencies.

Professional money managers are delegated the day-to-day responsibility of managing individual portfolios within the context of certain diversification guidelines and to certain performance benchmark standards.

The Plan's investment consultant provides quarterly performance reports to evaluate the achievement of overall return expectations of total investments as well as each manager's contribution, both on the basis of absolute and relative performance standards.

Note 11. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

The Plan's overall asset allocation is reviewed periodically to conform to current market conditions and expectations with regard to overall capital markets assumptions. Historical return patterns and correlations, expected return risk premium, and other multifactor considerations are utilized in the development of overall capital markets assumptions for the purpose of the Plan's asset allocation determinations.

Touro Infirmary expects to make contributions of approximately $780,000 to the defined benefit pension plan in 2019.

At December 31, 2018 and 2017, Touro Infirmary's plan had accumulated benefit obligations of approximately $37,602,000 and $42,320,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2018, are as follows (in thousands):

2019	$ 1,860
2020	1,940
2021	1,800
2022	1,970
2023	2,080
2024 - 2026	9,770
Total	$ 19,420

Executive Benefit Plan

The System sponsors has benefits for both current and former members of senior management. These include supplemental executive retirement plans, deferred compensation plans and an executive employment retention plan, with specific vesting dates, providing the executive with tax deferral opportunities. The liabilities associated with these plans total approximately $850,000 and $2,400,000 at December 31, 2018 and 2017, respectively. These liabilities are presented on the consolidated balance sheets within accrued salaries and benefits and employee benefits. In addition, Children's and LCMC sponsor a 457(b)-investment account that can be utilized by senior management and certain employee medical providers. As of December 31, 2018, and 2017, the System's total liability for these plans is approximately $6,446,000 and $5,888,000, respectively, and is included in accrued salaries and benefits on the consolidated balance sheets. Related assets of approximately $6,446,000 and $5,888,000, at December 31, 2018 and 2017, respectively, are recorded in other assets on the consolidated balance sheets to fully settle these plan liabilities.

Note 12. Concentrations of Credit Risk

Patient accounts receivable are stated at estimated net realizable value. The System grants credit without collateral to its patients, most of who are Gulf South region residents and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors at December 31st, was as follows:

	2018		2017	
Medicare	**28**	**%**	24	%
Medicaid	**26**		29	
Managed Care	**40**		42	
Patients	**5**		3	
Workers' Compensation	**1**		2	
Total	**100**	**%**	100	%

Receivables from government-related programs (i.e., Medicare and Medicaid) represent the only concentrated group of credit risk for the System, and management does not believe that there are any credit risks associated with these government programs. Commercial and managed care receivables consist of receivables from various payors involved in diverse activities and subject to differing economic conditions and do not represent any concentrated credit risks to the System.

The System maintains allowances for uncollectible accounts for estimated losses resulting from a payors inability to make payments on accounts. The System uses a balance sheet approach to value the allowance account based on historical write-offs and the aging of the accounts. Accounts are written off in accordance with internal policies. Management continually monitors and adjusts its allowances associated with its receivables.

The System periodically maintains cash in bank accounts in excess of insured limits. The System has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

Note 13. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for purposes specific to healthcare programs and facilities totaling approximately $5,324,000 at December 31, 2018, and $9,617,000 at December 31, 2017, respectively.

They are also comprised of endowments that are subject to the spending policy of the System totaling approximately $5,905,000 at December 31, 2018, and $7,843,000 at December 31, 2017, respectively.

Note 13. Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The assets whose purpose was met and released totaled approximately $7,380,000 and $2,330,000 for the years ended December 31, 2018 and 2017, respectively. During the year ended December 31, 2018, net assets were also released from restriction when a donor released their endowment restriction of, $2,000,000.

Note 14. Endowment

The State of Louisiana enacted UPMIFA effective August 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. The net assets classified as perpetual in nature have been determined to meet the definition of endowment funds under UPMIFA.

The System holds donor-restricted endowment funds established primarily to fund specified activities for and within the System and the medical community as a whole. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the State of Louisiana's UPMIFA as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the System classifies as net assets with donor restrictions - perpetual in nature (a) the original value of gifts donated as an endowment, (b) the original value of subsequent endowment gifts, and (c) accumulations to the endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual in nature are classified net assets with donor restrictions - purpose restricted until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the System, and (7) the System's investment policies.

Note 14. Endowment (Continued)

Endowment Investment and Spending Policies: The System has adopted investment and spending policies for endowment assets to achieve a disciplined, consistent management philosophy that accommodates reasonable and probable events. Preservation of capital and return on investment are of primary importance. The primary investment objective is to preserve financial assets generated through donor gifts, so that the proceeds may be distributed for the purposes intended by the donors and to the benefit of the System, at a level of risk deemed acceptable by the LCMC investment committee. To satisfy its long-term rate-of-return objectives, the System relies on a strategy outlined by its investment policy statement and includes purchases of bonds, stocks, and cash and cash equivalents.

The System's Endowment Net Asset Composition by fund type as of December 31, 2018, is as follows (in thousands):

	Without	With Donor Restrictions		
	Donor Restrictions	Purpose	Perpetual in Nature	Total
Donor-Restricted Endowment Funds	$ -	$ -	$ 5,905	$ 5,905
Undesignated Funds	-	-	-	-
Total	$ -	$ -	$ 5,905	$ 5,905

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2018, is as follows (in thousands):

	Without	With Donor Restrictions		
	Donor Restrictions	Purpose	Perpetual in Nature	Total
Net Assets, Beginning of Year	$ (120)	$ 142	$ 7,843	$ 7,865
Contributions	-	-	62	62
Investment Return				
Investment Income	-	-	-	-
Net Appreciation (Realized and Unrealized)	-	-	-	-
Total Investment Return	-	-	-	-
Released from Restriction	120	(142)	(2,000)	(2,022)
Appropriation of Endowment Net Assets for Expenditure	-	-	-	-
Net Assets, End of Year	$ -	$ -	$ 5,905	$ 5,905

Note 14. Endowment (Continued)

The System's Endowment Net Asset Composition by fund type as of December 31, 2017, is as follows (in thousands):

	Without	With Donor Restrictions		
	Donor Restrictions	**Purpose**	**Perpetual in Nature**	**Total**
Donor-Restricted Endowment Funds	$ -	$ -	$ 7,843	$ 7,843
Undesignated Funds	(120)	142	-	22
Total	$ (120)	$ 142	$ 7,843	$ 7,865

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2017, is as follows (in thousands):

	Without	With Donor Restrictions		
	Donor Restrictions	**Purpose**	**Perpetual in Nature**	**Total**
Net Assets, Beginning of Year	$ (120)	$ 109	$ 7,837	$ 7,826
Contributions	-	-	6	6
Investment Return				
Investment Income	-	11	-	11
Net Appreciation (Realized and Unrealized)	-	1,110	-	1,110
Total Investment Return	-	1,121	-	1,121
Released from Restriction	-	(109)	-	(109)
Appropriation of Endowment Net Assets for Expenditure	-	(979)	-	(979)
Net Assets, End of Year	$ (120)	$ 142	$ 7,843	$ 7,865

Note 15. Assets Held in Trust

Children's has been named the income beneficiary of a separate trust. Because the assets of the trust are not controlled by Children's and Children's does not have an irrevocable right to receive the income earned on the trust's assets, they are not included in Children's financial statements. The assets had a market value of approximately $4,006,000 and $4,221,000 at December 31, 2018 and 2017, respectively. Distributions of income are made at the discretion of the trustee. For the years ended December 31, 2018 and 2017, Children's recorded contribution income of approximately $141,000 and $142,000, respectively, received from the trust.

