
HEALTH CARE SERVICES FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018



Postlethwaite & Netterville

A Professional Accounting Corporation

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HEALTH CARE SERVICES FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Health Care Services Foundation
Baton Rouge, Louisiana

We have audited the accompanying consolidated financial statements of the Health Care Services Foundation (the Organization) which comprises the consolidated statement of financial position as of June 30, 2018, the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related consolidated notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of the Health Care Services Foundation as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, on pages 16 - 19, are presented for 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 August 28, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 28, 2018

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,972,054
Capital lease receivable, current portion	475,000
Other receivables	2,442
Prepaid expenses	32,663
Due from affiliate	6,281
Total current assets	<u>3,488,440</u>

NON-CURRENT ASSETS:

Restricted cash	887,745
Capital lease receivable, net of current portion	11,925,000
Property, plant and equipment, net	2,820,627
Total non-current assets	<u>15,633,372</u>

TOTAL ASSETS	<u><u>\$ 19,121,812</u></u>
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The accompanying notes are an integral part of this consolidated statement.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 13,734
Other current liabilities	17,359
Bonds payable, current portion	<u>475,000</u>
Total current liabilities	<u>506,093</u>

LONG-TERM LIABILITIES:

Bonds payable (including unamortized bond discount of \$59,037 and unamortized issuance costs of \$289,864), net of current portion	11,576,099
Other long-term liabilities	<u>48,489</u>
Total long-term liabilities	<u>11,624,588</u>
 Total liabilities	 <u>12,130,681</u>

NET ASSETS

Unrestricted	6,987,673
Temporarily restricted	<u>3,458</u>
Total net assets	<u>6,991,131</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 19,121,812</u></u>
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HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Interest income on capital leases	\$ 415,512	\$ -	\$ 415,512
Investment earnings	27,758	-	27,758
Rental income	528,659	-	528,659
Other income	1,195	-	1,195
Contributions	436,836	-	436,836
	<u>1,409,960</u>	<u>-</u>	<u>1,409,960</u>
Net assets released from restrictions	148	(148)	-
Total revenues and other support	<u>1,410,108</u>	<u>(148)</u>	<u>1,409,960</u>
EXPENSES			
Building costs:			
Depreciation	123,963	-	123,963
Insurance expense	189,335	-	189,335
Rent and other	35,822	-	35,822
Utilities	108,097	-	108,097
Capital contributions	1,551,782	-	1,551,782
Other:			
Bank fees	3,518	-	3,518
Interest expense	434,436	-	434,436
Legal and professional	156,238	-	156,238
	<u>2,603,191</u>	<u>-</u>	<u>2,603,191</u>
Changes in net assets	(1,193,083)	(148)	(1,193,231)
NET ASSETS - BEGINNING OF THE YEAR	<u>8,180,756</u>	<u>3,606</u>	<u>8,184,362</u>
NET ASSETS - END OF THE YEAR	<u>\$ 6,987,673</u>	<u>\$ 3,458</u>	<u>\$ 6,991,131</u>

The accompanying notes are an integral part of this consolidated statement.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets:	\$ (1,193,231)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	123,963
Amortization of loan costs	14,494
Amortization of bond discount/premium	4,815
Change in operating assets and liabilities:	
Decrease in lease receivables	933,719
Decrease in other receivables	61,067
Increase in prepaid expense	(816)
Decrease in accounts payable	(24,035)
Decrease in other liabilities	(47,546)
Decrease in unearned income	(6,393)
Net cash used in operating activities	<u>(133,963)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on debt	(927,326)
Bond issuance cost on 2017 Series	(500)
Net cash used in financing activities	<u>(927,826)</u>
Net decrease in cash and cash equivalents	(1,061,789)
Cash and cash equivalents at beginning of period	<u>4,921,588</u>
Cash and cash equivalents at end of period	<u>\$ 3,859,799</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF FINANCIAL POSITION

Cash and cash equivalents - current	\$ 2,972,054
Cash and cash equivalents - restricted	887,745
	<u>\$ 3,859,799</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Payments for Interest	<u>\$ 415,512</u>
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The accompanying notes are an integral part of this consolidated statement.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Foundation

Organization

The Health Care Services Foundation (the Foundation) is a nonprofit organization, incorporated in the State of Louisiana, that provides support and appropriate services to the Health Care Services Division of the Louisiana State University Agricultural and Mechanical College (the Division or HCSD), including purchasing, leasing, owning, operating, managing, and selling property and services to maximize healthcare capabilities in Louisiana.

