

LOUISIANA CHILDREN'S MEDICAL CENTER

Consolidated Financial Statements as of and for the Years Ended
December 31, 2017 and 2016,
Schedule of Expenditures of Federal Awards for the Year Ended
December 31, 2017, and
Independent Auditors Reports



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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, 2017 and 2016, 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, 2017 and 2016, and the results of its operations, changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 25 to the consolidated financial statements, the 2016 consolidated financial statements have been restated to correct misstatements in the liabilities and expenses related to estimated professional liabilities claims. As a result of the restatement, non-current estimated professional liabilities claims were increased by \$734,000, NOPS contribution was decreased by \$677,000, and operating expense was increased by \$57,000, resulting in a decrease of Excess Revenues over Expenses by \$620,000. Our opinion is not modified with respect to this matter.

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, 2017 and 2016 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 23, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over 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.

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

A Professional Accounting Corporation

Metairie, LA
May 23, 2018

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets
December 31, 2017 and 2016 (in Thousands)

	2017	2016 As Restated
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 82,315	\$ 277,478
Assets Limited as to Use	976	988
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of \$265,550 and \$231,697, in 2017 and 2016, Respectively	163,202	153,299
Pledges Receivable, Net of Discount	1,020	575
Other Receivables	51,701	28,877
Inventories	27,854	28,502
Estimated Third-Party Payor Settlements	44,806	10,389
Prepaid Expenses	81,700	83,129
Total Current Assets	453,574	583,237
Assets Limited as to Use		
Investments Designated for Capital Projects and Specific Programs	1,003,589	883,376
Cash Restricted by Bond Indenture, Debt Service Reserve	109,602	3,219
Donor-Restricted Long-Term Investments	16,597	14,215
Restricted Other	285	191
Less: Amount Required for Current Obligations	(976)	(988)
Assets Limited as to Use, Net	1,129,097	900,013
Pledges Receivable, Net of Discount	2,160	1,726
Investments in Joint Ventures	60,360	45,633
Long-term Portion of Prepaid Leases	431,388	445,881
Property, Plant, and Equipment, Net	406,812	313,829
Other Assets	11,810	5,465
Total Assets	\$ 2,495,201	\$ 2,295,784

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets (Continued)
December 31, 2017 and 2016 (in Thousands)

	2017	2016 As Restated
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	\$ 134,489	\$ 118,352
Accrued Salaries and Benefits	44,173	36,908
Current Maturities of Bonds Payable	2,623	2,469
Current Portion of Estimated Employee Health and Workers' Compensation Claims	7,018	5,187
Current Portion of Estimated Professional Liabilities Claims	3,234	4,269
Current Portion of Contingent Performance Obligation	6,667	6,667
Estimated Third-Party Payor Settlements	46,700	60,685
Deferred Revenue	32	48,612
Line of Credit	75,000	90,000
Other Current Liabilities	11,178	15,727
Total Current Liabilities	331,114	388,876
Bonds Payable, Net of Current Portion	378,309	255,968
Note Payable	252,247	252,127
Estimated Employee Health and Workers' Compensation Claims, Net of Current Portion	5,391	4,311
Estimated Professional Liabilities Claims, Net of Current Portion	19,441	15,205
Employee Benefits	16,341	19,611
Other Long-Term Liabilities	2	7,257
Total Liabilities	1,002,845	943,355
Noncontrolling Interest	621	625
Net Assets		
Unrestricted	1,474,275	1,336,337
Temporarily Restricted	9,617	7,630
Permanently Restricted	7,843	7,837
Total Net Assets	1,491,735	1,351,804
Total Liabilities and Net Assets	\$ 2,495,201	\$ 2,295,784

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, 2017 and 2016 (in Thousands)

	2017	2016 As Restated
Unrestricted Revenues, Gains, and Other Support		
Net Patient Service Revenues	\$ 1,421,723	\$ 1,367,122
Provision for Doubtful Accounts	47,755	71,660
Net Patient Service Revenues Less Provision for Doubtful Accounts	1,373,968	1,295,462
Other Operating Revenues	79,003	84,510
Total Operating Revenues	1,452,971	1,379,972
Operating Expenses		
Employee Compensation and Benefits	594,559	542,674
Purchased Services	187,457	178,306
Professional Fees	193,357	169,396
Supplies and Other Expenses	392,134	382,883
Depreciation and Amortization	51,947	51,437
Interest	25,558	22,063
Total Operating Expenses	1,445,012	1,346,759
Income from Operations	7,959	33,213
Investment Income	138,263	52,710
Other Nonoperating (Expense) Income	(2,965)	3,032
Community Support, Net	(9,638)	(12,125)
Excess of Revenues over Expenses	\$ 133,619	\$ 76,830

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, 2017 and 2016 (in Thousands)

	2017	2016 As Restated
Unrestricted Net Assets		
Excess of Revenues over Expenses	\$ 133,619	\$ 76,830
Excess of Revenues over Expenses Attributable to Noncontrolling Interests	(115)	(121)
Adjustment to Additional Minimum Pension Liability	3,060	(2,446)
Contribution of Right of Use Designated Equipment	1,383	-
Ownership Revisions	(9)	(25)
Increase in Unrestricted Net Assets	137,938	74,238
Temporarily Restricted Net Assets		
Contributions and Grants	2,830	1,662
Investment Income	1,486	600
Net Assets Released from Restriction	(2,329)	(1,752)
Increase in Temporarily Restricted Net Assets	1,987	510
Change in Permanently Restricted Net Assets	6	-
Increase in Net Assets	139,931	74,748
Net Assets, Beginning of Year	1,351,804	1,277,056
Net Assets, End of Year	\$ 1,491,735	\$ 1,351,804

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, 2017 and 2016 (in Thousands)

	2017	2016 As Restated
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 139,931	\$ 74,748
Adjustments to Reconcile Increase in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Adjustment to Pension Liability	(3,060)	2,446
Noncontrolling Interest in Income of Consolidated Subsidiaries	115	121
Depreciation and Amortization	51,947	51,437
Depreciation Related to Community Support	764	996
Amortization of Debt Issuance Costs Included in Interest Expense	120	251
Net Loss on Disposal/Sale of Assets	218	491
Equity in Earnings of Investments in Joint Ventures	(9,478)	(3,423)
Net Realized and Unrealized Investment (Income) Loss	(125,734)	(43,287)
Provision for Doubtful Accounts	47,755	71,660
Non-Cash Reduction of Contingent Performance Obligation	(6,667)	(6,667)
(Increase) Decrease in:		
Patient Accounts Receivable	(57,658)	(80,677)
Other Receivables	(23,703)	(7,129)
Inventories	648	1,348
Prepaid Expenses	2,403	(8,390)
Other Assets	(6,345)	3,097
Increase (Decrease) in:		
Trade Accounts Payable	8,158	8,266
Accrued Salaries and Benefits	7,265	5,465
Third-Party Payor Settlements	(48,402)	10,208
Deferred Revenue	(48,580)	(23,183)
Other Liabilities	765	1,134
Net Cash (Used in) Provided by Operating Activities	(69,538)	58,912
Cash Flows from Investing Activities		
Investment in Joint Venture	(10,552)	-
Distributions of Earnings of Investments in Joint Ventures	5,304	3,173
Capital Expenditures	(124,540)	(64,278)
Purchases of Investments	(366,937)	(205,843)
Proceeds from Sales of Investments	263,827	207,380
Net Cash Used in Investing Activities	(232,898)	(59,568)

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, 2017 and 2016 (in Thousands)

	2017	As Restated 2016
Cash Flows from Financing Activities		
Proceeds from Issuance of Bonds	125,000	-
(Payments) Proceeds from Line of Credit, Net	(15,000)	55,490
Repayments of Bonds Payable	(2,520)	(2,375)
Return of Capital from Investment in Subsidiary	-	1,403
Payments of Debt Issuance Costs	(94)	(1,083)
Distributions Paid to Noncontrolling Interest	(113)	(117)
Net Cash Provided by Financing Activities	107,273	53,318
Net (Decrease) Increase in Cash and Cash Equivalents	(195,163)	52,662
Cash and Cash Equivalents, Beginning of Year	277,478	224,816
Cash and Cash Equivalents, End of Year	\$ 82,315	\$ 277,478
Supplemental Disclosures of Cash Flow Information		
Cash Paid for Interest	\$ 24,990	\$ 24,043
<u>Non-Cash Disclosures:</u>		
Property, Plant, and Equipment Purchases in Accounts Payable	\$ 8,875	\$ 1,972

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

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to 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 Infirmiry 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 Infirmiry, 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 Infirmiry is the sole member of Woldenberg Village, Inc. (Woldenberg), and Touro Infirmiry Foundation, both of which are non-stock, not-for-profit, and tax exempt corporations. Touro Infirmiry 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

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 19.

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 19.

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 began doing business under the name of LCMC Health Anesthesia Corporation (LHAC).

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

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, therefore it is not presented in the supplemental consolidating balance sheets, statements of operations, and statements of changes in net assets.