Note 16. Functional Expenses

The System provides general health care services, both inpatient and outpatient, to patients in the Gulf South region. For the years ended December 31, 2018 and 2017, expenses related to providing these services are as follows (in thousands):

	Program											
December 31, 2018	**Adult**	**Pediatric**	**Medical Education**	**Physicians Group**	**Senior Care**	**Eliminations**	**Total**	**Management and General**	**Eliminations**	**Total**	**Fundraising**	**Total**
Operating Expenses												
Employee Compensation and Benefits	$ 181,012	$ 97,664	$ 140,284	$ 103,301	$ 8,553	$ (7,431)	$ 523,382	$ 118,934	$ (915)	$ 118,019	$ 954	$ 642,353
Purchased Services	65,599	17,237	9,757	10,688	2,409	-	105,691	248,107	(137,013)	111,094	1,140	217,925
Professional Fees	36,574	42,423	122,046	7,262	57	(12,923)	195,440	12,794	-	12,794	288	208,522
Supplies and Other Expenses	113,452	45,149	211,954	19,264	1,326	(2,262)	388,883	49,808	(1,185)	48,623	587	438,093
Depreciation and Amortization	30,157	13,497	19,302	998	956	(10,697)	54,213	11,604	-	11,604	97	65,915
Interest	-	-	50	-	-	-	50	19,661	-	19,661	-	19,710
	$ 426,794	$ 215,970	$ 503,393	$ 141,513	$ 13,301	$ (33,313)	$1,267,659	$ 460,909	$ (139,113)	$ 321,796	$ 3,066	$1,592,518
Non-operating Expenses												
Community Support	$ 15,765	$ 42,484	$ -	$ -	$ -	$ (45,700)	$ 12,549	$ -	$ -	$ -	$ -	$ 12,549

	Program											
December 31, 2017	Adult	Pediatric	Medical Education	Physicians Group	Senior Care	Eliminations	Total	Management and General	Eliminations	Total	Fundraising	Total
Operating Expenses												
Employee Compensation and Benefits	$ 187,747	$ 90,939	$ 124,563	$ 85,747	$ 8,146	$ (5,567)	$ 491,575	$ 102,771	$ (677)	$ 102,094	$ 888	$ 594,559
Purchased Services	60,687	16,668	6,971	8,929	2,407	-	95,662	199,728	(109,034)	90,694	1,102	187,457
Professional Fees	28,399	37,714	115,370	10,265	42	(10,776)	181,014	12,087	-	12,087	256	193,357
Supplies and Other Expenses	108,230	44,345	184,186	10,004	1,335	(3,090)	345,010	47,575	(417)	47,157	548	392,710
Depreciation and Amortization	23,933	10,705	13,233	903	940	-	49,714	2,213	-	2,213	91	52,019
Interest	-	-	-	-	-	-	-	14,259	-	14,259	-	14,259
	$ 408,996	$ 200,370	$ 444,323	$ 115,848	$ 12,870	$ (19,433)	$1,162,974	$ 378,633	$ (110,128)	$ 268,505	$ 2,885	$1,434,361
Non-operating Expenses												
Community Support	$ 16,354	$ 48,102	$ -	$ -	$ -	$ (54,818)	$ 9,638	$ -	$ -	$ -	$ -	$ 9,638

Note 17. Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short-term nature.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2018, are summarized below (in thousands):

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash	$ 67	$ -	$ -	$ 67
Marketable Equity Securities	444,376	-	-	444,376
Corporate Bonds	-	760	-	760
Other Fixed Income Securities	181,571	-	25,162	206,733
Money Market Funds	7,809	-	-	7,809
State of Israel Bonds	-	500	-	500
Interest Rate and Basis Swaps	-	2,040	-	2,040
Investments Measured at Fair Value	633,823	3,300	25,162	662,285
Investments Measured at NAV (a)				325,112
Total Investments at Fair Value				$ 987,397

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

Note 17. Fair Value of Financial Instruments (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2017, are summarized below (in thousands):

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash	$ 10,390	$ -	$ -	$ 10,390
Marketable Equity Securities	550,753	-	-	550,753
Corporate Bonds	-	786	-	786
Other Fixed Income Securities	185,094	-	13,466	198,560
Mortgage-Backed Securities	-	247	-	247
Money Market Funds	43,413	-	-	43,413
State of Israel Bonds	-	500	-	500
Interest Rate and Basis Swaps	-	3,004	-	3,004
Investments Measured at Fair Value	789,650	4,537	13,466	807,653
Investments Measured at NAV (a)				327,431
Total Investments at Fair Value				$ 1,135,084

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

The changes in investments measured at fair value for which the System has used Level 3 inputs to determine fair value for the year ended December 31, 2018, are as follows (in thousands):

	Level 3 Beginning Balance January 1, 2018	Realized and Unrealized Gains (Losses)	Purchases, Sales, and Settlements	Net Transfers In and/or (Out) of Level 3	Level 3 Ending Balance December 31, 2018
Other Fixed Income Securities	$ 13,466	$ 1,420	$ 16,081	$ (5,805)	$ 25,162

The System's measurements of fair value are made on a recurring basis and their valuation techniques for assets and liabilities recorded at fair value are as follows:

Investments - The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

Interest Rate and Basis Swap Agreements - The fair values of these agreements represent the estimated amount the System would pay to terminate these agreements at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the System.

Note 18. Commitments and Contingencies

The System has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the System's recorded reserves or insurance coverage, and will not materially affect the consolidated financial position, results of operations, changes in net assets, or cash flows of the System.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement so-called 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. A RAC or MIC may reopen an initial determination made on a claim between one and four years from the date of the initial determination when good cause exists.

The System will deduct from revenue amounts assessed under the RAC and MIC audits after the assessment and appeals process is complete until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments against the System 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.

Note 18. Commitments and Contingencies (Continued)

Electronic Health Records (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that adopt and meaningfully use certified EHR technology. These incentive payments are determined based on a formula, including inputs such as charity charges and total discharges. The revenue associated with EHR incentive payments is recognized by the System when management can provide reasonable assurance that the System will be able to demonstrate compliance with the meaningful use objectives for that reporting period and that the incentive payments will be received by the System. Because these incentive payments are based on management's best estimate, the amounts recognized are subject to change. Any changes resulting from a change in estimate would be recognized within operations in the period in which they occur. In addition, these payments and the related attestation of compliance with meaningful use objectives are subject to audit by the federal government or its designee.

For the year ended December 31, 2018 and December 31, 2017, the System recognized approximately $-0- and $521,000, respectively, of revenue related to Medicare incentive payments for EHR. These amounts are included within other operating revenues on the consolidated statements of operations.

Operating UMC

As mentioned in Note 1, UMCMC has assumed responsibility for operating UMC under the terms of a CEA. The UMC CEA has an initial term of five years and will automatically renew for five year terms, unless UMCMC provides at least two hundred seventy days' advance notice of its intent not to renew. The UMC CEA may terminate prior to the expiration of its term under the following conditions: (a) upon the mutual agreement of all parties; (b) there is a change in law that has a material adverse effect on the parties; or (c) expiration of the leases discussed further within this footnote.

Separate and apart from the aforementioned conditions, the UMC CEA also provides that LCMC shall be allowed to withdraw as a member of UMCMC prior to the expiration of the term of the UMC CEA. LCMC may withdraw as a member, without cause, upon providing sixty (60) days advance written notice to LSU; however, LCMC must act in good faith and with full consideration of UMCMC to be financially viable and sustainable, which determination will be made by the LCMC Board of Trustees only after a process that provides an opportunity for consultation and input by LSU and Tulane, as well as other academic partners, provided that the process will not delay or extend the 60 day period.

The UMC CEA became effective May 29, 2013.

Note 18. Commitments and Contingencies (Continued)

Leases with UMC

With regards to the UMC CEA mentioned in Note 1, UMCMC has entered into multiple lease agreements.

Effective May 29, 2013, UMCMC entered into an Amended and Restated Master Hospital Lease Agreement with LSU for the leasing of UMC as later amended. Beginning when the UMCMC took occupancy of UMC, UMCMC is obligated to minimum annual rental payments of approximately $69,410,000.

The term of the UMC lease will be five years which will automatically renew for seven periods of five years each, for a total of thirty-five additional years, unless notice of non-renewal is provided at least 270 days before the end of the then current term. The annual rent payments for leasing UMC is subject to increase annually; however, that increase is limited to no more than 5% than the rent in the previous year. The annual lease payments for UMC will be reviewed and adjusted to the Fair Market Rental Value, as defined, every twenty years.

