

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

Consolidated Financial Statements

Years Ended September 30, 2014 and 2013



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization) which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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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 financial position of Lafayette General Health as of September 30, 2014 and 2013, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2015 on our consideration of Lafayette General Health'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 Lafayette General Health's internal control over financial reporting and compliance.

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

A Professional Accounting Corporation

Metairie, LA
January 26, 2015

LAFAYETTE GENERAL HEALTH

Consolidated Balance Sheets September 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 40,253,457	\$ 58,471,397
Short-Term Investments	10,305,361	388,395
Patient Accounts Receivable, Less Allowance for Doubtful Accounts \$25,082,883 in 2014 and \$34,068,301 in 2013	73,319,203	60,961,528
Amounts Due from Third-Party Payors	18,298,294	15,569,560
Inventories	14,448,256	11,752,126
Other Current Assets	10,466,217	11,027,745
Total Current Assets	167,090,788	158,170,751
Noncurrent Assets		
Assets Limited as to Use		
Under Debt Agreements Held by Third Party Board Designated for Property and Equipment Additions and Replacements	11,529,282	3,045,229
Total Assets Limited as to Use	84,565,144	81,750,880
Investments in Joint Ventures	1,459,367	1,416,882
Property and Equipment, Net	258,233,062	215,035,548
Unamortized Debt Issuance Costs	1,821,261	1,965,329
Other Assets	23,324,342	22,990,416
Total Noncurrent Assets	380,932,458	326,204,284
Total Assets	\$ 548,023,246	\$ 484,375,035

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH

Consolidated Balance Sheets (Continued) September 30, 2014 and 2013

	2014	2013
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 48,346,639	\$ 40,101,832
Salaries and Wages Payable	14,937,481	11,340,436
Amounts Due to Third-Party Payors	7,159,230	6,349,114
Line of Credit, Construction and Equipment Loans	134,437	-
Deferred Revenue	9,973,361	34,571,686
Current Portion of Self-Insurance Reserves	6,053,909	4,727,228
Current Portion of Capital Lease Obligation	3,037,039	158,303
Current Maturities of Long-Term Debt	5,998,323	6,300,666
Total Current Liabilities	95,640,419	103,549,265
Noncurrent Liabilities		
Self-Insurance Reserves, Less Current Portion	725,815	1,365,081
Accrued Postretirement Benefit Costs	1,624,100	1,720,600
Capital Lease Obligation, Less Current Portion	3,829,119	3,567,584
Long-Term Debt, Less Current Portion, Net of Discount	193,198,610	148,583,667
Total Noncurrent Liabilities	199,377,644	155,236,932
Total Liabilities	295,018,063	258,786,197
Net Assets		
Noncontrolling Interest in Subsidiaries	5,244,300	5,108,653
Unrestricted Net Assets	247,760,883	220,480,185
Total Net Assets	253,005,183	225,588,838
Total Liabilities and Net Assets	\$ 548,023,246	\$ 484,375,035

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH

Consolidated Statements of Operations and Changes in Net Assets For the Years Ended September 30, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Net Patient Service Revenues	\$ 578,083,875	\$ 423,247,321
Provision for Bad Debts	(102,356,492)	(70,665,651)
Net Patient Service Revenues Less Provisions for Bad Debts	475,727,383	352,581,670
Other Operating Revenues	19,775,435	11,481,165
Total Revenues, Gains and Other Support	495,502,818	364,062,835
Operating Expenses		
Salaries, Wages, and Benefits	193,119,484	139,861,306
Medical Supplies and Drugs	99,156,543	80,988,083
Contract Services	91,478,068	48,018,827
Utilities and Equipment Rentals	53,392,375	32,680,648
Depreciation and Amortization	19,504,341	18,197,022
Provision for Bad Debts	976,111	370,223
Interest Expense	5,925,838	7,007,116
Insurance Expense	4,998,010	4,896,143
Other Expenses	7,855,502	13,114,584
Total Operating Expenses	476,406,272	345,133,952
Operating Income	19,096,546	18,928,883
Non-Operating Income		
Interest and Dividend Income	769,397	2,916,268
Realized Gains on Investments	4,360,782	4,753,886
Unrealized Gain (Loss) on Investments	1,374,368	(291,291)
Gain on Sale/Disposal of Assets	54,230	571,952
Other (Expense) Revenue , Net	(1,118,875)	290,596
Total Non-Operating Income	5,439,902	8,241,411
Excess of Revenues over Expenses	24,536,448	27,170,294
Attributable to Noncontrolling Interest	3,106,395	1,965,151
Excess of Revenues Over Expenses Attributable to the Health System	\$ 21,430,053	\$ 25,205,143

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH

Consolidated Statements of Operations and Changes in Net Assets (Continued) For the Years Ended September 30, 2014 and 2013

	September 30, 2014			September 30, 2013		
	Total	Controlling Interest	Noncontrolling Interests	Total	Controlling Interest	Noncontrolling Interests
Unrestricted Net Assets:						
Excess of Revenues over Expenses	\$ 24,536,448	\$ 21,430,053	\$ 3,106,395	\$ 27,170,294	\$ 25,205,143	\$ 1,965,151
Contributions from	5,966,897	5,850,645	116,252	1,748	-	1,748
Distributions Paid to	(3,087,000)	-	(3,087,000)	(1,250,000)	-	(1,250,000)
Increase in Net Assets	27,416,345	27,280,698	135,647	25,922,042	25,205,143	716,899
Net Assets:						
Beginning of the Year	225,588,838	220,480,185	5,108,653	199,666,796	195,275,042	4,391,754
End of the Year	<u>\$ 253,005,183</u>	<u>\$ 247,760,883</u>	<u>\$ 5,244,300</u>	<u>\$ 225,588,838</u>	<u>\$ 220,480,185</u>	<u>\$ 5,108,653</u>