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, and LHAC. 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 19. 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The System's supplemental consolidating balance sheets, statements of operations, and statements of changes in net assets for the year ended December 31, 2017 reflect the operations of LHAC for the eleven months from February 1, 2017 through December 31, 2017 as a component of LCMC. Prior to the member substitution, LHAC was consolidated within the Children's amounts reported in the supplemental consolidating balance sheets, statements of operations, and statements of changes in net assets. Therefore, the supplemental consolidating balance sheets, statements of operations, and statements of changes in net assets for the year ended December 31, 2017 are not comparable to the supplemental consolidating balance sheets, statements of operations, and statements of changes in net assets for the year ended December 31, 2016 in that respect.

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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Use of Estimates (Continued)

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 charity care; 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.

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 restricted by donors, 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.

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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

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
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 19, 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 19, these advance payments and the deferred interest were applied to the annual rental requirements of UMC.

As of December 31, 2017 and 2016, 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, 2017 and 2016, the amounts classified as non-current were approximately \$245,832,000 and \$255,881,000, respectively.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Prepaid Expenses and Other Assets (Continued)

In accordance with the WJ CEA and the Master Hospital Lease, related to West Jefferson, mentioned in Notes 1 and 19, 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.

As of December 31, 2017 and 2016, 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, 2017 and 2016, the amounts classified as non-current were approximately \$185,556,000 and \$190,000,000.

Deferred Financing Costs

Deferred financing costs 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 \$4,342,000 and \$3,922,000 at December 31, 2017 and 2016, respectively, and are presented net of accumulated amortization. Net deferred financing costs total approximately \$2,765,000 and \$2,584,000 at December 31, 2017 and 2016, 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred Revenue

When the System receives payments from the State for UMCMC providing healthcare services to medically indigent and high risk Medicaid patients in advance of UMCMC providing those services, the balance of funds received in excess of services provided is recognized as deferred revenue on the consolidated balance sheets. The System recognizes revenue ratably as services are provided.

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. The fair value of assets limited as to use, pension plan assets, swap agreements and debt are disclosed within their respective notes.

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 are 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).

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.

Note 2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenues and Related Receivables (Continued)

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 \$3,086,000 and \$3,131,000, for the years ended December 31, 2017 and 2016, respectively.

Grants, Contributions, and Donor-Restricted Gifts

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.

The System records contributions in accordance with FASB ASC Topic, *Accounting for Contributions Received and Contributions Made*, which requires the System to distinguish between contributions received for each net asset category in accordance with or without donor-imposed restrictions.

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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When an externally-imposed restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Grants, Contributions, and Donor-Restricted Gifts (Continued)

Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Temporarily restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

In accordance with the Louisiana Uniform Prudent Management of Institutional Funds Act (UPMIFA), permanently restricted gifts are reclassified as either unrestricted or temporarily restricted if (i) the value of the gift does not exceed \$100,000; (ii) twenty or more years have elapsed since the gift was received; and (iii) the purpose of the restriction is unlawful, impracticable, impossible, or wasteful.

Contributions for which the restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue 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. For the years ended December 31, 2017 and 2016, the System reported total other nonoperating income (expenses) of approximately (\$2,965,000) and \$3,032,000, respectively.

Excess of Revenues over Expenses

Excess of revenues over expenses includes all changes in unrestricted net assets 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 cost be identified as the direct and indirect cost 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 cost 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, 2017 and 2016, estimated costs associated with providing financial assistance, throughout the System, were approximately \$35,752,000 and \$84,481,000, respectively.

Recent 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.

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*. The effective date of ASU 2014-09 has been deferred through the issuance of ASU 2015-14. The effective date for the System has been deferred until the year beginning January 1, 2019. The System is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

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, 2020. The System is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, 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 the System in the year beginning January 1, 2018. The System is currently evaluating 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 income statement 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, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on the System's consolidated financial statements.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Income Taxes

LCMC, Children's, UMCMC, Touro, 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 is considered a disregarded entity for federal and state income tax purposes. West Jefferson's profits and losses are 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, 2017 and 2016, of approximately \$46,000,000 and \$43,782,000, 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format.

Subsequent Events

The System has evaluated subsequent events occurring between December 31, 2017 and May 23, 2018, the date the financial statements were available to be issued. See Note 27.

Note 3. Net Patient Service Revenues

The majority of the System's net patient service revenues for the years ended December 31, 2017 and 2016, 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.

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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 3. Net Patient Service Revenues (Continued)

Medicare (Continued)

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.

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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 3. Net Patient Service Revenues (Continued)

Medicaid (Continued)

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 \$246,055,000 and \$262,176,000 for Medicaid disproportionate share revenues in net patient service revenues, for the years ended December 31, 2017 and 2016, 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 difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

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, 2017 and 2016 changes in the estimates resulted in an increase to net patient service revenue of approximately \$24,399,000 and \$2,115,000, respectively.

The entities comprising the System have had their cost reports audited through various years, with open years including 2005, and 2009 through 2015.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 3. Net Patient Service Revenues (Continued)

Graduate Medical Education Supplement Payment

During 2017 and 2016, the System received approximately \$3,568,000 and \$5,123,000 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, 2017 and 2016, assets limited as to use are invested as allowed and consist of the following investment categories (in thousands):

	2017	2016
Cash	\$ 10,390	\$ -
U.S. Government Securities	106,002	27,187
Marketable Equity Securities	605,922	534,311
Other Fixed Income Securities	362,813	312,706
Mortgage-Backed Securities	247	1,001
Corporate Bonds	786	-
State of Israel Bonds	500	500
Money Market Funds, Certificates of Deposit, and Commercial Paper	43,413	25,296
Total	\$ 1,130,073	\$ 901,001

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 significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 4. Assets Limited as to Use (Continued)

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.

The System has approximately \$21,600,000 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.

Investment income at December 31, 2017 and 2016, including both unrestricted and restricted activity, comprises the following (in thousands):

	2017	2016
Interest Income	\$ 11,299	\$ 12,817
Change in Value of Interest Rate Swaps	3,043	(3,236)
Investment Income Reinvested		
Interest and Dividend Income	16,837	13,142
Investment fees	(1,458)	(1,480)
Realized Gains (Losses) on Securities	7,600	(8,578)
Unrealized Gains on Securities	100,942	40,045
Unrestricted investment income	\$ 138,263	\$ 52,710
Investment Income Reinvested		
Investment Fees	\$ (10)	\$ (11)
Realized Gains (Losses) on Securities	76	(92)
Unrealized Gains on Securities	1,420	703
Temporarily Restricted Investment Income	\$ 1,486	\$ 600

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 5. Derivative Instruments

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

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
4/24/2015 (and amended December 5, 2016)	January 1, 2019	\$ 40,500,000	3.900%	Variable rate based on SIFMA Index	Touro
April 1, 2014	April 1, 2024	\$ 125,000,000	5.65%	USD-LIBOR-BBA	Children's
April 1, 2014	April 1, 2024	\$ 128,000,000	5.50%	USD-LIBOR-BBA	Children's

At December 31, 2016, 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	\$ 19,980,000	6.125%	Variable rate based on SIFMA Index	Touro
4/24/2015 (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 \$1,682,000 and \$2,193,000 in 2017 and 2016, respectively. At December 31, 2017 and 2016, certain of these agreements had carrying values (which approximates fair value) in an asset position of approximately \$3,004,000 and \$628,000, respectively, which were recorded in other receivables. At December 31, 2016, certain of these agreements had a carrying value in a liability position of \$159,000.

With respect to the derivative instruments held at December 31, 2017 and 2016, 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 6. Property, Plant, and Equipment

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

	2017	2016
Land and Land Improvements	\$ 61,926	\$ 61,573
Leasehold Improvements	1,442	1,348
Buildings	332,011	336,694
Fixed Equipment	157,879	155,577
Major Moveable Equipment	347,524	319,209
	<u>900,782</u>	<u>874,401</u>
Less: Accumulated Depreciation	(601,386)	(591,579)
Construction in Progress	107,416	31,007
	<u>107,416</u>	<u>31,007</u>
Property, Plant and Equipment, Net	<u>\$ 406,812</u>	<u>\$ 313,829</u>

Depreciation expense on depreciable assets was approximately \$38,319,000 and \$37,939,000 for the years ended December 31, 2017 and 2016, 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, 2017 is included within other operating revenues.

Pertinent financial information for CCSC as of December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Balance Sheet		
Assets	<u>\$ 32,436</u>	<u>\$ 12,864</u>
Liabilities	\$ 18,937	\$ 9,130
Equity	<u>13,499</u>	<u>3,734</u>
	<u>\$ 32,436</u>	<u>\$ 12,864</u>
Income Statement		
Revenues	\$ 55,177	\$ 31,003
Expenses	<u>34,865</u>	<u>24,529</u>
Net Income	20,312	6,474
	49%	49%
CCPI's Share of Net Income	<u>\$ 9,953</u>	<u>\$ 3,172</u>

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 7. Investments in Joint Ventures (Continued)

For its year ended December 31, 2016, CCSC's EBITDA did not exceed \$13,000,000, thus relieving CCPI of any obligation to exchange additional consideration up to \$3,062,500. Obligations under this agreement expired after December 31, 2016.

During the year ended December 31, 2017, CCPI invested in other joint ventures. One with 10% interest with a capital investment of approximately \$400,000 that is being accounted for under the cost method. The second venture presents CCPI with a 50% interest after a total capital investment of \$9,700,000, which is being accounted for under the equity method.