The Amended and Restated Master Hospital Lease Agreement required UMCMC to make advance lease payments towards the facility rental. Of this total, $110,000,000 is a prepayment of a portion of the future UMC rent payments, excluding UMC's ambulatory care building and its garage. UMCMC will receive an annual credit of approximately $5,500,000 against its rent obligation for UMC, for each of the first twenty years of the UMC lease term. The remaining $143,000,000 represents all future rent payments for UMC's ambulatory care building and its garage. This will be amortized over the forty year term of the UMC lease.

In 2015 and 2016, UMCMC made amendments to the Amended and Restated Master Hospital Lease Agreement which allowed UMCMC to continue to occupy portions of the Interim LSU Hospital facility for the remainder of the lease term at an annual amount of $1,326,000.

These advance payments are included within prepaid expenses on the consolidated balance sheets, as discussed in Note 2. These payments were funded by the Series 2014 Notes mentioned in Note 10.

Payment of rent by UMCMC under the Amended and Restated Master Hospital Lease Agreement is guaranteed by LCMC as long as they are the sole member of UMCMC.

Note 18. Commitments and Contingencies (Continued)

Leases with UMC (Continued)

In relation to the Amended and Restated Master Hospital Lease agreement, UMCMC entered into a Right of Use, Possession and Occupancy agreement whereby UMCMC is granted the right to use and occupy the land and surface improvements for allowing the leased buildings and future buildings and other improvements to be located on the land, together with vehicular and pedestrian access to and from the leased buildings and future improvements, parking and related uses. This agreement commences on the date that the UMC facility lease commences and shall only terminate and expire when the UMC facility lease expires.

Effective May 29, 2013, UMCMC also entered into an Equipment Lease for an initial term of ten years with two separate and successive options to renew for a period of five years. UMCMC is responsible for lost and stolen equipment that is being leased and the cost associated with either replacing that equipment or reimbursing the lessor for the fair market value of that equipment. UMCMC has substantial reporting requirements to the Louisiana Property Assistance Agency and the State's Legislative Auditor under this equipment lease.

Rent expense under the above Amended and Restated Master Lease and Equipment Lease totaled approximately $89,557,000 and $94,131,000 for the years ended December 31, 2018 and 2017, respectively.

In projecting minimum annual lease payments, UMCMC included a growth factor to its annual rents, calculated rent for UMC lease for only the first twenty years of its lease due to the provision of that rent being reviewed and adjusted to the Fair Market Rental Value, and included the application of the advance lease payment mentioned above.

Minimum annual rental payments, as of December 31, 2018 for the above mentioned leases, are as follows (in thousands):

2019	$ 77,860
2020	78,588
2021	71,069
2022	71,540
2023	71,310
Thereafter	824,162
Total	$ 1,194,529

Note 18. Commitments and Contingencies (Continued)

Operating West Jefferson

As mentioned in Note 1, West Jefferson was formed for the purpose of operating assets leased to it by the District under the terms of a CEA and a Master Hospital Lease. The WJ CEA is entered into by West Jefferson, LCMC and the District and shall remain in effect for an initial term of 45 years, with an option to renew for up to two additional 15 year terms.

Terms of the WJ CEA

The WJ CEA provides for a series of transactions between West Jefferson, LCMC and the District (Parties) including:

- The District leasing to West Jefferson substantially all of the hospital real property owned by the District pursuant to the Master Hospital Lease;
- West Jefferson assuming the leases for the hospital real property leased by the District pursuant to the terms and conditions of the WJ CEA;
- West Jefferson assuming responsibility for hospital operations during the term;
- West Jefferson leasing the equipment owned by the District that is used in connection with the facilities pursuant to the Master Hospital Lease;
- LCMC committing that an aggregate of $340,000,000 will be expended for capital expenditures over the 15 year commitment period to support the operations of West Jefferson and the facilities;
- West Jefferson and LCMC committing to supporting the clinical and research missions of the facilities; and
- The Parties entering into such other or additional transactions as they mutually agree may be necessary, referred to as contemplated transactions.

Consideration and Payments

The total consideration to be provided by West Jefferson to the District in connection with the Master Hospital Lease and the contemplated transactions, shall be the sum of:

- $200,000,000 which includes the prepaid rent under the Master Hospital Lease;
- The potential for an additional $20,000,000 of Performance Consideration;
- The assumption of post-closing obligations under the assigned assets;
- The District's right to retain certain cash, the investments and the trustee held funds; and
- The assignment and assumption and allocation between West Jefferson and the District of the Final Working Capital.

The Initial Consideration of $200,000,000 was paid upon closing on September 30, 2015. Also paid upon closing was Specified Working Capital in the amount of $27,224,000. On February 8, 2018, the specified working capital was finalized, resulting in a payment of approximately $157,000 by the District to LCMC.

Note 18. Commitments and Contingencies (Continued)

Operating West Jefferson (Continued)

Consideration and Payments (Continued)
The performance consideration was to be paid to the District for foreseeable steady financial performance of the hospital business, with payments of $6,667,000 per year for each of the first three years of the term with the payment due no later than 90 days following the last day of such performance year. The System's payment may be reduced should the Operating EBIDA, as defined, of West Jefferson be less than 7.5% of the Performance Consideration for that Performance Year. In that event, the Performance Consideration may be offset, at the discretion of West Jefferson, by the Indigent Costs for such Performance Year, up to a maximum offset of $20,000,000 in the aggregate for the first three years of the term of the WJ CEA.

West Jefferson concluded that it had not met the financial performance requirement as outlined above for the performance year ending September 30, 2018 or 2017. As a result, $6,667,000 of the accrued performance consideration has been recognized within other non-operating revenues in the consolidated statements of operations for the years ended December 31, 2018 and 2017, respectively.

Capital Commitments
As mentioned above, LCMC is committed to expending $340,000,000 on capital expenditures. LCMC and West Jefferson covenant that during the term but ending on the 15 year anniversary of the closing date of September 30, 2015, a minimum of $340,000,000 shall be expended for the capital expenditures for the facilities and for other related health care projects. During the term, an aggregate of (a) $95,000,000 shall be expended within the first five years of the commitment period, (b) $210,000,000 aggregate portion shall be expended within first 10 years of the commitment period and (c) the full amount of the commitment funds shall have been expended prior to the expiration of the commitment period. Children's guarantees to the District, to the extent necessary, that LCMC shall have sufficient funds to fulfill its obligations relative to this capital commitment.

Community Benefit Payments
The WJ CEA further requires that West Jefferson make additional payments to the District in the aggregate amount of $3,150,000 for use at the District's discretion for items the District deems beneficial to the community. As of December 31, 2018, these additional amounts had been fully paid.

Note 18. Commitments and Contingencies (Continued)

Other Leases

Rent expense for the System not related to the leases with UMC and West Jefferson, which relates primarily to operating leases for equipment and office space, was approximately $9,265,000 and $8,556,000 for the years ended December 31, 2018 and 2017, respectively. The future minimum rentals under these leases for the next five years range from approximately $3,509,000 to $7,534,000 per year.

Gross rental income earned in the System's operation of medical office buildings in 2018 and 2017, was approximately $9,573,000 and $9,824,000, respectively. The future minimum rental payments to be received by the System on non-cancelable operating lease agreements for the next five years range from approximately $884,000 to $6,186,000 per year.

New Orleans East Hospital (NOEH)

On April 1, 2014, a CEA (NOEH CEA) was entered into between Parish Hospital Service District for Parish of Orleans, Louisiana Children's Medical Center and Touro Infirmary. Louisiana Children's Medical Center and Touro Infirmary are collectively referred to as the Joint Parties throughout the NOEH CEA.

The NOEH CEA provides that the Joint Parties will manage and be responsible for the day-to-day operations of an 80 bed public hospital and emergency department doing business as NOEH. Touro Infirmary will serve in the primary role of managing and being responsible for the day-to-day operations of NOEH and to provide supplemental operational support for NOEH to support and enhance the continuity and viability of NOEH's operations for the citizens of Eastern New Orleans.