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH

Consolidated Statements of Cash Flows For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Excess of Revenues over Expenses Attributable to the Health System	\$ 21,430,053	\$ 25,205,143
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities		
Depreciation and Amortization	19,504,341	18,197,022
Provision for Doubtful Accounts	103,332,603	71,035,874
Gain (Loss) on Sale/Disposal of Assets	(54,230)	(571,952)
Unrealized (Gains) Losses on Investments	(1,374,368)	291,291
Equity in Earnings of Joint Ventures	(42,485)	(11,478)
Noncontrolling Interests in Subsidiaries	3,106,395	1,965,151
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(115,690,278)	(70,047,064)
Amounts Due from/to Third-Party Payors	(1,918,618)	(12,370,939)
Inventories	(2,696,130)	(3,375,951)
Other Assets	371,670	(19,643,240)
Accounts Payable and Accrued Expenses	11,841,852	21,494,838
Deferred Revenue	(24,598,325)	34,571,686
Self-Insurance Reserves	687,415	1,880,024
Other Liabilities	(73,257)	(854,357)
Net Cash Provided by Operating Activities	13,826,638	67,766,048
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(59,362,087)	(34,668,784)
Proceeds from Sale of Assets	1,040	2,562,985
Net Increase in Assets Whose Use is Limited	(9,923,949)	(5,484,917)
Net (Increase) Decrease in Short-Term Investments	(9,916,966)	559,179
Net Cash Used in Investing Activities	(79,201,962)	(37,031,537)
Cash Flows from Financing Activities		
Repayment of Long-Term Debt	(5,205,503)	(5,737,432)
Proceeds from Issuance of Long-Term Debt	49,494,860	15,000,000
Cash Paid to Issue New Debt	-	-
Principal Payments under Capital Lease Obligations	(146,307)	(562,730)
Net Construction and Equipment Loan Activity	-	(5,000,000)
Net Proceeds from Line of Credit Activity	134,437	-
Distributions to Minority Interest Partners, Net of Contributions	2,879,897	(1,248,252)
Net Cash Provided by Financing Activities	47,157,384	2,451,586
Change in Cash and Cash Equivalents	(18,217,940)	33,186,097
Cash and Cash Equivalents		
Beginning	58,471,397	25,285,300
Ending	\$ 40,253,457	\$ 58,471,397

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Reporting Entity and Nature of Business:

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

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

Lafayette General Medical Center, Inc. (LGMC) is a not-for-profit Louisiana corporation, organized on a non-stock basis to provide medical care to the residents of southwest Louisiana. It is governed by a board of trustees. The trustees are elected from the general board membership, which consists of not more than 50 members. LGMC is located in Lafayette, Louisiana and operates 377 beds which include 15 LDRs, 24 mental health unit beds, 25 neonatal ICU bassinets and 26 nursery bassinets.

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

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

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

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

Greater Lafayette Physicians Hospital Organization, Inc. (PHO) is a wholly-owned physician-hospital organization that currently negotiates managed care contract arrangements. PHO is currently not in operation.

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

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

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

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

Significant Accounting Policies:

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Lafayette General Health System, Inc., its wholly owned subsidiaries and entities in which the Organization has a controlling financial interest as indicated above. All significant inter-company balances and transactions have been eliminated in consolidation.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Of particular significance to the Organization's consolidated financial statements are estimates involving allowances for doubtful accounts, estimates of amounts to be received under government healthcare and other provider contracts, and the determination fair value of certain financial instruments. Actual results could differ from those estimates.

Financial Statement Presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as permanently restricted, temporarily restricted, or unrestricted. At September 30, 2014 and 2013, and for the years then ended, all of the Organization's net assets were unrestricted.

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

Short-Term Investments: Short-term investments consist of highly liquid investments with a maturity of more than three months, when purchased, and a current maturity of less than one year. Short-term investments are stated at fair value based on quoted market values.

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

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

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

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

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

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

Deferred Revenue: The balance in this account consists of that portion of Medicaid supplemental payments under the CEA described above. The Organization is responsible for providing services associated with these payments into its next fiscal year-end.

Property and Equipment: Property and equipment are recorded at acquisition cost, including interest expense capitalized during construction. Interest expense of approximately \$1,488,405 and \$381,000, was capitalized in 2014 and 2013, respectively. Donated property and equipment are recorded at fair value at the date of donation, which is then treated at cost. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years.

Debt Issuance Costs: Costs related to the issuance of revenue bonds are deferred and amortized over the lives of the bonds using the straight-line method, which approximates the interest method.

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

Noncontrolling Interest: The interest held by third parties in subsidiaries owned or controlled by the Organization is reported in the consolidated balance sheets. Interest reported in the consolidated statements of operations and changes in net assets reflects the respective interest in the income or loss of subsidiaries attributable to the third parties, the effect of which is removed from the Organization's results of operations.

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

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

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

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

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

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

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

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

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

Net Patient Service Revenues, Patient Accounts Receivable, and Amounts Due to or from Third-Party Payors: The Organization provides medical services to government program beneficiaries and has agreements with other third-party payors that provide payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, prospectively determined rates per procedure, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 56% and 49% in 2014 and 2013, respectively.