The results of operations and the financial information of these two joint ventures as of and for the year ended December 31, 2017, is considered immaterial to the financial statements as a whole and is not presented in these footnotes.

Note 8. Line of Credit

On June 15, 2015, UMCMC entered into a \$50,000,000 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, 2017 and 2016 was 2.36% and 1.55%, respectively.

In 2016, the agreement was amended to increase the maximum amount of the revolving line of credit to \$100,000,000. In 2017, the agreement was amended to extend the maturity date to December 14, 2018. At December 31, 2017 and 2016, the amounts outstanding on the line of credit were \$75,000,000 and \$90,000,000, 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

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 taxable revenue bonds also issued by the Louisiana Public Facilities Authority on behalf of LCMC (in thousands):

	2017	2016
Series 1993 - Touro	\$ 17,460	\$ 19,980
Series 2015 - Touro	40,500	40,500
Series 2015A - LCMC	200,000	200,000
Series 2017 - LCMC	125,000	-
	<u>382,960</u>	260,480
Less: Current Maturities	(2,675)	(2,520)
Less: Unamortized Original Issue Discount	(111)	(129)
Less: Debt Issuance Costs, Net of Amortization	<u>(1,865)</u>	(1,863)
Non-Current Portion of Bonds Payable	<u>\$ 378,309</u>	<u>\$ 255,968</u>

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, 2017 and 2016 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 2017 and 2016, Touro made its regularly scheduled principal payment of \$2,520,000 and \$2,375,000, respectively.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

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 Infirmity 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 mature on August 15, 2029, and bear interest at the rate of 3.900% per annum. 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.

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.

On June 1, 2015, under the Master Trust Indenture, LCMC entered into a loan agreement with the LPFA for \$225,000,000 relating to the issuance of the LCMC Project Series 2015A Taxable Revenue Bonds. LCMC redeemed \$25,000,000 of the issuance during the year ended December 31, 2015. The LPFA issued the bonds for LCMC's use for the West Jefferson acquisition. LCMC makes payments to the Bank of New York (Trustee), for the account of the LPFA, on each bond payment date in an amount equal to the debt service on the bonds due on such bond payment date and shall make additional loan payments as shall be required to cause the amount on deposit equal to the reserve fund requirement, if any. A trust indenture between LPFA and the Trustee was executed June 1, 2015, as it relates for the issuance of the bonds. The bonds are secured by the trust estate established under this indenture. The bonds mature on June 1, 2045. Interest is calculated at 70% of the one-month LIBOR Index plus 0.50% (50 basis points) and is variable. The interest rate at December 31, 2017 and 2016 was 1.47% and 0.94%, respectively. LCMC has the right to redeem any or all bonds prior to their maturity date, payable at 100% of the principal amount of bonds redeemed plus accrued interest.

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Notes to Consolidated Financial Statements

Note 9. Bonds Payable (Continued)

On December 1, 2017, under the Master 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. LCMC shall make payments to the Bank of New York (Trustee), for the account of the LPFA, on each bond payment date in an amount equal to the debt service on the bonds due on such bond payment date and shall make additional loan payments as required to cause the amount on deposit equal to the reserve fund requirement, if any. A trust indenture between LPFA and the Trustee was executed December 1, 2017, as it relates for the issuance of the bonds. The bonds are secured by the trust estate established under this indenture. The bonds mature on September 1, 2057. Interest is initially calculated at the one-month LIBOR Index plus 0.75% (75 basis points) and is variable. The interest factor at December 31, 2017 was 2.31%. LCMC has the right to redeem any or all bonds prior to their maturity date, payable at 100% of the principal amount of bonds redeemed plus accrued interest.

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 2017 and 2016, Touro met all measures of financial performance as defined in the loan agreements.

The Series 2015A Bonds and Series 2017 Bonds are general obligations of LCMC and Children's, and future revenues are pledged to repayment of the bonds. Additionally, as mentioned above, under the terms of the indenture agreement, LCMC is required to maintain certain deposits with a trustee. The related debt agreements also place limits on the incurrence of additional borrowings.

At December 31, 2017, scheduled repayments of principal and sinking fund installments to retire the bonds are as follows (in thousands):

2018	\$	2,675
2019		2,840
2020		3,350
2021		4,610
2022		4,860
Thereafter		<u>364,625</u>
Total	\$	<u>382,960</u>

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Notes to Consolidated Financial Statements

Note 10. Notes Payable

On June 3, 2013, UMCMC entered into a trust indenture with the Bank of New York Mellon Trust Company relating to the issuance of the Series 2013 Notes \$253,000,000 with a variable interest rate payable commencing July 1, 2013. In order to induce the purchase of these notes, a Guaranty Agreement was established with Children's Hospital, named as the Guarantor of the Series 2013 Notes. The Series 2013 Notes were scheduled to mature April 1, 2014.

Pursuant to a new trust indenture dated April 2, 2014, UMCMC authorized the issuance of \$253,000,000 aggregate principal amount of notes. 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 issuance of the 2014-A1 Notes and 2014-A2 Notes, together with the payment of interest accrued on its Series 2013 Notes, canceled any and all obligations of the Series 2013 Notes.

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 1 and October 1, beginning October 1, 2014. 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.

Notes are presented net of amortized debt issuance costs of approximately \$753,000 and \$873,000 at December 31, 2017 and 2016, 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.

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Notes to Consolidated Financial Statements

Note 11. Employee Retirement Plans (Continued)

Defined Contribution Plans (Continued)

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, 2017 and 2016, were approximately \$9,682,000 and \$7,421,000, respectively.

Employer contributions for Children's are 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. Contributions by Children's during the years ended December 31, 2017 and 2016, were approximately \$4,102,000 and \$3,823,000, respectively.

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. Contributions by CHMPC during the years ended December 31, 2017 and 2016, were approximately \$351,000 each year.

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 additional non-discretionary contribution.

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

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, 2017 and 2016, were approximately \$648,000 and \$624,000, 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 years ended December 31, 2017 were approximately \$493,000. Contributions to the plan during the three months ended December 31, 2016 were approximately \$307,000.

Note 11. Employee Retirement Plans (Continued)

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 expense of approximately \$495,000 and \$265,000 for the years ended December 31, 2017 and 2016, respectively. Touro made contributions of \$1,753,000 and \$550,000 during the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, 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 \$9,738,000 and \$14,056,000, as of December 31, 2017 and 2016, respectively.

The table on the following page sets 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, 2017 and 2016 using the projected unit credit method with salary progression (in thousands).

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Notes to Consolidated Financial Statements

Note 11. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

	2017	2016
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	\$ 43,610	\$ 42,124
Service Cost	-	-
Interest Cost	1,700	1,712
Curtailment / Settlement	-	-
Actuarial (Gain) Loss	(690)	2,278
Benefits Paid	(2,300)	(2,503)
Benefit Obligation at End of Year	<u>42,320</u>	<u>43,610</u>
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	29,556	30,229
Actual Return on Plan Assets	3,573	1,280
Benefits Paid	(2,300)	(2,503)
Employer Contributions	1,753	550
Fair Value of Plan Assets at End of Year	<u>32,582</u>	<u>29,556</u>
Funded Status (Underfunded)	<u>\$ (9,738)</u>	<u>\$ (14,054)</u>
Net Periodic Pension Cost		
Service Cost	\$ -	\$ -
Interest Cost	1,699	1,712
Actuarial Loss (Gain) on Plan Assets	(3,574)	(1,280)
Net Amortization	2,370	(168)
Net Periodic Cost	<u>\$ 495</u>	<u>\$ 264</u>

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):

	2017	2016
Unrecognized Net Actuarial Loss	\$ 9,561	\$ 12,621
Unrecognized Prior Service Cost	-	-
Total Accrued Benefit Cost	<u>\$ 9,561</u>	<u>\$ 12,621</u>

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 \$214,000.

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Notes to Consolidated Financial Statements

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:

	2017	2016
Discount Rate, Obligation	3.50%	4.00%
Discount Rate, Periodic Cost	4.00%	4.20%
Expected Return on Plan Assets	7.00%	7.00%
Rate of Compensation Increase	N/A	N/A
Cash Balance Interest Credit Rate	4.00%	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:

	2017	2016	Target Allocation
Domestic Equity	18.4%	17.9%	18%
International Equity	20.0%	19.9%	20%
Fixed Income	52.5%	52.5%	53%
Cash/Short-Term Fixed Income	2.0%	2.8%	2%
Liquid Absolute Return	3.1%	2.9%	3%
Real Assets	4.0%	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.

As discussed further in Note 17, the System uses a fair value hierarchy for valuation inputs. The following is a description of the valuation methodologies used for Plan assets measured at fair value.

Level 1 - the fair values of the mutual funds and corporate stocks are based at quoted closing prices of securities on the last business day of the Plan year.

Level 2 - the fair values of corporate bonds, U.S. government agency securities, and foreign bonds are based on inputs other than quoted prices that are observable for securities, either directly or indirectly. Examples of these inputs are values based on yields currently available on comparable securities of issuers with similar credit ratings, inputs derived from observable market data by correlation or other means.