Under the NOEH CEA, the Joint Parties are obligated for: (i) employing or contracting with those required to operate NOEH; (ii) providing comprehensive administrative, professional, operational, revenue cycle and financial management of NOEH; (iii) obtaining and maintaining the appropriate licenses, software and hardware and corresponding support services related to those technology systems; and (iv) assisting NOEH in recruiting medical staff. The agreement commenced on the Effective Date, as defined, and will expire June 30, 2029, with an option to renew for up to 10 years.

So long as a mortgage on Parish Hospital Service District for Parish of Orleans's property is insured or held by the Secretary of HUD, the Secretary may make a written request to Parish Hospital Service District for Parish of Orleans and the Joint Parties to terminate the NOEH CEA with or without cause.

Parish Hospital Service District for Parish of Orleans shall pay to the Joint Parties a fee that is comprised of annual management, revenue cycle management, and direct and indirect operating components. Parish Hospital Service District for Parish of Orleans and the Joint Parties have agreed that operating revenues of NOEH, as defined, shall be the only source of funds for paying the fee.

Note 18. Commitments and Contingencies (Continued)

New Orleans East Hospital (NOEH) (Continued)

The Joint Parties may also terminate the NOEH CEA prior to the expiration of its term; should the accumulated and unpaid fees and operational obligations of the Joint Parties reach $12,000,000, the Joint Parties are relieved of performing further their operational obligations.

Through the NOEH CEA, the System has recognized revenue of approximately $2,832,000 and $2,137,000 for the years ended December 31, 2018 and 2017, respectively, which is included within other operating revenues on the System's consolidated statements of operations. At December 31, 2018 and 2017, Parish Hospital Service District for Parish of Orleans owes the System approximately $14,673,000 and $17,000,000, respectively, for both the revenue recognized as well as direct costs incurred by the System on behalf of Parish Hospital Service District for Parish of Orleans. This amount is included within current other receivables on the System's consolidated balance sheets.

Professional and General Liability Insurance

Professional and general liability claims have been asserted against the System and are in various stages of developing. Events occurring through December 31, 2018 may result in the filing of additional claims. The System has a risk management program that provides professional and general liability coverage. Within the program, the System carries an umbrella policy for professional and general liability insurance coverage of $25,000,000 on a claims-made basis, with a self-insured retention of $1,000,000 per claim and $4,500,000 in the aggregate.

Professional liability claims are limited through the System's participation in the Louisiana Patient's Compensation Fund (the Fund). The Fund was established through state legislation and statutorily limits each medical professional liability claim to $500,000. The System is self-insured for the first $100,000 of each claim. The remaining $400,000 of each claim is covered by the Fund.

The System has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying consolidated financial statements. The estimated liability for professional liability claims, which was discounted at 6%, was approximately $21,621,000 and $21,675,000, at December 31, 2018 and 2017, respectively. Undiscounted professional liability claims totaled approximately $27,234,000 and $27,284,000 at December 31, 2018 and 2017, respectively.

Note 18. Commitments and Contingencies (Continued)

Estimated Employee Health and Workers' Compensation Claims

LCMC and its subsidiaries are covered under one health plan. The medical plan is self-insured up to $750,000 for non-domestic claims and fully self-insured for domestic claims. LCMC, Children's, Touro, West Jefferson, and UMCMC are self-insured for workers' compensation claims up to $800,000. NOPS is fully insured for workers' compensation claims.

The System has a risk management program that provides excess coverage for non-domestic employee health claims and both domestic and non-domestic workers' compensation claims on an occurrence basis. The estimated liability for workers' compensation claims, discounted at 6%, was approximately $7,738,000 and $7,517,000 at December 31, 2018 and 2017, respectively. Undiscounted workers' compensation claims totaled approximately $9,488,000 and $9,234,000 at December 31, 2018 and 2017, respectively. The estimated liability for employee health claims was approximately $6,871,000 and $6,776,000 at December 31, 2018 and 2017, respectively. Due to the short-term nature of these employee health claims liabilities, the fair value approximates the carrying value.

Note 19. Community Support

In furtherance of its charitable purpose, the System provides a broad range of community programs that are designed to meet the health needs of the community and are funded and resourced by the System. The System's Governing Board and hospital management teams work closely with local civic leaders and other healthcare providers to address the health care needs of the community.

Such community support programs include health seminars on a variety of health topics that are relevant to the health needs of the community including healthy eating, diabetes management, healthy aging, cancer support and survivorship, sexual abuse awareness, and smoking cessation. Other programs include benefits to the community such as health screenings, in-home caregiver services, counseling for patients and families, pastoral care, health enhancement and wellness programs, telephone information services, and the donation of space for use by community groups. The System also has a robust trauma prevention program including but not limited to, tourniquet training, Sudden Impact (targeting high school students), safety belt programs, and baby carrier programs.

The System provides benefits to Medicaid patients in the form of uncompensated patient care costs. The System also emphasizes the importance of higher education and funds the teaching of students and health professionals through a comprehensive graduate medical education program.

Note 19. Community Support (Continued)

Certain community support programs' revenues and expenses are excluded from operations and are shown, net, as community support on the consolidated statements of operations. This classification is driven by the magnitude of the programs and the knowledge that these programs are solely for the benefit of the community, not self-supporting or financially viable, and not a part of the System's operations. These programs, which are primarily pediatric centered, include the following: Children's Healthcare Assistance Plan (CHAP), Kids First physician practices, Children At Risk Evaluation (CARE) Center, Children's Research Institute, Limited Intervention Program, the Parenting Center, Ventilator Assisted Care Program, Safe Kids Coalition, Greater New Orleans Immunization Network, Ambulatory Clinical and Nutritional Support Services, the Miracle League, Cochlear Implant Program, and Autism Center. CHAP, one of the largest of these programs, is designed to assist families with income too high to qualify for Medicaid, but whose lack of resources limit their access to quality health care. In addition to CHAP, CHMPC increases the accessibility of health care to the indigent and underinsured through its Kids First pediatric primary care physician practices.

The revenues and expenses associated with these programs for the year ended December 31, 2018, are detailed as follows (in thousands):

	2018						
	Research Institute	CHAP	CARE Center	Behavioral Health	LHCS	Other	Total
Patient Revenues	$ -	$ 6,584	$ 2,152	$ 1,824	$ 237	$ 8,297	$ 19,094
Revenue Deductions	-	(6,584)	(1,695)	(1,634)	-	(6,489)	(16,402)
Other Revenues	249	-	329	-	271	1,159	2,008
Total Revenues	249	-	786	190	508	2,967	4,700
Total Expenses	1,430	1,779	2,083	929	1,957	9,071	17,249
Community Support, Net	$ (1,181)	$ (1,779)	$ (1,297)	$ (739)	$ (1,449)	$ (6,104)	$ (12,549)

Note 19. Community Support (Continued)

The revenues and expenses associated with these programs for the year ended December 31, 2017, are detailed as follows (in thousands):

	2017					
	Research Institute	CHAP	CARE Center	Behavioral Health	Other	Total
Patient Revenues	$ -	$ 12,016	$ 975	$ 881	$ 5,894	$ 19,766
Revenue Deductions	-	(12,016)	(715)	(651)	(3,970)	(17,352)
Other Revenues	188	-	298	-	1,305	1,791
Total Revenues	188	-	558	230	3,229	4,205
Total Expenses	1,587	3,097	1,615	928	6,616	13,843
Community Support, Net	$ (1,399)	$ (3,097)	$ (1,057)	$ (698)	$ (3,387)	$ (9,638)

The expenses presented in the tables above, include direct expenses and an allocation of indirect expenses as follows (in thousands):

	2018	2017
Direct Expenses	**$ 12,785**	$ 8,767
Indirect Expenses	**4,464**	5,076
Total Expenses	**$ 17,249**	$ 13,843

Indirect expenses represent estimates of patient care cost and allocated overhead using Medicare cost reporting methodologies.

Note 20. Upper Payment Limit (UPL) Program

The System and other health care providers have collaborated with the State and units of local government in Louisiana to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population.

The provision for this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal UPL. Each state's UPL methodology must comply with its state plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. For the years ended December 31, 2018 and 2017, the System has recognized approximately $153,493,000 and $156,030,000, respectively, under the UPL program classifying it within net patient service revenue on the consolidated statements of operations.