The Bogalusa Community Medical Center (BCMC) is a nonprofit organization, organized on a non-stock membership basis, incorporated in the State of Louisiana. On April 25, 2002, the Foundation became the sole member of the BCMC. Prior to September 27, 2007, BCMC leased the hospital's facilities to HCSD. Effective September 27, 2007, the facilities were sold to the HCSD as part of a capital lease transaction. The Foundation and the BCMC are referred to collectively as the "Organization".

Consolidation

The consolidated financial statements include the accounts of the Health Care Services Foundation and the Bogalusa Community Medical Center. All significant intercompany accounts and transactions have been eliminated in these financial statements.

Operations

All of the Organization's operations consist of program and supporting service activities undertaken to promote and support the Division and all the hospitals, health care facilities, departments, and divisions comprising it.

Reporting Entity

The Organization is considered to be a component unit of the Division. The Division is a component unit of the Louisiana State University System, which is a component unit of the State of Louisiana.

The accompanying financial statements present information only on the activities and accounts maintained by the Organization and do not present information on the Division, the general governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity for the State of Louisiana.

2. Summary of significant accounting policies

The accounting and reporting policies of the Organization conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the non-profit industry. A summary of significant accounting policies is as follows:

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Net assets

The Organization classifies net assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions. The Organizations had no permanently restricted net assets at June 30, 2018.

Lease receivable

Lease receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on an aging of current outstanding amounts and the current status of the individual accounts. Management believes that all receivables at year-end are collectable, and therefore, no allowance has been provided in the financial statements.

Prepaid expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment acquisitions are recorded at cost if purchased or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The class lives of the assets are as follows:

Buildings	40 years
Equipment	5 years
Furniture and Fixtures	7 years

Maintenance and repairs are charged to expense when incurred.

The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any resulting gain or loss is reflected in operations.

Cost of borrowing and deferred financing costs

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, if material.

Costs incurred in connection with the obtaining of financing are deferred and are amortized over the period the obligation is outstanding on the effective interest method. Costs and premium or discounts incurred in connection with the issuance of bonds or indentures are amortized over the life of the obligation on the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Contributions

Unconditional promises to give cash or other assets to the Organizations are recorded at fair value on the date the promise is received. Conditional promises to give are recorded at fair value at the date the promise becomes unconditional. Gifts of cash and other assets are presented as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support, unless explicit donor stipulations specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Non-cash gifts and donations are recorded as contributions at their fair values at the date of the donation.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Income taxes

The Foundation and BCMC are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

The Organization accounts for income taxes in accordance with the accounting guidance included in the Accounting Standards Codification (ASC). The Organization recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than fifty percent likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Organization has evaluated its positions regarding the accounting for uncertain tax positions and does not believe it has any material uncertain tax positions.

Accounting pronouncements issued by not yet adopted

On August 18, 2016, FASB issued ASU No. 2016-14. Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Under the ASU, the number of net asset classes is decreased from three to two; enhances disclosure of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how it manages its liquid available resources and liquidity risk is required. This ASU is effective for fiscal years beginning after December 15, 2017.

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, to update its revenue recognition standard to clarify the principals of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for periods beginning after December 15, 2018.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU is effective for the Foundation for the annual period beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the statement of financial position as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2019.