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Notes to Consolidated Financial Statements

Note 11. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

	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

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2016 (in thousands):

	Level 1	Level 2	Total
Domestic Equity	\$ 5,293	\$ -	\$ 5,293
International Equity	5,879	-	5,879
Fixed Income	-	15,518	15,518
Cash/Short-Term Fixed Income	822	-	822
Liquid Absolute Return	870	-	870
Real Assets	1,174	-	1,174
Total	\$ 14,038	\$ 15,518	\$ 29,556

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.

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Notes to Consolidated Financial Statements

Note 11. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

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.

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 Infirmery expects to make contributions of approximately \$1,890,000 to the defined benefit pension plan in 2018.

At December 31, 2017 and 2016, Touro Infirmery's plan had accumulated benefit obligations of approximately \$42,320,000 and \$43,611,000, 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, 2017, are as follows (in thousands):

2018	\$	1,890
2019		1,940
2020		2,030
2021		1,880
2022		2,010
2023 - 2026		<u>10,450</u>
Total	\$	<u>20,200</u>

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 11. Employee Retirement Plans (Continued)

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 \$2,400,000 and \$1,240,000 at December 31, 2017 and 2016, 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, 2017, and 2016, the System's total liability for these plans is approximately \$4,795,000 and \$4,775,000, respectively, and is included in accrued salaries and benefits on the consolidated balance sheets. Related assets of approximately \$4,795,000 and \$4,775,000, at December 31, 2017 and 2016, 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:

	2017		2016	
Medicare	24	%	19	%
Medicaid	29		29	
Managed Care	42		45	
Patients	3		6	
Workers' Compensation	2		1	
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.

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Notes to Consolidated Financial Statements

Note 12. Concentrations of Credit Risk (Continued)

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. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31st, are available for the following purposes (in thousands):

	2017	2016
Specific Purpose Funds		
Research and Education	\$ 4,431	\$ 3,550
Patient Care (Including Elder Care)	1,411	1,122
Gumbel Building	1,522	1,573
Other	721	385
Nursing Education	456	231
Lectures and Medical Staff	430	356
Charity	561	322
Plant Funds		
Miscellaneous Renovation Projects	85	91
Total	\$ 9,617	\$ 7,630

Note 14. Permanently Restricted Net Assets (Endowment Funds)

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 Board has determined that the majority of the System's permanently restricted net assets 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.

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Notes to Consolidated Financial Statements

Note 14. Permanently Restricted Net Assets (Endowment Funds) (Continued)

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 in permanently restricted net assets is classified as temporarily restricted net assets 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.

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, 2017, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 7,843	\$ 7,843
Undesignated Funds	(120)	142	-	22
Total	\$ (120)	\$ 142	\$ 7,843	\$ 7,865

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Notes to Consolidated Financial Statements

Note 14. Permanently Restricted Net Assets (Endowment Funds) (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	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 by Donor	-	(109)	-	(109)
Appropriation of Endowment Net Assets for Expenditure	-	(979)	-	(979)
Net Assets, End of Year	\$ (120)	\$ 142	\$ 7,843	\$ 7,865

The System's Endowment Net Asset Composition by fund type as of December 31, 2016, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 7,837	\$ 7,837
Undesignated Funds	(120)	109	-	(11)
Total	\$ (120)	\$ 109	\$ 7,837	\$ 7,826

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Notes to Consolidated Financial Statements

Note 14. Permanently Restricted Net Assets (Endowment Funds) (Continued)

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2016, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Beginning of Year	\$ (120)	\$ -	\$ 7,837	\$ 7,717
Investment Return				
Investment Income	-	111	-	111
Net Appreciation (Realized and Unrealized)	-	323	-	323
Total Investment Return	-	434	-	434
Released by Donor	-	-	-	-
Appropriation of Endowment Net Assets for Expenditure	-	(325)	-	(325)
Net Assets, End of Year	\$ (120)	\$ 109	\$ 7,837	\$ 7,826

Permanently restricted net assets (endowment funds) at December 31st, are invested in perpetuity, the income from which is expendable to support the following purposes (in thousands):

	2017	2016
Charitable Care	\$ 2,186	\$ 2,186
Elder Care	2,000	2,000
Nursing Education	1,444	1,444
General Education and Purpose	928	922
Patient Care	374	374
Other	311	311
Lectures and Medical Staff	301	301
Research	299	299
Total	\$ 7,843	\$ 7,837

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Notes to Consolidated Financial Statements

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 \$4,221,000 and \$4,073,000 at December 31, 2017 and 2016, respectively. Distributions of income are made at the discretion of the trustee. For the years ended December 31, 2017 and 2016, Children's recorded contribution income of approximately \$142,000 and \$147,000, 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, 2017 and 2016, expenses related to providing these services are as follows (in thousands):

	2017	2016 As Restated
Health Care Services	\$ 1,137,804	\$ 1,090,351
Fiscal and Administrative Services	307,208	256,408
Total	\$ 1,445,012	\$ 1,346,759

Note 17. 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.

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Notes to Consolidated Financial Statements

Note 17. Fair Value of Financial Instruments (Continued)

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.

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	\$ 10,391	\$ -	\$ -	\$ 10,391
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	789,651	4,537	13,466	807,654
Investments Measured at NAV (a)				327,431
Total Investments at Fair Value				\$ 1,135,085

(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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 17. Fair Value of Financial Instruments (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2016, are summarized below (in thousands):

Assets	Level 1	Level 2	Level 3	Total Fair Value
U.S. Government Securities	\$ 957	\$ -	\$ -	\$ 957
Marketable Equity Securities	477,861	-	-	477,861
Other Fixed Income Securities	165,426	-	-	165,426
Mortgage-Backed Securities	-	1,001	-	1,001
Money Market Funds	51,526	-	-	51,526
State of Israel Bonds	-	500	-	500
Interest Rate and Basis Swaps	-	628	-	628
Investments Measured at Fair Value	695,770	2,129	-	697,899
Investments Measured at NAV (a)				205,821
Total Investments at Fair Value				\$ 903,720

Liabilities	Level 1	Level 2	Level 3	Total Fair Value
Interest Rate and Basis Swaps	\$ -	\$ 159	\$ -	\$ 159
	\$ -	\$ 159	\$ -	\$ 159

(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, 2017, are as follows (in thousands):

	Level 3 Beginning Balance January 1, 2017	Realized and Unrealized Gains (Losses)	Purchases, Sales, and Settlements	Net Transfers In and/or (Out) of Level 3	Level 3 Ending Balance December 31, 2017
Other Fixed Income Securities	\$ -	\$ 184	\$ 13,282	\$ -	\$ 13,466

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 17. Fair Value of Financial Instruments (Continued)

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. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors (in thousands):

	2017	2016
Purpose Restrictions Accomplished		
Research and Education	\$ 1,291	\$ 209
Charity Care	265	157
Other	190	268
Rehabilitation	163	376
Funding of Nursing Educators	133	149
Elder Care	109	85
Gumbel Building	74	72
Surgery	53	5
Cancer	22	192
OBGYN	18	239
Pastoral Care	11	-
Total Restrictions Released	\$ 2,329	\$ 1,752

Net assets released from restrictions are included as other operating revenue or other non-operating income, depending upon the nature of the restriction, within unrestricted revenue on the consolidated statements of operations.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 19. 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.

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. The PPACA is creating sweeping changes across the healthcare industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Management of the System is studying and evaluating the anticipated effects and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other consultants to optimize available reimbursement.

Note 19. 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, 2017, the System recognized approximately \$521,000 and -\$0- of revenue related to Medicare and Medicaid incentive payments for EHR, respectively. For the year ended December 31, 2016, the System recognized approximately \$2,143,000 and \$348,000 of revenue related to Medicare and Medicaid incentive payments for EHR, respectively. 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 19. 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 2013 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.

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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 19. Commitments and Contingencies (Continued)

Leases with UMC (Continued)

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 \$94,131,000 and \$93,870,000 for the years ended December 31, 2017 and 2016, 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, 2017 for the above mentioned leases, are as follows (in thousands):

2018	\$	83,089
2019		90,463
2020		70,969
2021		71,592
2022		72,188
Thereafter		<u>899,823</u>
Total	\$	<u><u>1,288,124</u></u>

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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 19. Commitments and Contingencies (Continued)

Operating West Jefferson (Continued)

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.

See Note 27 concerning the conclusion of the District's specified working capital agreement.

The performance consideration shall be paid to the District for foreseeable steady financial performance of the hospital business, with payment 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. These amounts are recorded on the consolidated balance sheets with \$6,667,000 classified as current within other current liabilities. 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 19. Commitments and Contingencies (Continued)

Operating West Jefferson (Continued)

West Jefferson concluded that it had not met the financial performance requirement as outlined above for the performance year ending September 30, 2017 or 2016. 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, 2017 and 2016, 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. Of this total, \$1,150,000 was paid at closing on September 30, 2015. The remaining payment of \$500,000 is to be paid no later than January 31, 2018, which is included within trade accounts payable.

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 \$6,974,000 and \$6,320,000 for the years ended December 31, 2017 and 2016, respectively. The future minimum rentals under these leases for the next five years range from approximately \$3,361,000 to \$8,701,000 per year.

Gross rental income earned in the System's operation of medical office buildings in 2017 and 2016, was approximately \$9,824,000 and \$9,982,000, 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 \$763,000 to \$6,777,000 per year.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 19. Commitments and Contingencies (Continued)

New Orleans East Hospital (NOEH)

On April 1, 2014, a CEA (NOEH CEA) has been 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.