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

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

Federal matching funds are not available for Medicaid payments that exceed UPLs. Each state's UPL methodology must comply with its state plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Under this methodology, LGMC and SMH received funding from the State of Louisiana during the fiscal years ended September 30, 2014 and 2013, collectively totaling \$4,985,492 and \$4,617,339, respectively, which is included on the statement of operations as a component of net patient service revenue.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

As mentioned above, LGHS and UHC also collaborated with the State of Louisiana through a CEA and related lease, assuming operational responsibility for LSU's teaching Hospital in Lafayette Louisiana. The Centers for Medicare & Medicaid Services (CMS) has provided for direct graduate medical education payments and indirect medical education reimbursement (DGME and IME) to LSU. The DGME and IME payment rules establish "caps" on the number of residency positions that are reimbursable but allow the caps (the "Residency Caps") to be shared among and/or affiliated to other hospitals under certain circumstances. In order for LSU to continue to effectively provide the LSU GME Programs, LSU transferred certain Residency Caps to Lafayette General Medical Center. The CEA also provides for other cost-based funding to LGMC and Louisiana Medicaid uncompensated care payments to UHC for the provision of health care services to UHC's Medicaid and self-pay / uninsured patients in a given State fiscal year. LGMC and UHC recognized a total of \$47,558,365 and \$49,907,337, during fiscal year ended September 30, 2014 and 2013, respectively, as a component of net patient service revenue, in accordance with the terms of the CEA. LGMC has also recorded deferred revenue of \$9,973,361 and \$34,571,686 associated with payments received for its CEA commitments for the remaining portion of the State fiscal year ended June 30, 2014 and 2013, respectively.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports and regulatory audit. Such settlements are estimated and recorded as amounts due to or from third-party payors in the consolidated financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in an increase to net patient service revenue of \$5,290,934 and \$68,918 in 2014 and 2013, respectively.

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

	Medicare	Medicaid
LGMC	2010	2010
SMH	2012	2011
LGSH	2010	2009
UHC	*	*

- * UHC has retained a June 30 year end for cost reporting purposes. As the effective date of the CEA was June 24, 2013, the last week of June 2013 will be included in the June 30, 2014 cost report when filed for UHC. LSU has filed a closing cost report through June 23, 2013. Settlement or recoupment actions associated with the closing cost report remain the responsibility of LSU.

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

The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2014, will be reported in the Organization's consolidated operations as such determinations are made.

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

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

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

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

For receivables associated with self-pay patients, those with no third-party coverage, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected, after all reasonable collection efforts have been exhausted, is written-off against the allowance for doubtful accounts.

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

The Organization's allowance for uncollectible accounts increased to 99% of self pay accounts receivable at September 30, 2014, from 91% of self pay accounts receivable at September 30, 2013. The Organization has experienced an increase in charity care and bad debt write-offs as a result of rising patient responsibilities due in part to high deductible and high co-pay insurance plans, and an overall increase in uninsured patients resulting from the collaboration with the State to operate the former LSU teaching hospital in Lafayette which serves a predominately Medicaid and uninsured population.

During 2013, the Organization changed its policy for accounting for write-offs of uninsured patient receivables subject to installment payment arrangements. This change did not have a material impact on the provision for bad debts recognized during the year. The Organization did not change its charity care or uninsured discount policies during fiscal years 2014 or 2013.

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standards rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided; thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided.

The percentage of patient service revenue, net of contractual allowance and discounts (but before the provision for bad debts), derived from these major payor sources as of September 30, 2014 and 2013 are as follows:

	2014	2013
Third-party Payors	71%	79%
Self Pay	29%	21%
Total All Payors	100%	100%

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

Charity Care: The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, and these amounts are not expected to result in cash flows, they are not reported as revenue. Charges foregone, based on established rates and estimated charity care costs, are shown below for the years ended September 30, 2014 and 2013, respectively.

	2014		2013	
	Charges Foregone	Estimated Costs In Excess of Payments	Charges Foregone	Estimated Costs In Excess of Payments
Charity Care	\$ 70,501,676	\$ 14,361,191	\$ 31,056,922	\$ 6,975,385

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

Income Taxes: LGMC, UHC, LGMD, and SMH are exempt from federal income taxes on related income under Internal Revenue Code (IRC) Section 501(a) as organizations described in Section 501(c)(3). PHO operates as a not-for-profit organization under Louisiana statutes; however, PHO is subject to federal income taxes and state franchise taxes. PHO has also incurred operating losses. LGSB and LIG are for-profit Louisiana limited liability corporations.

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

The Organization's various federal income tax and exempt organization income tax returns (IRS Forms 1065, 1120, and 990), whether filed on a calendar or fiscal year basis, are subject to examination by the IRS. The income tax returns for years 2010 through 2012 are subject to examination by the taxing authorities, generally for three years after they are filed.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

Significant New Accounting Pronouncements Adopted: On October 1, 2013, the Organization adopted the provisions of FASB Accounting Standards Update (ASU) 2011-11, "*Balance Sheet Topic (210): Disclosures About Offsetting Assets and Liabilities.*" This guidance contains new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The adoption of this guidance had no impact on the Organization's consolidated financial statements.

On October 1, 2013, the Organization adopted the provisions of FASB ASU 2012-05, "*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.*" This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. The adoption of this guidance had no impact on the Organization's consolidated statement of cash flows.

On October 1, 2013, the Organization adopted the provisions of FASB ASU 2013-01, "*Balance Sheet (Topic 210): Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities.*" This guidance provides clarification on the scope of the offsetting disclosure requirements of ASU 2011-01. The adoption of this guidance had no impact on the Organization's consolidated financial statements.

Note 2. Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2014 and 2013, were as follows:

	2014	2013
Gross Patient Service Revenue	\$ 1,469,848,607	\$ 1,181,072,516
Provisions for Contractual and Other Adjustments	(821,263,058)	(726,768,273)
Charges Forgone for Charity Care	(70,501,676)	(31,056,922)
Net Patient Service Revenue	<u>\$ 578,083,873</u>	<u>\$ 423,247,321</u>

Note 3. Business and Credit Concentration

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 3. Business and Credit Concentration (Continued)

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

The approximate percentages of net patient accounts receivable by payor at September 30, 2014 and 2013, were as follows:

	2014	2013
Managed Care \ Commercial	55 %	39 %
Medicare	24	23
Medicaid	10	7
Other Third-Party Payors	4	6
Self-Pay Patients	7	25
	<u>100 %</u>	<u>100 %</u>

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

As of September 30, 2014, the Organization reported cash and cash equivalents balances of \$40,253,457. Certain deposits exceed the amount of insurance coverage. The Organization's policy is to place its cash and cash equivalent deposits with high credit quality financial institutions. Accordingly, management does not believe these excess deposits expose the Organization to a significant risk of loss.