The Foundation is currently assessing the impact of these pronouncements on its financial statements.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Restricted cash

Certain proceeds of the Series 2017 Bonds (see note 8), as well as certain resources set aside for their repayment, are classified as restricted assets on the consolidated statement of financial position because they are maintained in a separate bank account and their use is limited by applicable bond covenants. The assets included in restricted cash include: 2017 Bond Cost of Issuance Fund, 2017 Bond Debt Service Fund, and the Capitalized Interest Fund.

4. Related parties

The Foundation entered into an agreement to lease space, land and equipment to HCSD to be used as a medical office and clinic facility. For the year ended June 30, 2018, rental income received from HCSD totaled \$167,967. The amount received is based off of an approved budget prepared by the Foundation. A reconciliation of actual expenditures to amounts received from HCSD is made at year end and any differences are settled between the Foundation and HCSD. Amounts owed to the Foundation at June 30, 2018 amounted to \$2,967 for actual expenditures expended in excess of rent received. This amount is included in due from affiliate on the consolidated statements of financial position.

Furthermore, the Foundation entered into an agreement on June 1, 2012 for the occupancy and construction of HCSD Administrative Offices. Within this lease agreement, the Foundation is leasing the grounds and warehouse facility from the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU A&M). Also, as part of this lease, LSU is leasing the facilities, including the construction, from the Foundation. The details of this lease are further discussed in Note 7.

The Foundation provides management and administrative services to BCMC. Administrative fees for the fiscal year ended June 30, 2018 totaled \$94,500 and were eliminated in these financial statements.

The BCMC and HCSF entered into a recapitalization agreement with the Board of Supervisors of LSU A&M on September 28, 2007. Prior to the agreement, HCSD leased from BCMC all net rentable space in its hospital. For the year ended June 30, 2018, rental income received from HCSD totaled \$322,892. Amounts owed to HCSD at June 30, 2018, amounted to \$3,314 for rent received in excess of actual expenditures expended. This amount is included in other current liabilities, on the consolidated statement of financial position.

5. Concentrations

Credit risk

The Organization maintains cash accounts with commercial banks which are insured by the Federal Deposit Insurance Corporation up to the maximum amount allowed. The uninsured and uncollateralized balance at June 30, 2018 totaled \$3,077,723.

Revenues

During 2018, the Organization received approximately 67% of its total revenue from HCSD. The Organization is unaware of any modifications or reductions to the current agreements which may impact these revenue sources.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Property, plant and equipment

A summary of property, plant and equipment at June 30, 2018, is set forth below:

Building and improvements	\$ 3,555,489
Furniture	100,950
Equipment	<u>182,512</u>
	3,838,951
Less: Accumulated depreciation	<u>(1,699,024)</u>
	2,139,927
Land	<u>680,700</u>
Net Property, Plant and Equipment	\$ <u>2,820,627</u>

Depreciation expense for the year ended June 30, 2018 amounted to \$123,963.

7. Leases

Operating Leases

Foundation

The Foundation entered into an agreement to lease land and a building to the Louisiana State University Health Care Sciences Division (HCSD) to be used as a medical office and clinic facility. The rent commencement date was June 1, 2004 and continued until May 31, 2015. The lessee has given written notice to extend the lease through June 30, 2024. Rent is based on monthly estimated operating costs. The operating costs component of rent shall be reconciled annually. Rent income for the year ended June 30, 2018 was \$167,967. All of the property and equipment owned by the Foundation (see Note 6) is being leased under the terms of this agreement with the HCSD.

BCMC

BCMC has entered into several lease agreements for the rental of parking space whose terms expire at various times through the year ending November 30, 2020, and require monthly payments ranging from \$500 to \$1,600.