The Joint Parties may also terminate the NOEH CEA prior to the expiration of the 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 \$2,184,000 and \$1,795,000 for the years ended December 31, 2017 and 2016, respectively, which is included within other operating revenues on the System's consolidated statements of operations. At December 31, 2017 and 2016, Parish Hospital Service District for Parish of Orleans owes the System approximately \$16,507,000 and \$17,219,000, 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 19. Commitments and Contingencies (Continued)

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, 2017 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 \$21,675,000 and \$18,739,000, at December 31, 2017 and 2016, respectively. Undiscounted professional liability claims totaled approximately \$27,284,000 and \$22,000,000 at December 31, 2017 and 2016, respectively.

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 \$7,517,000 and \$7,194,000 at December 31, 2017 and 2016, respectively. Undiscounted workers' compensation claims totaled approximately \$9,234,000 and \$8,116,000 at December 31, 2017 and 2016, respectively. The estimated liability for employee health claims was approximately \$6,776,000 and \$6,035,000 at December 31, 2017 and 2016, respectively. Due to the short-term nature of these employee health claims liabilities, the fair value approximates the carrying value.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 20. Potential Withdrawal from UMC CEA

On March 12, 2018, LCMC sent a notice to LSU and the State of Louisiana providing notice of a claim for breach under the UMC CEA due to the State's failure to include sufficient funding for UMCMC for State Fiscal Year 2019. The notice started a 60-day cure period. The breach was not cured during that time, and the parties must negotiate for up to an additional 60 days, before LCMC has the right to withdraw as a member of UMCMC. Further, LCMC may at any time elect to withdraw without cause, in which case its withdrawal will be completed 60 days following the date of notice. If LCMC withdraws as a member of UMCMC, the UMC CEA dictates that the State is obligated to pay significant amounts of "stipulated damages" to LCMC. Such amounts are not due until a year after the withdrawal is completed and are subject to appropriation by the Louisiana Legislature. Payments due to LCMC will be secured by UMCMC's revenues from its ambulatory care building and parking lot, but all payment obligations of the State are subject to appropriation by the State legislature.

Note 21. 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.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 21. 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, 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)

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 21. Community Support (Continued)

The revenues and expenses associated with these programs for the year ended December 31, 2016, are detailed as follows (in thousands):

	2016						
	Research Institute	CHAP	Mobile Dental	CARE Center	Behavioral Health	Other	Total
Patient Revenues	\$ -	\$ 14,771	\$ 323	\$ 918	\$ 1,040	\$ 6,166	\$ 23,218
Revenue Deductions	-	(14,771)	(279)	(695)	(799)	(4,411)	(20,955)
Other Revenues	320	-	-	339	-	1,248	1,907
Total Revenues	320	-	44	562	241	3,003	4,170
Total Expenses	2,568	3,954	498	1,525	1,030	6,720	16,295
Community Support, Net	\$ (2,248)	\$ (3,954)	\$ (454)	\$ (963)	\$ (789)	\$ (3,717)	\$ (12,125)

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

	2017	2016
Direct Expenses	\$ 8,768	\$ 9,684
Indirect Expenses	5,076	6,611
Total Expenses	\$ 13,844	\$ 16,295

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

Depreciation expense of approximately \$467,000 and \$996,000 was included in community support for the years ended December 31, 2017 and 2016, respectively.

Note 22. 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. 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.

Penalties and interest assessed by income taxing authorities, if any, would be included in income tax expense.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 23. 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, 2017 and 2016, the System has recognized approximately \$156,030,000 and \$156,626,000, respectively, under the UPL program classifying it within net patient service revenue on the consolidated statements of operations.

Note 24. Pledges Receivable

Pledges receivable were discounted at the rate of 3.5%. At December 31, 2017, amounts included in pledges receivable were as follows (in thousands):

Pledges Receivable	\$	3,455
Less: Discount of Long-Term Pledges		<u>(275)</u>
Total	\$	<u>3,180</u>

Amounts due in the years ended December 31,

2018	\$	1,020
2019		695
2020		664
2021		656
2022		370
Thereafter		<u>50</u>
Total	\$	<u>3,455</u>

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 25. Emphasis of Matter

The 2016 consolidated financial statements have been restated to correct misstatements in liabilities related to \$734,000 of estimated professional liabilities claims at NOPS. This adjustment is reflected as an increase in liabilities of approximately \$734,000, a decrease on other operating revenues of \$677,000 and an increase of \$57,000 in operating expenses. As a result, this change also decreases the net assets when compared to the prior year financial statements. Our opinion is not modified with respect to this matter.

Note 26. Exit Activities

As part of management's process of integrating the components of the System, certain one time costs have been incurred related to termination of redundant contracts. For the year ended December 31, 2016, approximately \$3,588,000 of costs were recorded as other nonoperating expenses. This amount was offset by approximately \$6,667,000 of other nonoperating income related to the West Jefferson acquisition described in Note 19.

There were no such expenses during the year ended December 31, 2017.

Note 27. Subsequent Events

On February 8, 2018, the specified working capital agreement, as noted in Note 19, has been finalized and resulted in a payment of \$157,829 from the District to LCMC.

On March 12, 2018, LCMC sent a notice to LSU and the State of Louisiana providing notice of a claim for breach under the UMC CEA due to the State's failure to include sufficient funding for UMCMC for State Fiscal Year 2019 as further described in Note 20.

The System has evaluated subsequent events through May 23, 2018 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, 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	17,024	5,818	21,854	4,986	77	-	51,701
Inventories	-	6,070	5,080	10,518	6,186	-	-	27,854
Estimated Third-Party Payor Settlements	-	13,266	31,540	-	-	-	-	44,806
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	93,832	190,430	171,662	59,765	4,244	(170,526)	453,574
Assets Limited as to Use								
Investments Designated for Capital Projects and Specific Programs	-	58,478	945,111	-	-	-	-	1,003,589
Cash 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 Leases	-	-	-	245,832	185,556	-	-	431,388
Property, Plant, and Equipment, Net	67,680	137,178	151,168	25,222	25,564	-	-	406,812
Due from Related Party	502,700	23,000	235,947	-	-	-	(761,647)	-
Other Assets	1,093	2,513	5,169	250	2,660	125.00	-	11,810
Investments in Subsidiaries	1,474,986	-	-	-	-	-	(1,474,986)	-
Total Assets	\$ 2,150,873	\$ 387,916	\$ 1,640,994	\$ 442,966	\$ 275,242	\$ 4,369	\$ (2,407,159)	\$ 2,495,201

*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	\$ 17,375	\$ 216	\$ -	\$ 134,489
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	276	-	-	7,018
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	-	-	-	42,609	4,091	-	-	46,700
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	35,757	42,675	259,349	44,531	4,101	(170,526)	331,114
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	109,158	177,366	681,412	286,342	4,369	(932,173)	1,002,845
Noncontrolling Interest	-	621	-	-	-	-	-	621
Net Assets								
Unrestricted	1,474,272	265,524	1,459,011	(238,446)	(11,100)	-	(1,474,986)	1,474,275
Temporarily Restricted	230	4,956	4,431	-	-	-	-	9,617
Permanently Restricted	-	7,657	186	-	-	-	-	7,843
Total Net Assets	1,474,502	278,137	1,463,628	(238,446)	(11,100)	-	(1,474,986)	1,491,735
Total Liabilities and Net Assets	\$ 2,150,873	\$ 387,916	\$ 1,640,994	\$ 442,966	\$ 275,242	\$ 4,369	\$ (2,407,159)	\$ 2,495,201

*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
December 31, 2016 (in Thousands)
As Restated

	LCMC	Touro	Children's	UMCMC	West Jefferson	Eliminations	Consolidated
Assets							
Current Assets							
Cash and Cash Equivalents	\$ 87,756	\$ 30,267	\$ 142,461	\$ 13,622	\$ 3,066	\$ 306	\$ 277,478
Assets Limited as to Use	-	988	-	-	-	-	988
Patient Accounts Receivable, Net of Allowance	-	37,298	31,333	55,546	29,122	-	153,299
Pledges Receivable, Net of Discount	-	-	575	-	-	-	575
Other Receivables	1,387	17,884	7,068	-	2,538	-	28,877
Inventories	-	6,235	5,631	9,924	6,712	-	28,502
Estimated Third-Party Payor Settlements	-	3,416	6,973	-	-	-	10,389
Prepaid Expenses	4,042	4,055	2,652	63,032	9,348	-	83,129
Due from Related Parties	107,603	13,047	214,491	-	-	(335,141)	-
Total Current Assets	200,788	113,190	411,184	142,124	50,786	(334,835)	583,237
Assets Limited as to Use							
Designated for Capital Projects and Specific Programs	-	51,386	831,990	-	-	-	883,376
Restricted by Bond Indenture, Debt Service Reserve	-	3,219	-	-	-	-	3,219
Donor-Restricted Long-Term Investments	-	10,479	3,736	-	-	-	14,215
Restricted Other	160	31	-	-	-	-	191
Less: Amount Required for Current Obligations	-	(988)	-	-	-	-	(988)
Assets Limited as to Use, Net	160	64,127	835,726	-	-	-	900,013
Investments in Joint Ventures	-	-	1,726	-	-	-	1,726
Investments in Joint Ventures	-	43,738	-	-	1,895	-	45,633
Long-Term Portion Prepaid Lease	-	-	-	255,881	190,000	-	445,881
Property, Plant, and Equipment, Net	21,713	134,882	125,164	20,387	11,683	-	313,829
Due from Related Party	209,339	23,000	-	-	-	(232,339)	-
Other Assets	-	2,330	375	250	2,510	-	5,465
Investment in Subsidiaries	1,337,047	-	-	-	-	(1,337,047)	-
Total Assets	\$ 1,769,047	\$ 381,267	\$ 1,374,175	\$ 418,642	\$ 256,874	\$ (1,904,221)	\$ 2,295,784

See independent auditor's report.