The Organization has entered into a daily overnight repurchase agreement with one financial institution, which is a cash sweep service arrangement. The arrangement withdraws and deposits cash balances above a specified dollar amount from one of the Organization's deposit accounts daily and invests it in short-term government securities overnight. The dollar amount associated with this repurchase agreement and included in the total cash and cash equivalents balances referenced above was \$17,994,310 as of September 30, 2014.

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

Short-term investments, at September 30, 2014 and 2013, were primarily invested in money market funds. The balance in short-term investments was \$10,305,361 and \$388,395 at September 30, 2014 and 2013, respectively.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

Assets limited as to use at September 30, 2014 and 2013, were as follows:

	2014	2013
Under Debt Agreement Held by		
Third Party		
Cash and Cash Equivalents	\$ 8,344,782	\$ 497,629
Loan Participation Interests (Note 8)	3,184,500	2,547,600
	<u>11,529,282</u>	<u>3,045,229</u>
By Board for Property and Equipment Additions and Replacements		
Equity Mutual Funds	40,873,540	39,636,886
Fixed Income Funds	40,073,431	38,166,270
Cash and Cash Equivalents	1,994,255	3,931,097
Other	1,623,918	16,627
	<u>84,565,144</u>	<u>81,750,880</u>
Total Assets Whose Use is Limited	<u>\$ 96,094,426</u>	<u>\$ 84,796,109</u>

Note 5. Fair Value Measurements

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

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

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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

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

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

The following table sets forth, by level within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2014:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:				
Equity Funds	\$ 41,702,751	\$ 41,702,751	\$ -	\$ -
Fixed Income Funds	50,099,540	50,099,540	-	-
Total Mutual Funds	91,802,291	91,802,291	-	-
Cash Equivalents, Money Market and Certificates of Deposit	1,994,502	1,994,502	-	-
Pooled Investment Accounts	279,005	-	279,005	-
Marketable Equity Securities	567,750	567,750	-	-
Insurance Company Group Annuity Contract	1,187,585	-	-	1,187,585
Other	1,623,918	-	1,623,918	-
Total	\$ 97,455,051	\$ 94,364,543	\$ 1,902,923	\$ 1,187,585

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

These instruments are included on the Organization's September 30, 2014, balance sheet under the following captions:

Short-Term Investments	\$ 10,305,361
Assets Limited as to Use	84,565,144
Items Included as a Component of Other Noncurrent Assets:	
Marketable Equity Securities	567,750
Deferred Compensation Arrangement Assets	<u>2,016,796</u>
Total	<u>\$ 97,455,051</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2013:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:				
Equity Funds	\$ 40,209,511	\$ 40,209,511	\$ -	\$ -
Fixed Income Funds	38,166,270	38,166,270	-	-
Total Mutual Funds	<u>78,375,781</u>	<u>78,375,781</u>	-	-
Cash Equivalents, Money Market and Certificates of Deposit	3,931,097	3,931,097	-	-
Pooled Investment Accounts	388,395	-	388,395	-
Marketable Equity Securities	451,500	451,500	-	-
Insurance Company Group Annuity Contract	1,137,322	-	-	1,137,322
Other	16,627	-	16,627	-
Total	<u>\$ 84,300,722</u>	<u>\$ 82,758,378</u>	<u>\$ 405,022</u>	<u>\$ 1,137,322</u>

These instruments are included on the Organization's September 30, 2013 balance sheet under the following captions:

Short-Term Investments	\$ 388,395
Assets Limited as to Use	81,750,880
Items Included as a Component of Other Noncurrent Assets:	
Marketable Equity Securities	451,500
Deferred Compensation Arrangement Assets	<u>1,709,947</u>
Total	<u>\$ 84,300,722</u>

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

The following tables set forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended September 30, 2014 and 2013:

<u>September 30, 2014</u>	<u>Level 3</u>	<u>Total</u>
Beginning Balance	\$ 1,137,322	\$ 1,137,322
Total Gains or Losses (Realized and Unrealized) Included in Changes in Net Assets	-	-
Interest Reinvested	19,339	19,339
Purchases	1,962,675	1,962,675
Sales	<u>(1,931,751)</u>	<u>(1,931,751)</u>
Ending Balance	<u>\$ 1,187,585</u>	<u>\$ 1,187,585</u>
<u>September 30, 2013</u>	<u>Level 3</u>	<u>Total</u>
Beginning Balance	\$ 801,505	\$ 801,505
Total Gains or Losses (Realized and Unrealized) Included in Changes in Net Assets	-	-
Interest Reinvested	19,259	19,259
Purchases	356,720	356,720
Sales	<u>(40,162)</u>	<u>(40,162)</u>
Ending Balance	<u>\$ 1,137,322</u>	<u>\$ 1,137,322</u>

Changes in Fair Value Levels

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

We evaluate the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended September 30, 2014 and 2013, there were no transfers in or out of Level 3.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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

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

September 30, 2014					
Investment	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund	\$ 1,187,585	See Discussion Above	See Discussion Above	N/A	N/A

September 30, 2013					
Investment	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund	\$ 1,137,322	See Discussion Above	See Discussion Above	N/A	N/A

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

Financial Instrument Fair Value Disclosures

At September 30, 2014 and 2013, the Organization's financial instruments included cash and cash equivalents, accounts receivable, investments, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term obligations, approximate their fair values.