Note 21. Pledges Receivable

Pledges receivable were discounted at the rate of 3.5%. At December 31, 2018, amounts included in pledges receivable were as follows (in thousands):

Pledges Receivable	$	4,439
Less: Discount of Long-Term Pledges		(418)
Total	$	4,021

Amounts due in the years ended December 31,

2019	$	1,083
2020		1,026
2021		1,058
2022		772
2023		500
Thereafter		-
Total	$	4,439

Note 22. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor, or other, restrictions limiting their use, within one year of the balance sheet date, comprise the following (in thousands):

		2018
Cash and Cash Equivalents	$	104,836
Patient Receivables, Net		210,095
Other Receivables		81,293
Total	$	396,224

Donor restricted endowment funds are not available for general expenditure.

The board designated assets that are limited as to their use for capital projects and specific programs in the amount of $914,781, in thousands, could be made available for general expenditure if necessary.

Note 23. Emphasis of a Matter

The 2017 financial statements have been restated to account for errors in measurement that are specific to the 2017 year, as well as to periods prior to 2017. As a result, net assets, as presented in the consolidated statement of changes in net assets, have been restated at the beginning of 2017 reflecting a decrease in net assets of $1,462,915. Further, the consolidated balance sheet at December 31, 2017 was restated through an increase in Property, Plant and Equipment, Net of $274,553 and an increase to Accounts Payable of $2,385,313. The consolidated statement of operations for the year ended December 31, 2017 experienced an increase in Depreciation and Amortization of $71,617 while Supplies and Other Expenses increased by $576,228, resulting in an increase in the Deficit of Revenues over Expenses of $647,845.

Note 24. Subsequent Events

The System has evaluated subsequent events through May 30, 2019 which the financial statements were available to be issued. The System determined that no additional events occurred that require disclosure.

SUPPLEMENTARY INFORMATION

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets
December 31, 2018 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC	LHCS	Eliminations	Consolidated
Assets									
Current Assets									
Cash and Cash Equivalents	$ 7,658	$ 9,850	$ 33,989	$ 46,708	$ 4,898	$ 1,390	$ 343	$ -	$ 104,836
Assets Limited as to Use	-	967	-	-	-	-	-	-	967
Patient Accounts Receivable, Net of Allowance	277	45,014	36,602	83,689	44,435	1,177	223	(1,322)	210,095
Pledges Receivable, Net of Discount	-	-	1,083	-	-	-	-	-	1,083
Other Receivables	2,047	29,004	40,858	1,144	6,862	1,355	23	-	81,293
Inventories	-	5,881	5,556	11,063	6,859	-	-	-	29,359
Estimated Third-Party Payor Settlements	-	-	-	30,978	-	-	-	-	30,978
Prepaid Expenses	7,188	1,906	2,684	36,723	7,376	111	-	-	55,988
Due from Related Parties	51,719	-	21,398	376	-	1,059	174	(74,726)	-
Total Current Assets	68,889	92,622	142,170	210,681	70,430	5,092	763	(76,048)	514,599
Assets Limited as to Use									
Investments Designated for Capital Projects and Specific Programs	-	58,124	856,657	-	-	-	-	-	914,781
Cash Restricted by Bond Indenture, Debt Service Reserve	-	3,242	53,747	-	-	-	-	-	56,989
Donor-Restricted Long-Term Investments	-	8,723	2,171	-	-	-	-	-	10,894
Restricted Other	96	28	-	-	-	-	-	-	124
Less: Amount Required for Current Obligations	-	(967)	-	-	-	-		-	(967)
Assets Limited as to Use, Net	96	69,150	912,575	-	-	-	-	-	981,821
Pledges Receivable, Net	-	-	2,938	-	-	-	-	-	2,938
Investments in Joint Ventures	-	53,884	-	-	1,381	-	-	-	55,265
Long-Term Portion Prepaid Leases	-	-	-	235,783	181,111	-	-	-	416,894
Property, Plant, and Equipment, Net	110,136	138,288	212,775	27,373	35,331	-	-	-	523,903
Due from Related Party	398,244	23,000	217,272	-	-	-	-	(638,516)	-
Other Assets	5,033	2,287	34,647	250	4,034	250	-	-	46,501
Investments in Subsidiaries	1,444,945	-	-	-	-	-	-	(1,444,945)	-
Total Assets	$ 2,027,343	$ 379,231	$ 1,522,377	$ 474,087	$ 292,287	$ 5,342	$ 763	$ (2,159,509)	$ 2,541,921

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets (Continued)
December 31, 2018 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC	LHCS	Eliminations	Consolidated
Liabilities and Net Assets									
Current Liabilities									
Trade Accounts Payable	$ 12,164	$ 17,337	$ 36,740	$ 75,178	$ 16,863	$ 180	$ 148	$ (1,322)	$ 157,288
Accrued Salaries and Benefits	6,088	8,163	10,031	11,491	7,935	2,123	60	-	45,891
Current Maturities of Bonds Payable	-	2,840	-	-	-	-	-	-	2,840
Current Portion of Estimated Employee Health and Workers' Compensation Claims	898	2,409	1,438	2,285	2,292	130	2	-	9,454
Current Portion of Estimated Professional Liabilities Claims	1	1,571	412	689	539	17	1	-	3,230
Estimated Third-Party Payor Settlements	-	4,162	3,950	65,094	7,746	-	-	-	80,952
Due to Related Parties	19,993	11,694	178	39,140	784	2,427	538	(74,754)	-
Deferred Revenue	23	-	-	-	30	-	-	-	53
Line of Credit	-	-	-	100,000	-	-	-	-	100,000
Other Current Liabilities	1,720	3,638	2,319	4,905	3,897	-	-	(27)	16,452
Total Current Liabilities	40,887	51,814	55,068	298,782	40,086	4,877	749	(76,103)	416,160
Bonds Payable, Net of Current Portion	324,790	51,692	-	-	-	-	-	-	376,482
Note Payable	-	-	-	252,368	-	-	-	-	252,368
Estimated Employee Health and Workers' Compensation Claims, Net of Current Portion	14	1,391	882	1,975	878	149	2	-	5,291
Estimated Professional Liability Claims, Net of Current Portion	80	6,382	2,262	4,789	4,616	316	12	-	18,457
Employee Benefits	2,285	9,584	4,396	-	-	-	-	-	16,265
Due to Related Parties	214,098	-	-	153,261	271,102	-	-	(638,461)	-
Other Long-Term Liabilites	858	-	-	-	3	-	-	-	861
Total Liabilities	583,012	120,863	62,608	711,175	316,685	5,342	763	(714,564)	1,085,884
Noncontrolling Interest	-	577	-	-	-	-	-	-	577
Net Assets									
Without Donor Restrictions	1,444,231	248,833	1,457,598	(237,088)	(24,398)	-	-	(1,444,945)	1,444,231
With Donor Restrictions									
Purpose Restrictions	100	3,239	1,985	-	-	-	-	-	5,324
Perpetual in Nature	-	5,719	186	-	-	-	-	-	5,905
Total Net Assets	1,444,331	257,791	1,459,769	(237,088)	(24,398)	-	-	(1,444,945)	1,455,460
Total Liabilities and Net Assets	$ 2,027,343	$ 379,231	$ 1,522,377	$ 474,087	$ 292,287	$ 5,342	$ 763	$ (2,159,509)	$ 2,541,921