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidating Balance Sheets (Continued)
December 31, 2016 (in Thousands)
As Restated

	LCMC	Touro	Children's	UMCMC	West Jefferson	Eliminations	Consolidated
Liabilities and Net Assets							
Current Liabilities							
Trade Accounts Payable	\$ 4,344	\$ 19,635	\$ 21,212	\$ 54,170	\$ 19,124	\$ (133)	\$ 118,352
Accrued Salaries and Benefits	2,727	7,763	9,509	8,314	8,595	-	36,908
Current Maturities of Bonds Payable	-	2,469	-	-	-	-	2,469
Current Portion of Estimated Employee Health and Workers' Compensation Claims	-	2,589	663	1,710	225	-	5,187
Current Portion of Estimated Professional Liabilities Claims	-	2,661	1,009	535.00	64	-	4,269
Current Portion of Contingent Performance Obligation	-	-	-	-	6,667	-	6,667
Estimated Third-Party Payor Settlements, Net	-	-	-	59,714	971	-	60,685
Due To Related Parties	226,360	-	198.00	102,092	6,021	(334,671)	-
Deferred Revenue	-	-	-	48,570	42	-	48,612
Line of Credit	-	-	-	90,000	-	-	90,000
Other Current Liabilities	157	6,284	1,860	3,876	3,581	(31)	15,727
Total Current Liabilities	233,588	41,401	34,451	368,981	45,290	(334,835)	388,876
Bonds Payable, Net of Current Portion	198,849	57,119	-	-	-	-	255,968
Note Payable	-	-	-	252,127	-	-	252,127
Estimated Employee Health and Workers' Compensation Claims, Net of Current Portion	-	1,281	894	1,723	413	-	4,311
Estimated Professional Liability Claims, Net of Current Portion	-	6,315	2,712	4,424	1,754	-	15,205
Employee Benefits	277	14,495	4,839	-	-	-	19,611
Due to Related Parties	-	-	-	23,000	209,339	(232,339)	-
Other Long-Term Liabilities	-	-	-	-	7,257	-	7,257
Total Liabilities	432,714	120,611	42,896	650,255	264,053	(567,174)	943,355
Noncontrolling Interest	-	625	-	-	-	-	625
Net Assets							
Unrestricted	1,336,333	248,300	1,327,543	(231,613)	(7,179)	(1,337,047)	1,336,337
Temporarily Restricted	-	4,080	3,550	-	-	-	7,630
Permanently Restricted	-	7,651	186	-	-	-	7,837
Total Net Assets	1,336,333	260,031	1,331,279	(231,613)	(7,179)	(1,337,047)	1,351,804
Total Liabilities and Net Assets	\$ 1,769,047	\$ 381,267	\$ 1,374,175	\$ 418,642	\$ 256,874	\$ (1,904,221)	\$ 2,295,784

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 (Income) 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	26,711	12,346	31,119	12,385	-	(4,459)	79,003
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	65,979	47,730	71,499	61,517	742	(110,413)	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	67,524	257	(3,507)	392,134
Depreciation and Amortization	1,379	18,699	11,722	13,233	6,914	-	-	51,947
Interest	-	1,081	-	21,965	2,512	-	-	25,558
Total Operating Expenses	109,371	306,504	266,054	598,611	274,107	21,305	(130,940)	1,445,012
Income (Loss) from Operations	-	24,024	49,202	59	(10,508)	-	(54,818)	7,959
Investment (Loss) Income	-	7,755	130,588	-	(80)	-	-	138,263
Other Nonoperating Income (Expense)	-	(1,138)	(219)	(8,275)	6,667	-	-	(2,965)
Equity in Earnings of Subsidiaries	137,939	-	-	-	-	-	(137,939)	-
Community Support, Net	-	(16,354)	(48,102)	-	-	-	54,818	(9,638)
Excess (Deficit) of Revenues over Expenses	\$ 137,939	\$ 14,287	\$ 131,469	\$ (8,216)	\$ (3,921)	\$ -	\$ (137,939)	\$ 133,619

*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, 2016 (in Thousands)
As Restated

	LCMC	Touro	Children's	UMCMC	West Jefferson	Eliminations	Consolidated
Unrestricted Revenues, Gains, and Other Support							
Net Patient Service Revenues	\$ -	\$ 307,070	\$ 330,251	\$ 501,447	\$ 234,080	\$ (5,726)	\$ 1,367,122
Provision for Doubtful Accounts	-	5,230	5,908	52,703	7,819	-	71,660
Net Patient Service Revenues Less Provision for Doubtful Accounts	-	301,840	324,343	448,744	226,261	(5,726)	1,295,462
Other Operating Revenues	-	23,285	15,057	33,775	17,373	(4,980)	84,510
Management Fee Revenue	68,403	-	-	-	-	(68,403)	-
Total Operating Revenues	68,403	325,125	339,400	482,519	243,634	(79,109)	1,379,972
Operating Expenses							
Employee Compensation and Benefits	19,266	152,827	127,574	138,451	107,038	(2,482)	542,674
Purchased Services	33,572	54,979	37,129	62,629	62,139	(72,142)	178,306
Professional Fees	4,560	17,604	27,399	108,532	11,301	-	169,396
Supplies and Other Expenses	7,107	55,290	52,161	204,000	65,224	(899)	382,883
Depreciation and Amortization	310	19,641	12,672	13,831	4,983	-	51,437
Interest	-	719	-	19,040	2,304	-	22,063
Total Operating Expenses	64,815	301,060	256,935	546,483	252,989	(75,523)	1,346,759
Income (Loss) from Operations	3,588	24,065	82,465	(63,964)	(9,355)	(3,586)	33,213
Investment (Loss) Income	-	1,953	51,027	-	(270)	-	52,710
Other Nonoperating (Expense) Income	(3,585)	(741)	(842)	(1,435)	6,047	3,588	3,032
Equity in Earnings of Subsidiaries	74,232	-	-	-	-	(74,232)	-
Community Support, Net	-	-	(12,125)	-	-	-	(12,125)
Excess (Deficit) of Revenues over Expenses	\$ 74,235	\$ 25,277	\$ 120,525	\$ (65,399)	(3,578)	\$ (74,230)	\$ 76,830

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
Unrestricted Net Assets								
Excess (Deficit) of Revenues over Expenses	\$ 137,939	\$ 14,287	\$ 131,469	\$ (8,216)	\$ (3,921)	-	\$ (137,939)	\$ 133,619
Excess of Revenues over Expenses Attributable to Noncontrolling Interests	-	(115)	-	-	-	-	-	(115)
Adjustment to Additional Minimum Pension Liability	-	3,060	-	-	-	-	-	3,060
Reclassification of Net Assets	-	-	-	-	-	-	-	-
Contribution of Funds for Capital Assets	-	-	-	-	-	-	-	-
Contribution of Right of Use Designated Equipment	-	-	-	1,383	-	-	-	1,383
Ownership Revisions	-	(8)	-	-	-	-	(1)	(9)
Increase (Decrease) in Unrestricted Net Assets	137,939	17,224	131,469	(6,833)	(3,921)	-	(137,940)	137,938
Temporarily Restricted Net Assets								
Contributions and Grants	230	429	2,171	-	-	-	-	2,830
Investment Income	-	1,486	-	-	-	-	-	1,486
Reclassification of Net Assets	-	-	-	-	-	-	-	-
Net Assets Released from Restriction	-	(1,039)	(1,291)	-	-	-	1	(2,329)
(Decrease) Increase in Temporarily Restricted Net Assets	230	876	880	-	-	-	1	1,987
Change in Permanently Restricted Net Assets	-	6	-	-	-	-	-	6
Increase (Decrease) in Net Assets	138,169	18,106	132,349	(6,833)	(3,921)	-	(137,939)	139,931
Net Assets, Beginning of Year	1,336,333	260,031	1,331,279	(231,613)	(7,179)	-	(1,337,047)	1,351,804
Net Assets, End of Year	\$ 1,474,502	\$ 278,137	\$ 1,463,628	\$ (238,446)	\$ (11,100)	-	\$ (1,474,986)	\$ 1,491,735

*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, 2016 (in Thousands)
As Restated