The fair value of the Organization's Series 2010 debt at September 30, 2014 is estimated at \$87,398,169, compared to its carrying value of \$80,968,744 (net of unamortized original issue discount of \$606,256). The fair value of this instrument is based on currently traded values of similar financial instruments.

The September 30, 2014 carrying value of \$7,317,903 of the Organization's long-term Equipment Vendor Installment Payable, disclosed in Note 8, is considered to approximate its fair value measured by utilizing a discounted cash flow approach at borrowing rates currently available to the Organization.

It is not practicable to estimate the fair value of the New Market Tax Credit Facility A and B, nor the Series 2012A and Series 2012B bonds, separate from the value supported by the related credit facilities.

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 6. Investments in Joint Ventures and Other Investees

The Organization holds a 50% interest in Lafayette General Endoscopy Center, Inc. (GI-ASC). This Company provides ambulatory surgical services in Lafayette, Louisiana. The investment in GI-ASC, accounted for under the equity method, is \$1,459,367 and \$1,416,882, as of September 30, 2014 and 2013, respectively. Equity method goodwill arising upon the 2005 acquisition of GI-ASC by LGMC is included as a component of the carrying amount of the investment. The carrying amount of the equity method goodwill component comprises the substantial portion of the investment balance as of September 30, 2014 and 2013.

Summarized financial information of GI-ASC as of September 30, 2014 includes total assets of \$377,302 and total liabilities of \$125,234. GI-ASC operates on a calendar year basis and reported \$1,169,140 of net income for the nine months ended September 30, 2013. As of September 30, 2013, GI-ASC had assets of \$279,446 and liabilities of \$112,348. Income for the nine months ended September 30, 2013 was \$1,367,284. Net income is routinely distributed to LGMC and the other IRS subchapter S-corporation shareholders each year.

Investee companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Other Noncurrent Assets include \$320,769 and \$334,278 of investments accounted for under the cost method as if September 30, 2014 and 2013, respectively.

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

Note 7. Property and Equipment

Property and equipment consists of the following:

	2014	2013
Land and Land Improvements	\$ 10,498,443	\$ 9,932,443
Buildings and Fixed Equipment	321,340,690	259,290,698
Major Movable Equipment	116,557,105	101,829,978
	<u>448,396,238</u>	<u>371,053,119</u>
Less: Accumulated Depreciation	203,932,151	184,672,776
	<u>244,464,087</u>	<u>186,380,343</u>
Construction in Progress	13,768,975	28,655,205
Total	<u><u>\$ 258,233,062</u></u>	<u><u>\$ 215,035,548</u></u>

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 7. Property and Equipment (Continued)

Construction in Progress and Purchase Commitments

During 2014, the Organization continued with the expansion and renovation of its LGMC campus. This \$52.5 million development enlarged and upgraded the emergency department and surgical platform, and added a new parking garage.

At September 30, 2014, the Organization was obligated under purchase commitments of approximately \$772,126, principally related to its operating and emergency room expansion and other various property improvement projects, and \$877,521 related to other purchase commitments.

Note 8. Short-Term and Long-Term Debt

The following table summarizes the Organization's outstanding debt as of September 30, 2014 and 2013:

<u>Line of Credit</u>	<u>2014</u>	<u>2013</u>
Line of Credit - LGMC: Interest rate of LIBOR plus 2.25% (2.40% at September 30, 2014), due upon demand or maturity on August 1, 2015.	(A) \$ -	\$ -
Line of Credit - LGH: Interest rate of LIBOR plus 1% (1.15% at September 30, 2014), due upon demand or maturity on February 7, 2015.	(A) -	-
Line of Credit - OCSP: Interest rate of Prime Rate plus 1% (4.25% at September 30, 2014), due upon demand or maturity on April 22, 2015.	(A) <u>134,437</u>	-
Total	\$ <u>134,437</u>	\$ -

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

<u>Long-Term Debt</u>	<u>2014</u>	<u>2013</u>
New Market Tax Credit Facility A: Variable interest at not less than 4.00%, payable in annual installments through 2023.	(B) \$ 25,476,000	\$ 25,476,000
New Market Tax Credit Facility B: Interest Rate of 1.00%, anticipated maturity of September 30, 2023.	(B) 9,524,000	9,524,000
Revenue and Refunding Bonds, Series 2010: Interest payable semi-annually at rates ranging from 2.0% to 5.5%. Principal is payable annually through 2041.	(C) 81,595,000	82,730,000
Hospital Revenue Bonds, Series 2012A: Variable interest at 60% of LIBOR plus 1.4% (1.49% at September 30, 2014), payable monthly. Principal payable annually through 2042, beginning in 2018.	(D) 30,000,000	20,000,000
Hospital Revenue Bonds, Series 2012B: Fixed interest at 2.46% through 2019. Principal payable annually through 2042, beginning in 2018.	(D) 30,000,000	-
Revenue Note Payable - LGMC: Interest rate of 3.61%, payable in monthly installments of \$78,760 through February 25, 2016.	(E) 1,303,356	2,184,112
Bank Note Payable - LGMC: Monthly principal and interest payments of \$5,615 and a final balloon payment due March 2, 2017. Interest rate of 4.5%.	(F) 640,950	679,003
Equipment Vendor Installment Payable - LGMC: Principal due in 18 remaining installments as of September 30, 2014. Final payment due January 1, 2019.	(G) 7,317,903	3,577,443
Bank Note Payable - LIG: Variable interest at 4.5%, due in serial installments through July 2020.	(H) 3,305,748	3,751,993
Bank Note Payable - LGMC: Interest rate of LIBOR plus 2.50% (2.66% at September 30, 2014), payable in monthly principal and interest installments through March 4, 2017.	(I) 3,312,848	4,621,233
Bank Note Payable - LIG: Monthly principal and interest payments of \$24,815 and a final balloon payment due January 20, 2017. Interest rate of 4.5%.	(J) 2,819,413	2,970,048
Bank Note Payable - LGMC: Interest rate of 4.125% payable in monthly principal and interest installments through April 2018.	(K) 1,845,924	-
Bank Note Payable - OCSP: Interest rate of 4.75% payable in monthly principal and interest installments through April 2022.	(L) 212,047	-
Equipment Note Payable - LGMC: Principal due in equal installments through the remainder of the vendor contract in 2017.	(M) 2,450,000	-
	<u>199,803,189</u>	<u>155,513,832</u>
Less: Unamortized original issue discount	<u>(606,256)</u>	<u>(629,499)</u>
	<u>199,196,933</u>	<u>154,884,333</u>
Less: Current maturities of long-term debt	<u>(5,998,323)</u>	<u>(6,300,666)</u>
Total	<u>\$ 193,198,610</u>	<u>\$ 148,583,667</u>