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets
December 31, 2017 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC*	Eliminations	Consolidated
Assets								
Current Assets								
Cash and Cash Equivalents	$ 23,271	$ 15,702	$ 26,563	$ 9,310	$ 6,834	$ 635	$ -	$ 82,315
Assets Limited as to Use	-	976	-	-	-	-	-	976
Patient Accounts Receivable, Net of Allowance	263	34,511	25,591	67,439	34,204	1,194	-	163,202
Pledges Receivable, Net of Discount	-	-	1,020	-	-	-	-	1,020
Other Receivables	1,942	33,848	45,075	-	7,522	77	-	88,464
Inventories	-	6,070	5,080	10,518	6,186	-	-	27,854
Estimated Third-Party Payor Settlements	-	-	-	21,854	-	-	-	21,854
Prepaid Expenses	6,094	3,148	2,359	62,463	7,516	120	-	81,700
Due from Related Parties	72,597	3,135	92,459	78	39	2,218	(170,526)	-
Total Current Assets	104,167	97,390	198,147	171,662	62,301	4,244	(170,526)	467,385
Assets Limited as to Use								
Investments Designated for Capital Projects and Specific Programs	-	58,478	945,111	-	-	-	-	1,003,589
Restricted by Bond Indenture, Debt Service Reserve	-	3,210	106,392	-	-	-	-	109,602
Donor-Restricted Long-Term Investments	-	11,980	4,617	-	-	-	-	16,597
Restricted Other	247	38	-	-	-	-	-	285
Less: Amount Required for Current Obligations	-	(976)	-	-	-	-	-	(976)
Assets Limited as to Use, Net	247	72,730	1,056,120	-	-	-	-	1,129,097
Pledges Receivable, Net	-	-	2,160	-	-	-	-	2,160
Investments in Joint Ventures	-	58,663	-	-	1,697	-	-	60,360
Long-Term Portion Prepaid Lease	-	-	-	245,832	185,556	-	-	431,388
Property, Plant, and Equipment, Net	67,680	137,178	151,168	25,222	25,838	-	-	407,086
Due from Related Party	502,700	23,000	235,947	-	-	-	(761,647)	-
Other Assets	1,093	2,513	5,169	250	2,660	125	-	11,810
Investment in Subsidiaries	1,472,878	-	-	-	-	-	(1,472,878)	-
Total Assets	$ 2,148,765	$ 391,474	$ 1,648,711	$ 442,966	$ 278,052	$ 4,369	$ (2,405,051)	$ 2,509,286

*See Note 2 for description of member change for LCMC Health Anesthesia.

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets (Continued)
December 31, 2017 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC*	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Trade Accounts Payable	$ 16,264	$ 16,589	$ 27,710	$ 56,335	$ 17,876	$ 216	$ -	$ 134,990
Accrued Salaries and Benefits	5,896	7,704	9,639	9,181	9,910	1,843	-	44,173
Current Maturities of Bonds Payable	-	2,623	-	-	-	-	-	2,623
Current Portion of Estimated Employee Health and Workers' Compensation Claims	-	2,484	1,708	2,550	2,160	-	-	8,902
Current Portion of Estimated Professional Liabilities Claims	-	1,769	623	606	236	-	-	3,234
Current Portion of Contingent Performance Obligation	-	-	-	-	6,667	-	-	6,667
Estimated Third-Party Payor Settlements, Net	-	3,558	7,717.00	42,609	6,627	-	-	60,511
Due To Related Parties	92,823	123	1,067	70,462	3,920	2,042	(170,437)	-
Deferred Revenue	-	-	-	-	32	-	-	32
Line of Credit	-	-	-	75,000	-	-	-	75,000
Other Current Liabilities	244	4,465	1,928	2,606	2,024	-	(89)	11,178
Total Current Liabilities	115,227	39,315	50,392	259,349	49,452	4,101	(170,526)	347,310
Bonds Payable, Net of Current Portion	323,795	54,514	-	-	-	-	-	378,309
Note Payable	-	-	-	252,247	-	-	-	252,247
Estimated Employee Health and Workers' Compensation Claims, Net of Current Portion	52	1,671	891	2,035	626	116	-	5,391
Estimated Professional Liability Claims, Net of Current Portion	-	7,020	4,005	4,784	3,480	152	-	19,441
Employee Benefits	1,350	10,196	4,795	-	-	-	-	16,341
Due to Related Parties	235,947	-	125,000	162,997	237,703	-	(761,647)	-
Other Long-Term Liabilities	-	-	-	-	2	-	-	2
Total Liabilities	676,371	112,716	185,083	681,412	291,263	4,369	(932,173)	1,019,041
Noncontrolling Interest	-	621	-	-	-	-	-	621
Net Assets								
Without Donor Restrictions	1,472,164	265,524	1,459,011	(238,446)	(13,211)	-	(1,472,878)	1,472,164
With Donor Restrictions								
Purpose Restrictions	230	4,956	4,431	-	-	-	-	9,617
Perpetual in Nature	-	7,657	186	-	-	-	-	7,843
Total Net Assets	1,472,394	278,137	1,463,628	(238,446)	(13,211)	-	(1,472,878)	1,489,624
Total Liabilities and Net Assets	$ 2,148,765	$ 391,474	$ 1,648,711	$ 442,966	$ 278,052	$ 4,369	$ (2,405,051)	$ 2,509,286

*See Note 2 for description of member change for LCMC Health Anesthesia.

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Operations
For the Year Ended December 31, 2018 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC	Eliminations	Consolidated
Unrestricted Revenues, Gains, and Other Support								
Net Patient Service Revenues	$ -	$ 329,759	$ 319,095	$ 628,034	$ 264,841	$ 17,462	$ (9,835)	$ 1,549,356
Provision (Income) for Doubtful Accounts	-	10,299	8,136	37,050	2,597	1,671	-	59,753
Net Patient Service Revenues Less Provision for Doubtful Accounts	-	319,460	310,959	590,984	262,244	15,791	(9,835)	1,489,603
Other Operating Revenues	4,095	21,084	46,289	39,220	10,483	1,527	(3,897)	118,801
Net Assets Released from Restrictions	224	3,701	5,455	-	-	-	-	9,380
Management Fee Revenue	146,257	-	-	-	-	12,437	(158,694)	-
Donation from Affiliate	-	-	-	45,700	-	-	(45,700)	-
Total Operating Revenues	150,576	344,245	362,703	675,904	272,727	29,755	(218,126)	1,617,784
Operating Expenses								
Employee Compensation and Benefits	54,025	157,452	122,225	178,251	110,223	28,523	(8,346)	642,353
Purchased Services	65,997	77,816	52,333	89,294	68,681	817	(137,013)	217,925
Professional Fees	7,461	20,827	44,547	123,701	24,859	50	(12,923)	208,522
Supplies and Other Expenses	12,396	62,504	52,951	243,221	70,103	365	(3,447)	438,093
Depreciation and Amortization	10,697	20,995	14,683	19,302	10,935	-	(10,697)	65,915
Interest Expense (Income)	-	1,365	(9,054)	22,143	5,256	-	-	19,710
Total Operating Expenses	150,576	340,959	277,685	675,912	290,057	29,755	(172,426)	1,592,518
Income (Loss) from Operations	-	3,286	85,018	(8)	(17,330)	-	(45,700)	25,266
Investment (Loss) Income	-	(3,188)	(43,782)	-	561	-	-	(46,409)
Other Nonoperating (Expense) Income	-	(213)	(166)	-	5,582	-	-	5,203
Equity in Earnings of Subsidiaries	(27,933)	-	-	-	-	-	27,933	-
Community Support, Net	-	(15,766)	(42,483)	-	-	-	45,700	(12,549)
Excess (Deficit) of Revenues over Expenses	$ (27,933)	$ (15,881)	$ (1,413)	$ (8)	$ (11,187)	$ -	$ 27,933	$ (28,489)