	LCMC	Touro	Children's	UMCMC	West Jefferson	Eliminations	Consolidated
Unrestricted Net Assets							
Excess (Deficit) of Revenues over Expenses	\$ 74,235	\$ 25,277	\$ 120,525	\$ (65,399)	\$ (3,578)	\$ (74,230)	\$ 76,830
Excess of Revenues over Expenses Attributable to Noncontrolling Interest	-	(121)	-	-	-	-	(121)
Adjustment to Additional Minimum Pension Liability	-	(2,446)	-	-	-	-	(2,446)
Reclassification of Net Assets	-	-	-	-	-	-	-
Contribution of Funds for Capital Assets	-	-	-	-	-	-	-
Contribution of Right of Use Designated Equipment	-	-	-	-	-	-	-
Ownership Revisions	-	(25)	-	-	-	-	(25)
Increase (Decrease) in Unrestricted Net Assets	74,235	22,685	120,525	(65,399)	(3,578)	(74,230)	74,238
Temporarily Restricted Net Assets							
Contributions and Grants	-	145	1,517	-	-	-	1,662
Investment Income	-	600	-	-	-	-	600
Reclassification of Net Assets	-	-	-	-	-	-	-
Net Assets Released from Restriction	-	(1,543)	(209)	-	-	-	(1,752)
(Decrease) Increase in Temporarily Restricted Net Assets	-	(798)	1,308	-	-	-	510
Change in Permanently Restricted Net Assets	-	-	-	-	-	-	-
Increase (Decrease) in Net Assets	74,235	21,887	121,833	(65,399)	(3,578)	(74,230)	74,748
Net Assets, Beginning of Year	1,262,098	238,144	1,209,446	(166,214)	(3,601)	(1,262,817)	1,277,056
Net Assets, End of Year	\$ 1,336,333	\$ 260,031	\$ 1,331,279	\$ (231,613)	\$ (7,179)	\$ (1,337,047)	\$ 1,351,804

See independent auditor's report.

**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, 2017 and 2016, 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 23, 2018.

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 an 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.

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

A Professional Accounting Corporation

Metairie, LA
May 23, 2018

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, 2017. 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, 2017.

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.



A Professional Accounting Corporation

Metairie, LA
May 23, 2018

LOUISIANA CHILDREN'S MEDICAL CENTER

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity No.	Federal Revenue/Expenditures Recognized				
			Children's Hospital	Touro Infirmary	UMCMC	West Jefferson	Total
U.S. Department of Justice							
Through: Louisiana Commission on Law Enforcement							
Crime Victim Assistance	16.575	2016-VA-03-3713	\$ 168,066	\$ -	\$ -	\$ -	\$ 168,066
Crime Victim Assistance	16.575	2015-VA-03-2814	50,051	-	-	-	50,051
Total U.S. Department of Justice			\$ 218,117	\$ -	\$ -	\$ -	\$ 218,117
U.S. Department of Public Safety							
Through: Louisiana Highway Safety Commission							
Alcohol Open Container Requirements	20.607	2017-55-10	\$ -	\$ -	\$ 133,347	\$ -	\$ 133,347
<u>Highway Safety Cluster</u>							
Through: Louisiana Highway Safety Commission							
National Priority Safety Program	20.616	2018-55-10	-	-	34,830	-	34,830
State and Community Highway Safety	20.600	2017-20-11	-	-	166,695	-	166,695
State and Community Highway Safety	20.600	2018-20-11	-	-	34,096	-	34,096
Total Highway Safety Cluster			-	-	235,621	-	235,621
Total U.S. Department of Transportation			\$ -	\$ -	\$ 368,968	\$ -	\$ 368,968
U.S. Department of Education							
Through: Louisiana Department of Education							
Special Education Grants to States	84.027A		\$ 157,811	\$ -	\$ -	\$ -	\$ 157,811
Total U.S. Department of Education			\$ 157,811	\$ -	\$ -	\$ -	\$ 157,811
U.S. Department of Health and Human Services							
Through: State of Louisiana							
National Bioterrorism Hospital Preparedness Program	93.889		\$ 43,527	\$ -	\$ -	\$ -	\$ 43,527
Through: Louisiana Hospital Association							
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817		-	16,420	-	-	16,420
National Bioterrorism Hospital Preparedness Program	93.889		-	6,129	41,184	-	47,313
Through: City of New Orleans							
HIV Emergency Relief Project Grants	93.914	K16-541	-	-	149,104	-	149,104
HIV Emergency Relief Project Grants	93.914		-	-	1,027,020	-	1,027,020

LOUISIANA CHILDREN'S MEDICAL CENTER

**Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2017**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity No.	Federal Revenue/Expenditures Recognized				Total
			Children's Hospital	Touro Infirmary	UMCMC	West Jefferson	
<u>Direct Award</u>							
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	-	357,165	-	357,165
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	-	527,819	-	527,819
<u>Research and Development Cluster</u>							
Through: The University of Texas Health Science Center at Houston Blood Disorder Program: Prevention, Surveillance, and Research	93.080	5NU27DD001155-02-00	14,443	-	-	-	14,443
Maternal and Child Health Federal Consolidated Programs	93.110	5H30MC24051-05-00	986	-	-	-	986
Maternal and Child Health Federal Consolidated Programs	93.110	2H30MC24051-06	1,167	-	-	-	1,167
Through: Louisiana State University Health Science Center Cancer Treatment Research	93.395	5UG1CA189854-04	144,288	-	-	-	144,288
Breast and Cervical Health Program	93.896		-	-	38,199	-	38,199
Through: Washington University Sickle Cell Treatment Demonstration Program	93.365	2U1EMC27865-04-00	6,860	-	-	-	6,860
Through: The Research Institute at Nationwide Children's Hospital Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5UM1DK100866-05	6,377	-	-	-	6,377
Through: Louisiana State University Agricultural and Mechanical College Biomedical Research and Research Training	93.859	1U54GM104940-02	40,162	-	-	-	40,162
Biomedical Research and Research Training	93.859	2U54GM104940-02	30,968	-	-	-	30,968
Total Research and Development Cluster			245,251	-	38,199	-	283,450
Total U.S. Department of Health and Human Services			\$ 288,778	\$ 22,549	\$ 2,140,491	\$ -	\$ 2,451,818
U.S. Department of Homeland Security:							
Through: State of Louisiana Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		\$ 1,269,632	\$ -	\$ -	\$ -	\$ 1,269,632
Total U.S. Department of Homeland Security			\$ 1,269,632	\$ -	\$ -	\$ -	\$ 1,269,632
Total Expenditures of Federal Awards			\$ 1,934,338	\$ 22,549	\$ 2,509,459	\$ -	\$ 4,466,346

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2017

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, 2017, 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, 2017**

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
Crime Victim Assistance	16.575

FEMA	97.036
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Dollar Threshold used to Distinguish between Type A and Type B Programs: \$750,000

Auditee Qualified as Low-Risk Auditee? Yes

LOUISIANA CHILDREN'S MEDICAL CENTER

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2017**

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, 2017**

Part I - Financial Statement Findings

None.

Part II - Federal Award Findings and Questioned Costs

None.

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, 2016 and 2015, and our report thereon dated May 23, 2018, 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 23, 2018.

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.



A Professional Accounting Corporation

Metairie, LA
May 23, 2018

LOUISIANA CHILDREN'S MEDICAL CENTER
Schedule of Compensation, Benefits, and Other Payments to
Agency Head
For the Year Ended December 31, 2017

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.

See independent auditor's report on supplementary information.



LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

AGREED-UPON PROCEDURES REPORT
Louisiana Children's Medical Center

Independent Accountant's Report
On Applying Agreed-Upon Procedures

For the Period January 1, 2017 – December 31, 2017

Governing Board of Trustees
Louisiana Children's Medical Center
210 Henry Clay Ave.
New Orleans, LA 70118

To the Governing Board of Trustees of 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, 2017 through December 31, 2017. These procedures were performed on LCMC's consolidated entities that individually received \$500,000 or more of public funds. These entities were Children's Hospital (Children's) and University Medical Center Management Corporation (UMCMC) for the fiscal period under investigation. Children's and UMCMC's management is responsible for those C/C areas identified in the SAUPs.

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

The procedures and results are as follows:

Written Policies and Procedures

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

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

Children's Results: The applicable policies of Children's address all of the functions listed.

UMCMC's Results: The applicable policies of UMCMC address all of the functions listed.

Board (or Finance Committee, if applicable)

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

Children's Results: In accordance with Children's bylaws, the Board of Trustees met with a quorum on a bi-monthly basis. The minutes reference budget-to-actual comparisons. The minutes reference approvals of non-budgetary financial information.

UMCMC Results: In accordance with UMCMC bylaws, the Board of Trustees met with a quorum on a bi-monthly basis. The minutes reference budget-to-actual comparisons. The minutes reference approvals of non-budgetary financial information.

Bank Reconciliations

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

Children's Results: We obtained a listing of bank accounts from management and management's representation that the listing is complete.

UMCMC Results: We obtained a listing of bank accounts from management and management's representation that the listing is complete.

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
 - a) Bank reconciliations have been prepared;
 - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
 - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Children's Results: We selected five bank accounts and noted all were properly reconciled on a monthly basis. We noted that the bank accounts included evidence that a member of management had reviewed each bank reconciliation. In our review of the December bank reconciliations, we noted evidence of management's research of reconciling items that had been outstanding for more than 6 months.

UMCMC Results: We selected five bank accounts and noted all were properly reconciled on a monthly basis. We noted that all but one of the bank reconciliations tested included evidence of review by management. In our review of the December bank reconciliations, we noted evidence of management's research of reconciling items that had been outstanding for more than 6 months.