The following is a schedule by year of future minimum lease payments required under all of these operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2019	27,200
2020	9,900
2021	<u>4,125</u>
	\$ <u>41,225</u>

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Leases (continued)

Capital Leases

Foundation

Effective June 1, 2012, the Foundation entered into a lease with the Board of Supervisors of Louisiana State University and Agriculture and Mechanical College (LSU) for the construction and occupancy of LSU Health Care Services Division (HCSD) Administrative Offices. As part of this lease, a capital lease agreement was entered into where LSU is leasing the facilities, including the construction, from the Foundation for a term of eight years with a monthly rental payment amount due to the Foundation of \$42,656. Both of these lease agreements may be terminated after the Foundation has paid in full the Notes Payable, as detailed in Note 9. Unearned revenue is amortized using the effective interest method calculated based on a constant periodic annual rate of 2.7% over the lease term.

BCMC

Effective September 1, 2007, a capital lease agreement was entered into to lease a building, land, and equipment to Louisiana State University Health Care Sciences Division ("HCSD") to be used as a hospital, and has a term of 32 years. The monthly lease amount consists of debt services in accordance with Series 2007A Bonds, refunded by the Revenue Refunding Bonds, Series 2017 (see note 8). In accordance with the lease agreement, monthly estimated costs will be reimbursed. These operating costs are not included in the minimum lease receivable. Unearned revenue is amortized using the effective interest method calculated based on a constant periodic annual rate of 3.475% over the lease term.

The following schedule represents the estimated total minimum lease payments receivable under the lease agreements described above:

For the years ending June 30

2019	\$	874,919
2020		870,419
2021		870,819
2022		871,019
2023		875,394
Thereafter		<u>13,053,161</u>
Total minimum lease payment receivable		17,415,731
Less: unearned revenue		<u>(5,015,731)</u>
Net investment in capital lease receivable		12,400,000
Less: current portion of capital lease		<u>(475,000)</u>
Capital lease receivable, net of current portion		\$ <u>11,925,000</u>

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Bonds payable

BCMC

BCMC entered into a loan agreement with Health Care Community Development Corporation (HCCDC) on September 1, 2007. In this agreement, HCCDC (the Issuer) loaned the proceeds of its Series 2007A Health Care Community Development Corporation Revenue Bonds and the Series 2007B Health Care Community Development Corporation Taxable Revenue Bonds. On April 26, 2017, BCMC issued \$13,275,000 Revenue Refunding Bonds, Series 2017 which were used to finance the costs of capital improvements for the Medical Center. The Series 2017 Bonds were issued (1) to refund outstanding maturities of the Issuer's Series 2007A Bonds and (2) to pay the cost of issuing the Series 2017 Bonds.

The 2017 Bonds bear the following fixed interest rate and maturities as set forth by the Trust Indenture:

	<u>Amount</u>
2.000% Term Bond due on June 15, 2021	\$ 1,905,000
2.125% Term Bond due on June 15, 2022	500,000
2.375% Term Bond due on June 15, 2023	515,000
2.250% Term Bond due on June 15, 2024	520,000
3.000% Term Bond due on June 15, 2025	535,000
Term Bonds due on June 15, 2037 through 2038 (rates ranging between 3.000% and 4.000%)	8,885,000
	\$ 12,860,000

At June 30, 2018, debt consisted of the following:

	<u>Amount</u>
Series 2017	\$ 12,860,000
Less: payments	(460,000)
Less: unamortized bond discount	(59,037)
Less: deferred bond issuance costs, net	(289,864)
	\$ 12,051,099

The following schedule represents the total principal and interest payments as set out by the agreement:

<u>For the years ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 475,000	\$ 399,919	\$ 874,919
2020	480,000	390,419	870,419
2021	490,000	380,819	870,819
2022	500,000	371,019	871,019
2023	515,000	360,394	875,394
Thereafter	9,940,000	3,113,161	13,053,161
	\$ 12,400,000	\$ 5,015,731	\$ 17,415,731

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Bonds payable (continued)

BCMC (continued)

For the year ended June 30, 2018, BCMC recorded interest expense of \$428,043, which is net of the amortization of the bond premium of \$4,815 and amortization of the issuance costs of the bonds of \$14,494.