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Operations
For the Year Ended December 31, 2017 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC*	Eliminations	Consolidated
Unrestricted Revenues, Gains, and Other Support								
Net Patient Service Revenues	$ -	$ 312,262	$ 309,965	$ 547,282	$ 247,969	$ 11,318	$ (7,073)	$ 1,421,723
Provision for Doubtful Accounts	-	8,445	7,055	34,549	(3,245)	951	-	47,755
Net Patient Service Revenues Less Provision for Doubtful Accounts	-	303,817	302,910	512,733	251,214	10,367	(7,073)	1,373,968
Other Operating Revenues	901	25,672	11,055	31,119	12,385	-	(4,459)	76,673
Net Assets Released from Restrictions	-	1,039	1,291	-	-	-	-	2,330
Management Fee Revenue	108,470	-	-	-	-	10,938	(119,408)	-
Donation from Affiliate	-	-	-	54,818	-	-	(54,818)	-
Total Operating Revenues	109,371	330,528	315,256	598,670	263,599	21,305	(185,758)	1,452,971
Operating Expenses								
Employee Compensation and Benefits	42,347	150,817	115,111	158,276	114,002	20,250	(6,244)	594,559
Purchased Services	50,403	65,688	47,454	70,941	61,263	742	(109,034)	187,457
Professional Fees	6,533	18,721	39,574	117,611	21,638	56	(10,776)	193,357
Supplies and Other Expenses	8,709	51,207	51,917	216,027	68,100	257	(3,507)	392,710
Depreciation and Amortization	1,379	18,990	11,998	13,791	7,240	-	(1,379.00)	52,019
Interest	-	1,081	(11,299)	21,965	2,512	-	-	14,259
Total Operating Expenses	109,371	306,504	254,755	598,611	274,755	21,305	(130,940)	1,434,361
Income (Loss) from Operations	-	24,024	60,501	59	(11,156)	-	(54,818)	18,610
Investment (Loss) Income	-	7,755	119,289	-	(80)	-	-	126,964
Other Nonoperating (Expense) Income	-	(1,138)	(219)	(8,275)	6,667	-	-	(2,965)
Equity in Earnings of Subsidiaries	137,291	-	-	-	-	-	(137,291)	-
Community Support, Net	-	(16,354)	(48,102)	-	-	-	54,818	(9,638)
Excess (Deficit) of Revenues over Expenses	$ 137,291	$ 14,287	$ 131,469	$ (8,216)	$ (4,569)	$ -	$ (137,291)	$ 132,971

*See Note 2 for description of member change for LCMC Health Anesthesia.

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Changes in Net Assets
For the Year Ended December 31, 2018 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC	Eliminations	Consolidated
Changes in Net Assets Without Donor Restrictions								
Excess (Deficit) of Revenues over Expenses	$ (27,933)	$ (15,881)	$ (1,413)	$ (8)	$ (11,187)	$ -	$ 27,933	$ (28,489)
Excess of Revenues over Expenses Attributable							-	
to Noncontrolling Interests	-	(117)	-	-	-	-	-	(117)
Adjustment to Additional Minimum Pension Liability	-	(670)	-	-	-	-	-	(670)
Contribution of Right of Use Designated Equipment	-	-	-	1,366	-	-	-	1,366
Ownership Revisions	-	(23)	-	-	-	-	-	(23)
(Decrease) Increase in Net Assets Without Donor Restrictions	(27,933)	(16,691)	(1,413)	1,358	(11,187)	-	27,933	(27,933)
Changes in Net Assets With Donor Restrictions								
Contributions and Grants	94	463	3,009	-	-	-	-	3,566
Investment Loss	-	(417)	-	-	-	-	-	(417)
Net Assets Released from Restriction	(224)	(3,701)	(5,455)	-	-	-	-	(9,380)
(Decrease) Increase in Net Assets With Donor Restrictions	(130)	(3,655)	(2,446)	-	-	-	-	(6,231)
Increase (Decrease) in Net Assets	(28,063)	(20,346)	(3,859)	1,358	(11,187)	-	27,933	(34,164)
Net Assets, Beginning of Year	1,472,394	278,137	1,463,628	(238,446)	(13,211)	-	(1,472,878)	1,489,624
Net Assets, End of Year	$ 1,444,331	$ 257,791	$ 1,459,769	$ (237,088)	$ (24,398)	$ -	$ (1,444,945)	$ 1,455,460

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Statements of Changes in Net Assets
For the Year Ended December 31, 2017 (in Thousands)

	LCMC	Touro	Children's	UMCMC	West Jefferson	LHAC*	Eliminations	Consolidated
Changes in Net Assets Without Donor Restrictions								
Excess (Deficit) of Revenues over Expenses	$ 137,291	$ 14,287	$ 131,469	$ (8,216)	$ (4,569)	$ -	$ (137,291)	$ 132,971
Excess of Revenues over Expenses Attributable to Noncontrolling Interest	-	(115)	-	-	-	-	-	(115)
Adjustment to Additional Minimum Pension Liability	-	3,060	-	-	-	-	-	3,060
Contribution of Right of Use Designated Equipment	-	-	-	1,383	-	-	-	1,383
Ownership Revisions	-	(8)	-	-	-	-	(1)	(9)
(Decrease) Increase in Net Assets Without Donor Restrictions	137,291	17,224	131,469	(6,833)	(4,569)	-	(137,292)	137,290
Changes in Net Assets With Donor Restrictions								
Contributions and Grants	230	429	2,171	-	-	-	-	2,830
Investment Income	-	1,492	-	-	-	-	-	1,492
Net Assets Released from Restriction	-	(1,039)	(1,291)	-	-	-	1	(2,329)
(Decrease) Increase in Net Assets With Donor Restrictions	230	882	880	-	-	-	1	1,993
Increase (Decrease) in Net Assets	137,521	18,106	132,349	(6,833)	(4,569)	-	(137,291)	139,283
Net Assets, Beginning of Year	1,334,873	260,031	1,331,279	(231,613)	(8,642)	-	(1,335,587)	1,350,341
Net Assets, End of Year	$ 1,472,394	$ 278,137	$ 1,463,628	$ (238,446)	$ (13,211)	$ -	$ (1,472,878)	$ 1,489,624

*See Note 2 for description of member change for LCMC Health Anesthesia.

See independent auditor's report.

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INDEPENDENT AUDITOR'S 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*

To the Governing Board of Trustees
Louisiana Children's Medical Center
New Orleans, Louisiana

We have audited, 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, the consolidated financial statements of Louisiana Children's Medical Center (LCMC) (the System), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 30, 2019.

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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 over financial reporting 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 System's consolidated 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 and opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity'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 Louisiana Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
May 30, 2019

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Governing Board of Trustees
Louisiana Children's Medical Center
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program
We have audited Louisiana Children's Medical Center (LCMC) (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2018. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program
In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

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

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

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

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

LaPorte

A Professional Accounting Corporation

Metairie, LA
May 30, 2019

LOUISIANA CHILDREN'S MEDICAL CENTER

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Grantor/Pass-Through Agency Program Title (per CFDA)	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures Recognized: Children's Hospital	Touro Infirmary	UMCMC	West Jefferson	Total	Passed Through to Subrecipients
U.S. Department of Justice								
Through: Louisiana Commission on Law Enforcement								
Crime Victim Assistance	16.575	2016-VA-03-3713	$ 312,720	$ -	$ -	$ -	$ 312,720	$ -
Crime Victim Assistance	16.575	2015-VA-03-2814	51,972	-	-	-	51,972	-
Crime Victim Assistance	16.575	2015-VA-01/02/03/04-4064	-	-	151,093	-	151,093	-
Crime Victim Assistance	16.575	2016-VA-01/02/03/04-4063	-	-	126,237	-	126,237	-
Total U.S. Department of Justice			364,692	-	277,330	-	642,022	-
U.S. Department of Public Safety								
Through: Louisiana Transportation Research Center								
Destination Zero Deaths	20.000	H.012710	-	-	163,009	-	163,009	-
Highway Safety Cluster								
Through: Louisiana Highway Safety Commission								
National Priority Safety Program	20.616	2018-55-10	-	-	156,245	-	156,245	-
State and Community Highway Safety	20.600	2019-55-10	-	-	18,523	-	18,523	-
State and Community Highway Safety	20.600	2018-20-11	-	-	186,523	-	186,523	-
State and Community Highway Safety	20.600		-	-	12,870	-	12,870	-
Total Highway Safety Cluster			-	-	374,161	-	374,161	-
Total U.S. Department of Transportation			-	-	537,170	-	537,170	-
U.S. Department of Education								
Through: Louisiana Department of Education								
Special Education Grants to States	84.027A		158,958	-	-	-	158,958	-
Total U.S. Department of Education			158,958	-	-	-	158,958	-
U.S. Department of Health and Human Services								
Direct Award								
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6 H76HA26800-05-01	-	-	303,368	-	303,368	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6 H76HA26800-06-02	-	-	526,028	-	526,028	-
Through: Louisiana Hospital Association								
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817		-	12,315	-	-	12,315	-
National Bioterrorism Hospital Preparedness Program	93.889		29,729	-	(1,764)	-	27,965	-