Collections

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

Children's Results: Procedures over collections are N/A to Children's due to all public funds being received by electronic funds transfer.

UMCMC Results: We obtained from management a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement. For each cash collection location selected:*
 - a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
 - b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.
 - c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
 - Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

Children's Results: Procedures over collections are N/A to Children's.

UMCMC Results: UMCMC has written procedures describing that each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account, and (3) not required to share the same cash register or drawer with another employee. LCMC has a formal process to reconcile cash collections to the general ledger, by revenue source, by a person who is not responsible for cash collections in the cash collection locations selected.

All public funds are received and deposited at one location. We tested the highest (dollar) week of collections noting all were deposited within one day of collection and completely supported by documentation.

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

Children's Results: Procedures over collections are N/A to Children's.

UMCMC Results: UMCMC has written documentation regarding processes to specifically determine completeness of all collections including electronic transfers, for each revenue source by a person who is not responsible for collections.

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

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

Children's Results: We obtained from management a listing of public fund disbursements and management's representation that the listing is complete.

UMCMC Results: We obtained from management a listing of public fund disbursements and management's representation that the listing is complete.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Children's Results: We obtained supporting documentation for 25 disbursements selected from the disbursement population from #8 above. Per Children's internal policy, a check requisition or purchase order is not required for certain categories of expenses including professional fees, purchased services, utilities, and others. We noted that each disbursement tested was appropriately supported by either an approved invoice, check requisition or purchase order in accordance with their policy. We also noted that the invoice, was approved by, and the check requisition or purchase order was prepared by, personnel not involved in the initiation of the purchase.

UMCMC Results: We obtained supporting documentation for 25 disbursements selected from the disbursement population from #8 above. The criteria in steps 9(a), 9(b) and 9(c) were present for all 25 disbursements tested.

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

Children's Results: We obtained electronic system control documentation which shows that the person responsible for processing payments does not have the ability to add vendors to the entity's purchasing/disbursement system.

UMCMC Results: We obtained UMCMC's written policy, which describes that the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/ disbursement system.

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

Children's Results: We obtained Children's written policy, which describes that persons with signatory authority have no responsibility for initiating or recording purchases

UMCMC Results: We obtained UMCMC's written policy, which describes that persons with signatory authority have no responsibility for initiating or recording purchases

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

Children's Results: We inquired of management and reviewed written policies and procedures to support that persons with signatory authority do not have system access to print checks.

UMCMC Results: We inquired of management and reviewed entity documentation to support that persons with signatory authority do not have system access to print checks.

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

Children's Results: No exceptions noted as a result of this procedure.

UMCMC Results: No exceptions noted as a result of this procedure.

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

This section is not applicable to either Children's or UMCMC. There are no public funds being disbursed through the usage of credit cards/debit cards/fuel cards/P-cards.

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

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

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

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

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
- a) For each transaction, report whether the transaction is supported by:
 - An original itemized receipt (i.e., identifies precisely what was purchased)
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)
 - b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
 - c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Travel and Expense Reimbursement

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

Children's Results: We obtained from management the disbursement listing of all travel and related expense reimbursements, by person. We obtained management's representation that the listing is complete.

UMCMC Results: We obtained from management the disbursement listing of all travel and related expense reimbursements, by person. We obtained management's representation that the listing is complete.

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

Children's Results: We obtained Children's written policies related to travel and expense reimbursement and noted that the rates are in conformity with GSA rates.

UMCMC Results: We obtained UMCMC's written policies related to travel and expense reimbursement and noted that the rates are in conformity with GSA rates.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.
 - b) Report whether each expense is supported by:
 - An original itemized receipt that identifies precisely what was purchased. Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.
 - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
 - Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)
 - c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
 - d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Children's Results: For two of the three persons selected for testing, we noted instances of mileage reimbursements at a rate of \$0.54/ mile; whereas, the rate should have been \$0.535/ mile in accordance with written policies and GSA rate. In addition, we noted instances of tips in excess of allowable rates per internal policy. The internal policy documents tips being limited to 15%; however there were instances where tips were from a low of 15.2% to nothing higher than 17.4%. Except as noted above, all of the reimbursements followed Children's written policies and met the criteria above without exception.

UMCMC Results: For the three persons selected for testing, all of the reimbursements followed UMCMC's written policies and met the criteria above without exception.

Contracts

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

Children's Results: We obtained a disbursement listing pertaining to all contracts in effect during the fiscal period. We obtained management's representation that the listing is complete.

UMCMC Results: We obtained a disbursement listing pertaining to all contracts in effect during the fiscal period. We obtained management's representation that the listing is complete.

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

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

Children's Results: We selected the five contract "vendors" paid the most money during the fiscal period and obtained the related contracts and paid invoices. We noted that there was a written contract supporting the services arrangement and amount paid. All five contracts were for professional services, and therefore, were not bid out. We noted none the contracts were amended. We selected the largest payment and supporting invoice from each of the five contracts and verified that the invoice and payment complied with the terms and conditions of the contract. All five of the contracts were entered into in accordance with Children's policies.

UMCMC Results: We selected the five contract "vendors" paid the most money during the fiscal period and obtained the related contracts and paid invoices. We noted that there was a written contract supporting the services arrangement and amount paid. All five contracts were for professional services, and therefore, were not bid out. We noted none the contracts were amended. We selected the largest payment and supporting invoice from each of the five contracts and verified that the invoice and payment complied with the terms and conditions of the contract. All five of the contracts were entered into in accordance with UMCMC's policies.

Payroll and Personnel

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

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

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

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

Children's Results: All of the documentation listed in items a) and c) above were present for the 25 employees randomly selected. We viewed written documentation that supervisors approved the attendance and leave of 24 out of the 25 employees/officials selected for testing.

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

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

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

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

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

Children's Results: The employee and employer portions of payroll taxes and retirement contributions, as well as the required forms, were submitted to the applicable agencies by the required deadlines with the exception of one identified instance of a late state payroll tax remittance.

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

Ethics (excluding nonprofits)

This section is not applicable to either Children's or UMCMC due to both being nonprofits.

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

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

Debt Service (excluding nonprofits)

This section is not applicable to either Children's or UMCMC due to both being nonprofits.

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.
29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.
30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Other

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

Children's Results: We inquired of management whether Children's had any misappropriations of public funds or assets. Management reported that Children's has not had any misappropriations of public funds or assets.

UMCMC Results: We inquired of management whether UMCMC had any misappropriations of public funds or assets. Management reported that UMCMC has not had any misappropriations of public funds or assets.

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

Children's Results: Children's has posted on its premises and website the notice required by R.S. 24:523.1.

UMCMC Results: UMCMC has posted on its premises and website the notice required by R.S. 24:523.1.

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

Children's Results: No exceptions were identified as a result of these procedures.

UMCMC Results: No exceptions were identified as a result of these procedures.

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

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.

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

A Professional Accounting Corporation

Metairie, LA
June 29, 2018



CHILDREN'S
HOSPITAL

June 29, 2018

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, 2017.

Travel and Expense Reimbursement:

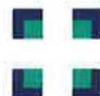
Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

Report whether each expense is supported by:

- *An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]*
- *Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).*
- *Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)*

200 Henry Clay Avenue
New Orleans, Louisiana 70118
(504) 899-9511
www.chnola.org

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Response:

Children's Hospital has implemented a more thorough review of amounts submitted for reimbursement to ensure they are processed for payment within the written policies of the Hospital. Accounts Payable clerks review and recalculate the mileage rate to ensure the rate used follows the GSA rate and only process amounts that fall within the allowed rate. Accounts Payable clerks also review and recalculate tip amounts submitted for reimbursement to ensure the rate used follows the Hospital's internal policies and only process amounts that fall within the allowed percentage.

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:

Human Resources will provide additional training to employees through a computer based learning module to serve as a refresher and on-going resource 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 Resource Director and Manager will complete reoccurring audits to ensure that time cards are being appropriately signed off on.

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

Response:

The payroll department added a Lead Payroll Coordinator to the staff who has taken the lead in completing the weekly/biweekly tax spreadsheet which details all tax payments owed. This spreadsheet is reviewed by both the Payroll Manager and Director prior to payment to ensure accuracy. A copy of the spreadsheet is emailed to each accounting department prior to a payment being made so that they can ensure that funds are available. Tax payments are also made by the Lead Payroll Coordinator with oversight and approval by the Payroll Manager to ensure timely submission of request for payment. A Payroll Accountant has been hired as a member of the Payroll team. Once properly trained, the Payroll Accountant will assume the tax remittance duties from the Payroll Lead. The review and approval process will remain after the Payroll Accountant has started.

Sincerely,



Courtney Garrett
Chief Financial Officer
Children's Hospital



June 29, 2018

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, 2017.

Bank Reconciliations:

Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation.

Response: The policies and procedures of UMCMC include a process for the review and documented approval by a member of management not involved with the transactions associated with the bank account. The one bank reconciliation not showing evidence of review occurred in the month we had transition in our Assistant Controller position. This was an isolated incident evidenced by the other 59 reconciliations tested without exception. Going forward, we will be more diligent in ensuring adherence to our written policies and procedures.

Sincerely,

Chris Williams Bond
Chief Financial Officer
University Medical Center Management Corporation