Under the terms of the Trust Indenture for the bonds, BCMC is required to maintain a Debt Service Reserve Fund for the Series 2017. The Debt Service Reserve fund deposit should be an amount equal to the debt service fund requirement. The balance in the debt service reserve fund at June 30, 2018 equaled \$884,432. The debt service fund balance is included in restricted cash on the consolidated statement of financial position. The Series 2017 Bond also has a cost of issuance account of the bonds process fund and an interest account of the debt service fund. The balance in the cost of issuance and interest accounts at June 30, 2018 was \$798.

9. Notes payable

On June 11, 2012, the Foundation entered into a loan agreement totaling \$467,326 with JP Morgan Chase Bank, N.A. The Foundation assigned the lease and rent related to the Lease Agreement for Construction and Occupancy of HCSD Administrative Offices dated effective June 1, 2012 as collateral for the note. The interest on the note was 2.7% per annum and was payable in monthly installments of \$42,656. The final balance in the amount of \$4,499 was paid on June 11, 2018. For the year ended June 30, 2018, the Foundation recorded interest expense of \$6,393.

10. Net assets released from restrictions

During the year ended June 30, 2018, \$148 of the Foundation's net assets were released from donor restrictions.

10. Restrictions on net assets

Temporarily restricted net assets are available for the following purposes:

Family Center Equipment – Medical Center	<u>\$ 3,458</u>
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11. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 28, 2018, and determined that no events occurred that require additional disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 545,861	\$ 2,426,193	\$ -	\$ 2,972,054
Capital lease receivable, current portion	-	475,000	-	475,000
Other receivables	1,988	454	-	2,442
Prepaid expenses	897	31,766	-	32,663
Due from affiliate	2,967	3,314	-	6,281
Total current assets	551,713	2,936,727	-	3,488,440
NON-CURRENT ASSETS:				
Restricted cash	-	887,745	-	887,745
Capital lease receivable, net of current portion	-	11,925,000	-	11,925,000
Property, plant and equipment, net	2,509,927	310,700	-	2,820,627
Total non-current assets	2,509,927	13,123,445	-	15,633,372
TOTAL ASSETS	\$ 3,061,640	\$ 16,060,172	\$ -	\$ 19,121,812
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable	\$ 8,548	\$ 5,186	\$ -	\$ 13,734
Other current liabilities	242	17,117	-	17,359
Bonds payable, current portion	-	475,000	-	475,000
Total current liabilities	8,790	497,303	-	506,093
LONG-TERM LIABILITIES:				
Bonds payable (including unamortized bond discount of \$59,037 and unamortized issuance costs of \$289,864), net of current portion	-	11,576,099	-	11,576,099
Other long-term liabilities	48,489	-	-	48,489
Total long-term liabilities	48,489	11,576,099	-	11,624,588
Total liabilities	57,279	12,073,402	-	12,130,681
NET ASSETS				
Unrestricted	3,004,361	3,983,312	-	6,987,673
Temporarily restricted	-	3,458	-	3,458
Total net assets	3,004,361	3,986,770	-	6,991,131
TOTAL LIABILITIES AND NET ASSETS	\$ 3,061,640	\$ 16,060,172	\$ -	\$ 19,121,812

See independent auditors' report.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	<u>Health Care Services Foundation - Unrestricted</u>	<u>Health Care Services Foundation - Temporarily Restricted</u>	<u>Health Care Services Foundation - Total</u>
REVENUES			
Management and implementation fees	\$ 94,500	\$ -	\$ 94,500
Interest income on capital leases	6,393	-	6,393
Investment earnings	9,718	-	9,718
Rental income	167,967	-	167,967
Other income	-	-	-
Contributions	-	-	-
Total revenues	278,578	-	278,578
Net assets released from restrictions	148	(148)	-
Total revenues and other support	278,726	(148)	278,578
EXPENSES			
Building costs:			
Depreciation	123,963	-	123,963
Insurance expense	15,537	-	15,537
Rent and other	165	-	165
Utilities	108,097	-	108,097
Capital contributions	-	-	-
Other:			
Bank fees	1,518	-	1,518
Interest expense	6,393	-	6,393
Legal and professional	139,300	-	139,300
Total expenses	394,973	-	394,973
Change in net assets	(116,247)	(148)	(116,395)
NET ASSETS - BEGINNING OF THE YEAR	3,120,608	148	3,120,756
NET ASSETS - END OF THE YEAR	\$ 3,004,361	\$ -	\$ 3,004,361

See independent auditors' report.