LOUISIANA CHILDREN'S MEDICAL CENTER

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures Recognized: Children's Hospital	Touro Infirmary	UMCMC	West Jefferson	Total	Passed Through to Subrecipients
Through: City of New Orleans								
HIV Emergency Relief Project Grants	93.914	K17-617	-	-	468,171	-	468,171	-
HIV Emergency Relief Project Grants	93.914	K18-916	-	-	1,194,306	-	1,194,306	-
Through: Louisiana State University Health Science Center								
Breast and Cervical Health Program	93.896	1 NU58DP006332-01-00 & 5 NU58DP006332-02-00	-	-	14,410	-	14,410	-
Research and Development Cluster								
Through: The University of Texas Health Science Center at Houston								
Blood Disorder Program: Prevention, Surveillance, and Research	93.080	5NU27DD001155-02-00	25,801	-	-	-	25,801	-
Maternal and Child Health Federal Consolidated Programs	93.110	2H30MC24051-06	3,809	-	-	-	3,809	-
Through: Louisiana State University Health Science Center								
Cancer Treatment Research	93.395	5UG1CA189854-04	121,671	-	-	-	121,671	-
Through: Washington University								
Sickle Cell Treatment Demonstration Program	93.365	2U1EMC27865-04-00	40,154	-	-	-	40,154	-
Through: The Research Institute at Nationwide Children's Hospital								
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5UM1DK100866-05	7,971	-	-	-	7,971	-
Through: Louisiana State University Agricultural and Mechanical College								
Biomedical Research and Research Training	93.859	2U54GM104940-02 & 5U54GM104940-03	116,706	-	-	-	116,706	-
Through: Hudson Alpha Institute for Biotechnology								
DNA Sequencing for Newborn Nurseries	93.172	5U01HG007301-06	28,249	-	-	-	28,249	-
Through: University of Kansas Medical Center Research Institute								
Feeding Protocol for Children with Chronic Medical Conditions	93.865	1r01HD93933-01A1	4,599	-	-	-	4,599	-
Total Research and Development Cluster			348,960	-	-	-	348,960	-
Total U.S. Department of Health and Human Services			378,689	12,315	2,504,519	-	2,895,523	-
U.S. Department of Homeland Security:								
Through: State of Louisiana								
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		358,132	-	-	-	358,132	-
Total U.S. Department of Homeland Security			358,132	-	-	-	358,132	-
Total Expenditures of Federal Awards			$ 1,260,471	$ 12,315	$ 3,319,019	$ -	$ 4,591,805	$ -

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Children's Hospital, Touro Infirmary and its Subsidiaries (Touro Infirmary), University Medical Center Medical Corporation (UMCMC) and West Jefferson under programs of the federal government for the year ended December 31, 2018, and is presented on the full accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System.

Note 2. De Minimis Cost Rate

The System has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

LOUISIANA CHILDREN'S MEDICAL CENTER

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Part I - Summary of Auditor's Results

Financial Statement Section

Type of Auditor's Report Issued:	Unmodified
Internal Control over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified not Considered to be Material Weakness?	None Reported
Noncompliance Material to Financial Statements Noted?	No

Federal Awards Section

Internal Control over Major Programs:	
Material weakness(es) identified?	No
Significant Deficiency(ies) Identified not Considered to be Material Weakness?	None Reported
Type of Auditor's Report Issued on Compliance for Major Federal Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance with 2 CFR 200.516(a)?	No

Identification of Major Programs:

Title	CFDA Number
Research and Development Cluster	Multiple
HIV Emergency Relief Project Grants	93.914

Dollar Threshold used to Distinguish between Type A and Type B Programs:	$750,000
Auditee Qualified as Low-Risk Auditee?	Yes

Part II - Schedule of Financial Statement Findings Section

None.

Part III - Federal Awards Findings and Questioned Costs Section

None.

LOUISIANA CHILDREN'S MEDICAL CENTER

Summary Schedule of Prior Year Findings
For the Year Ended December 31, 2018

Part I - Financial Statement Findings

None.

Part II - Federal Award Findings and Questioned Costs

None.

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Independent Auditor's Report on the Supplementary Information

To the Governing Board of Trustees
Louisiana Children's Medical Center

We have audited the consolidated financial statements of Louisiana Children's Medical Center as of and for the years ended December 31, 2018 and 2017, and our report thereon dated May 30, 2019, which expressed an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to May 30, 2019.

The accompanying schedule of compensation, benefits, and other payments to agency head is presented for purposes of additional analysis, as required by Louisiana Revised Statute 24:513 A(3), 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement 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 financial statements as a whole.

LaPorte

A Professional Accounting Corporation

Metairie, LA
May 30, 2019

Agency Head
Gregory C. Feirn, Chief Executive Officer

Purpose	**Amount**
Salary	$0
Benefits - Insurance	$0
Benefits - Retirement	$0
Benefits - Other	$0
Car Allowance	$0
Vehicle Provided by Government	$0
Per Diem	$0
Reimbursements	$0
Travel	$0
Registration Fees	$0
Conference Travel	$0
Continuing Professional Education Fees	$0
Housing	$0
Unvouchered Expenses	$0
Special Meals	$0

***** No compensation, reimbursements, nor benefits were paid to the agency head from public funds.

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AGREED-UPON PROCEDURES REPORT
Louisiana Children's Medical Center

Independent Accountant's Report
On Applying Agreed-Upon Procedures

For the Period January 1, 2018 - December 31, 2018

Governing Board of Trustees
Louisiana Children's Medical Center
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by Louisiana Children's Medical Center (LCMC) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2018 through December 31, 2018. These procedures were performed on LCMC's consolidated entities that individually received $500,000 or more of public funds. These entities were University Medical Center Management Corporation (UMCMC) and Children's Hospital (Children's) for the fiscal period under investigation. UMCMC's and Children's management is responsible for those C/C areas identified in the SAUPSs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. 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.

The procedures and associated results for UMCMC are as follows:

Bank Reconciliations

1. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select four additional accounts (or all accounts if less than five). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

   a) Bank reconciliations include evidence that they were prepared within two months of the related statement closing date (e.g., initialed and dated, electronically logged);

   b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Results: No exceptions noted as a result of performing these procedures.

The procedures and results for Children's are as follows:

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

2. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select five reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the five reimbursements selected:

   a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

   b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

   c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy.

   d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

   Results: No exceptions were noted as a result of performing these procedures.

Payroll and Personnel

3. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select five employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

   Results: No exceptions were noted as a result of performing these procedures.

4. Randomly select one pay period during the fiscal period. For the five employees/officials selected under #3 above, obtain attendance records and leave documentation for the pay period, and:

   a) Observe that 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) Observe that supervisors approved the attendance and leave of the selected employees/officials.

c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Results: No exceptions were noted as a result of performing procedures 4(a) or 4(c). We noted that there was no evidence of supervisor approval for the attendance and leave of one of the five selected employees, which is an exception to procedure 4(b).

5. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulate leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

   Results: No exceptions were noted as a result of performing these procedures.

6. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

   Results: No exceptions were noted as a result of performing these procedures.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. 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.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
July 1, 2019

Children's Hospital
New Orleans
LCMC Health

June 28, 2019

LaPorte, APAC
111 Veterans Boulevard, Suite 600
Metairie, LA 70005

Dear Sirs:

Following are our responses to the exceptions noted in your report on the Louisiana Legislative Auditor's Statewide Agreed Upon Procedures performed for fiscal year ended December 31, 2018.

Payroll and Personnel:
Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

Response:

Payroll and Human Resources will provide additional training to employees through written procedures and face-to-face opportunities to serve as refresher and on-going resources to reinforce the protocols for time approval. Children's Hospital has implemented a practice in which notices will be sent to employees who miss the deadline to sign off on time. Human Resources Manager will complete reoccurring audits to ensure that time cards are being appropriately signed off on.

Sincerely,

Courtney Garrett
Chief Financial Officer
Children's Hospital