(A) Revolving Credit Line: The Organization has an unsecured revolving line of credit from a bank that permits borrowings up to \$20,000,000, at an interest rate of LIBOR plus 2.25% (2.41% at September 30, 2014). The line of credit matures on August 1, 2015. At September 30, 2014 and 2013, the Organization had \$-0- of outstanding borrowings under this line of credit.

During February 2014, the Organization negotiated a secured revolving line of credit from a lender that permits borrowing up to \$20,000,000 at an interest rate of LIBOR plus 1% (1.15% at September 30, 2014). The line of credit is secured by the investment assets of the Organization. The line of credit matures on February 7, 2015. At September 30, 2014, the Organization had \$-0- of outstanding borrowings under this line of credit.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

The OCSP has a secured revolving line of credit from a bank that permits borrowing up to \$2,250,000, at an interest rate of Index plus 1% (4.25% at September 30, 2014). The line of credit is secured by the real property of the OCSP. The line of credit matures on April 22, 2015. Outstanding borrowings under this line of credit are \$134,437 at September 30, 2014.

- (B) New Market Tax Credit Facility Notes A and B: On September 10, 2009, LGMC issued two notes payable (Facility A and B) to MK Louisiana Charitable Healthcare Facilities Fund LLC. The notes are subject to separate credit and loan agreements executed by LGMC (as Borrower), Iberia Bank as the community development entity (CDE) under the New Markets Tax Program, and MK Louisiana Charitable Healthcare Facilities Fund LLC (Lender).

The Facility A Note (senior note), issued for \$25,476,000, is secured under the aforementioned credit and loan agreements. The Facility A Note matures on September 30, 2023. There are, however, mandatory payments under a loan participation agreement which are due serially from September 30, 2010 to September 30, 2023. LGMC may not prepay the note in full or in part prior to September 2016. Interest on this obligation is at a rate equal to the LIBOR base rate plus 2.5%, however that interest rate shall never be lower than 4%.

The Facility B Note (subordinate note) issued for \$9,524,000, is also secured by the credit and loan agreements referred to above. The Facility B Note includes a provision prohibiting any early payment prior to September 2016. This note bears interest at a rate of 1% per annum. Interest is payable on this note quarterly in arrears beginning December 31, 2009. The balance of all outstanding principal and accrued unpaid interest is due upon maturity.

Both Facility A and Facility B are secured on a parity with LGMC's other outstanding indebtedness under its existing master trust indenture and related supplemental master trust indenture.

The notes are intended to qualify as a "quality low-income community investment" for purposes of generating certain tax credits called New Market Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, LGMC must comply with certain representations, warranties and covenants. These include, but are not limited to, LGMC's non-profit status, and that the "portion of the business" (as defined) will operate to qualify as a qualified low-income community business. If, as a result of the breach of the agreement or loan documents by LGMC, the Lender is required to recapture all or any part of the New Market Tax Credits previously claimed by the Lender, LGMC agrees to pay to the Lender an amount equal to the sum of the credits recaptured. The effect of which could accelerate the maturity of these notes. Commencing on the first day after the expiration of the NMTC compliance period, in September 2016, and continuing for a period of twenty days thereafter, the Lender shall have the right to acquire, by purchase, the notes and all of the Lenders' rights and interest, known as the "put right".

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

Lenders shall provide the Organization with notice of exercise of this right during the twenty day period specifying exercise of its right. Within thirty days of delivery of such notice, the Organization will pay to the Lender an amount equal to the full amount of unpaid principal and unpaid interest on the Facility A loan plus \$1,000.

- (C) Revenue and Refunding Bonds, Series 2010 - LGMC: During 2010, the Louisiana Public Facilities Authority (LPFA) issued \$84,840,000 of tax-exempt revenue and refunding bonds for which LGMC is obligated. The 2010 series bonds are secured by a multiple indebtedness mortgage, assignment of leases and rents, and a security agreement on certain land and the improvements located and to be located thereon and certain personal property of the LGMC. See additional discussion that follows later in this Note. These bonds are due serially through November 1, 2041.
- (D) Revenue Bonds Series 2012 A and B - LGMC: on July 1 2012, the LPFA authorized the issuance of \$30,000,000 Series 2012A and \$30,000,000 Series 2012B of hospital revenue bonds for which LGMC is obligated via an executed loan agreement issued as of that date. The purpose of the issue is to finance a portion of the costs of construction, expansion and renovations of operating room suites, the emergency room, and other portions of the main campus and additional construction of a multi-level parking facility. Both the Series A and B Bonds are being issued as draw down bonds. As of September 30, 2014, the total amount drawn by LGMC against the loan agreement was \$60,000,000. The loan agreement requires debt service by LGMC in an amount sufficient to provide for principal and interest under the terms of each bond series. Interest on the outstanding principal balance of each series is payable monthly. Series A bonds bear interest at a variable rate through July 25, 2022.