Bogalusa Community Medical Center - Unrestricted	Bogalusa Community Medical Center - Temporarily Restricted	Bogalusa Community Medical Center - Total	Eliminations	Consolidated
\$ -	\$ -	\$ -	\$ (94,500)	\$ -
409,119	-	409,119	-	415,512
18,040	-	18,040	-	27,758
360,692	-	360,692	-	528,659
1,195	-	1,195	-	1,195
436,836	-	436,836	-	436,836
<u>1,225,882</u>	<u>-</u>	<u>1,225,882</u>	<u>(94,500)</u>	<u>1,409,960</u>
-	-	-	-	-
<u>1,225,882</u>	<u>-</u>	<u>1,225,882</u>	<u>(94,500)</u>	<u>1,409,960</u>
-	-	-	-	123,963
173,798	-	173,798	-	189,335
35,657	-	35,657	-	35,822
-	-	-	-	108,097
1,551,782	-	1,551,782	-	1,551,782
2,000	-	2,000	-	3,518
428,043	-	428,043	-	434,436
111,438	-	111,438	(94,500)	156,238
<u>2,302,718</u>	<u>-</u>	<u>2,302,718</u>	<u>(94,500)</u>	<u>2,603,191</u>
(1,076,836)	-	(1,076,836)	-	(1,193,231)
<u>5,060,148</u>	<u>3,458</u>	<u>5,063,606</u>	<u>-</u>	<u>8,184,362</u>
<u>\$ 3,983,312</u>	<u>\$ 3,458</u>	<u>\$ 3,986,770</u>	<u>\$ -</u>	<u>\$ 6,991,131</u>

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Change in net assets:	\$ (116,395)	\$ (1,076,836)	\$ -	\$ (1,193,231)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation expense	123,963	-	-	123,963
Amortization of loan costs	-	14,494	-	14,494
Amortization of bond discount/premium	-	4,815	-	4,815
Change in operating assets and liabilities:				
Decrease in lease receivables	473,719	460,000	-	933,719
Decrease in other receivables	277	60,790	-	61,067
(Increase) decrease in prepaid expense	18	(834)	-	(816)
Decrease in accounts payable	(2,723)	(21,312)	-	(24,035)
Decrease in other liabilities	(47,156)	(390)	-	(47,546)
Decrease in unearned income	(6,393)	-	-	(6,393)
Net cash provided by (used in) operating activities	425,310	(559,273)	-	(133,963)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Principal payments on debt	(467,326)	(460,000)	-	(927,326)
Bond issuance cost on 2017 Series	-	(500)	-	(500)
Net cash used in financing activities	(467,326)	(460,500)	-	(927,826)
Net decrease in cash and cash equivalents	(42,016)	(1,019,773)	-	(1,061,789)
Cash and cash equivalents at beginning of period	587,877	4,333,711	-	4,921,588
Cash and cash equivalents at end of period	\$ 545,861	\$ 3,313,938	\$ -	\$ 3,859,799
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF FINANCIAL POSITION</u>				
Cash and cash equivalents - current	\$ 545,861	\$ 2,426,193	\$ -	\$ 2,972,054
Cash and cash equivalents - restricted	-	887,745	-	887,745
	\$ 545,861	\$ 3,313,938	\$ -	\$ 3,859,799
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>				
Cash Payments for Interest	\$ 6,393	\$ 409,119	\$ -	\$ 415,512

See independent auditors' report.

**INDEPENDENT AUDITORS' 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**

Board of Directors
Health Care Services Foundation
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Health Care Services Foundation (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charges 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 the internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 28, 2018