The Series B bonds bear interest at fixed rate of 2.46% per annum through July 25, 2019. Both Series contain provisions for rate resets in subsequent periods. Principal repayment requirements for both Series A and B are serial at scheduled amounts assuming the maximum authorized principal. Principal funding requirements begin November 1, 2018 and continue through 2042. The bonds contain optional redemption provision at the direction of LGMC.

- (E) Revenue Note Payable - LGMC: During 2011, LPFA issued this note to a supplier of medical equipment for which LGMC is obligated. The proceeds were used to purchase medical equipment during the hospital renovation. The balance is due in monthly installments of \$78,760 through February 25, 2016. The note bears interest at a rate of 3.61%.
- (F) Bank Note Payable - LGMC: On March 2, 2012, a long agreement was executed by and among LGMC (as the borrower) and Home Bank (as the lender). The term loan agreement was issued for \$730,000 of principal to be utilized for construction cost for leasehold improvements. The note was refinanced with the lender during 2013. The term loan is payable in 59 monthly installments of \$5,615 and a final balloon payment due on March 2, 2017.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

The term loan bears interest at 4.5%. The term loan is secured by a security interest in the leasehold improvements and in furniture, fixtures, and equipment purchased.

- (G) Equipment Vendor Installment Payable - LGMC: At September 30, 2014 the Organization has recorded a long-term installment payable to an equipment vendor for the capitalized cost of certain software and related equipment. As of September 30, 2013, 14 payments remain. These payments are reflected at their present value of \$7,317,903 using a discount rate of 3%. Of the discounted amount due, \$2,154,627 is due in fiscal year 2014 with the balance due in quarterly installments through 2019.
- (H) Bank Note Payable - LIG: On April 23, 2009, a loan agreement was executed by and among Lafayette Investment Group, LLC (as borrower) and Home Bank (as lender). The term loan agreement was issued for up to \$5,592,055 of principal to be utilized to pay off construction costs for Lafayette Surgical Hospital. The note has since been refinanced with the lender and bears interest at 4.5%. The remaining balance of the note is due serially in monthly installments through July 2020.
- (I) Equipment Loan - LGMC: On May 4, 2011, a promissory note was executed by and among LGMC (as Borrower) and Capital One Bank (as Lender). The note evidences a non-revolving multiple advance line of credit master note. The terms of the note provide for advances up to a maximum annual principal amount of \$6,000,000 for the purchase of medical and technological equipment. The note required monthly interest payments at a rate of LIBOR plus 2.50%. The line of credit matured on May 4, 2012. Prior to maturity, the note was converted to a term loan payable in monthly principal and interest installments through March 4, 2017. The term loan bears interest at LIBOR plus 2.50% (2.66% at September 30, 2014).
- (J) Construction Loan - LIG: On December 15, 2010, a promissory note was executed by and among Lafayette Investment Group, LLC (as borrower) and Home Bank (as Lender). The terms of the note provided for multiple advances for up to \$3,210,000 of principal to be utilized to pay off construction costs. On January 27, 2012, the loan was converted to a term loan payable. The note was refinanced during 2013. The note is payable in 59 monthly installments of \$24,815 and a final balloon payment due on January 20, 2017. The term loan bears interest at 4.5%. The term loan is secured by a security interest in deposit accounts with the lender, and certain real estate owned by LIG.
- (K) Bank Note Payable - LGMC: At September 30, 2014 the Organization has recorded a bank note payable with LGMC (as Borrower) and Home Bank (as Lender). The loan agreement was issued for up to \$5,100,000 of principal to be utilized to pay off construction costs for OCSP. The note bears interest at 4.125% and shall be paid off in 35 monthly payments of principal and interest with one final balloon payment equal to all outstanding principal and accrued unpaid interest.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

- (L) Bank Note Payable - OCSP: At September 30, 2014 the Organization has recorded a bank note payable with OCSP (as Borrower) and Home Bank (as Lender). The loan agreement was issued for up to \$1,900,000 of principal to be utilized to pay off construction costs for OCSP. The note bears interest at 4.75% and shall be paid off in 84 monthly payments of principal and interest.
- (M) Equipment Note Payable - LGMC. At September 30, 2014, the Organization recorded a note payable with the food services facilities management provider for the renovation to and purchase of equipment at the hospital facilities. The note shall be paid off in equal monthly installments over a 3 year period beginning upon the final installation of the equipment through 2017.

LGMC and Whitney Bank, as master trustee (the "Master Trustee") for the Series 2010 and 2012 bond issues have entered into, amended, restated and added supplements to the Master Trust Indenture, with the latest supplement dated July 1, 2012 that was specific to the Series 2012 Bonds. LGMC and the LPFA have entered into a Loan Agreement documenting that LGMC, as Obligated Group Agent, has delivered a promissory note to the LPFA to evidence and secure its obligations to the LPFA.

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

Under the Series 2010 and 2012 bond obligations, LGMC is also subject to an Act of Assignment of Receipts and Security Agreement, which has been supplemented and amended and restated, with the latest change made effective July 1, 2012 (collectively, the "Assignment"), pursuant to which LGMC, as Obligated Group Agent, has assigned certain Receipts (as therein defined), to the Master Trustee, as assignee, for the benefit of the owners of the bonds and for the benefit of certain of the existing and future creditors of the Obligated Group Members. The provisions of the Series 2012 and 2010 bond obligations also contain a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated August 12, 2010 (the "Mortgage") by LGMC in favor of the Master Trustee, as mortgagee, granting a mortgage lien on certain of the properties of LGMC.

The Organization is required to comply with covenants contained in the Amended Master Trust Indenture, dated August 1, 2010. These covenants include, among other requirements, maintenance of proper debt service coverage ratio. For the years ended September 30, 2014 and 2013, the Organization was in compliance with these covenants.

Debt service payments sufficient to meet annual principal and interest requirements under the bond indenture are required to be made by the Organization.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

At September 30, 2014, scheduled maturities of long-term debt for the years ending September 30, are as follows*:

2015	\$	5,998,323
2016		15,014,514
2017		6,354,162
2018		3,578,109
2019		1,259,343
Thereafter		<u>167,598,738</u>
Total	\$	<u>199,803,189</u>

* The schedule above is prepared assuming the Lender associated with Item (B) above does not exercise its put right associated with Facility A and Facility B. If this right were to be exercised it would accelerate maturity of those debt instruments to 2016.

As noted above, the new market tax credit financing requires the Organization to make mandatory payments under a loan participation agreement with the leveraged lender during the period the note is outstanding. Remaining required mandated payments as of September 30, 2014, are as follows assuming no exercise of the Lender's put right:

2015	\$	2,547,600
2016		2,467,988
2017		2,467,988
2018		2,467,988
2019		2,467,988
Thereafter		<u>19,395,948</u>
Total	\$	<u>31,815,500</u>

Upon making each of the mandatory payments, the Organization receives junior participation interests in the distributable proceeds (as defined in the agreement) in an amount equal to the amount of each mandatory payment. The participation interests ultimately function in a similar manner as a sinking fund and are utilized to retire the principal of the note upon maturity. The Organization's participation interests totaled \$3,184,500 as of September 30, 2014, and are included in Assets Limited as to Use on the consolidated balance sheets. See Note 4.

The Organization paid interest on its long-term debt totaling \$7,391,000 and \$6,963,865, during the years ended September 30, 2014 and 2013, respectively. See Note 1 for details of interest cost capitalized as a component of property and equipment.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 9. Capital Leases

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

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

During 2013, the lease was amended to include an additional 5,477 square feet of hospital space. The monthly lease obligation of \$28,833 was increased to \$29,365, effective May 1, 2013, and is due in monthly installments over the remainder of the original 25 year lease term and the original renewal term of an additional 24 year period, if exercised. The recorded cost of land, building, leasehold improvements, and equipment associated with this lease is \$4,588,947 and \$3,952,972, and the recorded cost of construction in progress associated with this lease is \$39,149 and \$546,966 as of September 30, 2014 and 2013. Accumulated amortization of the leased assets acquired was \$911,847 and \$585,589, as of September 30, 2014 and 2013.

Future minimum lease payments and the present value of the minimum lease payments under all of the capital lease obligations discussed above are as follows as of September 30, 2014:

Year Ending September 30:	Amount
2015	\$ 3,333,200
2016	547,726
2017	454,531
2018	454,531
2019	395,314
2020-2029	1,761,906
2030-2034	1,761,906
2035	1,703,176
Total Minimum Lease Payments	<u>10,412,290</u>
Less: Amount Representing Interest	<u>(3,546,132)</u>
Present Value of Minimum Lease Payments	6,866,158
Less: Current Maturities of Capital Lease Obligations	<u>(3,037,039)</u>
Long-Term Capital Lease Obligations	<u>\$ 3,829,119</u>

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 10. Retirement Benefits

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

The active plan contains both a contributory and a noncontributory component. For the contributory component, the Organization matches two-thirds of a participating employee's elective deferrals, up to a maximum of two-thirds of 3% of the employee's annual salary. In addition, during each plan year, participants may elect to defer up to 20% of their compensation to be contributed by the employee plan. For the noncontributory component, the Organization may contribute 1% to 5% (based on years of participation) of a participating employee's salary, but such contribution is not required. For the fiscal year end September 30, 2014 and 2013, management elected to suspend this contribution.

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

The Organization's policy is to fund all pension costs of the contributory component in the period earned by the employee and all pension costs of the noncontributory component annually at the end of the plan year. Defined contribution plan costs charged to operations for the years ended September 30, 2014 and 2013, were \$2,171,380 and \$1,422,507, respectively.

The Organization has a deferred compensation arrangement with a group of its key executives. The purpose is to provide supplemental retirement benefits which, when integrated with the Organization's retirement income sources, provides a specified target level of retirement benefits for those executives. As of September 30, 2014 and 2013, the Organization had set aside \$2,016,796 and \$1,709,947, respectively, in a Rabbi Trust, which is included as a component of Other Noncurrent Assets on its consolidated balance sheets, in accordance with terms of the arrangement. As of September 30, 2014 and 2013, the Organization had recorded accrued liabilities of \$2,216,622 and \$839,241, respectively, which represents the estimated present value of the benefits earned under this agreement.

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

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than 1.5%. Such interest rates are reviewed on a semi-annual basis for resetting. For the years ended September 30, 2014 and 2013 the effective yields and crediting interest rates ranged between 1.5% and 2.0%.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 11. Accrued Other Postretirement Benefits

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

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

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

The plan's funded status, along with assumptions used to calculate that status at September 30, 2014 and 2013, were as follows:

	Fiscal Year Ending September 30,	
	2014	2013
Benefit Obligation Information:		
Accumulated Postretirement Benefit Obligation	\$ 1,777,400	\$ 1,888,100
Asset Information:		
Employer Contributions	\$ 167,500	\$ 157,500
Plan Participants' Contributions	-	6,600
Benefits Paid	\$ 167,500	\$ 164,100
Fair Value of Assets at End of Year	\$ -	\$ -
Funded Status at End of Year	\$ (1,777,400)	\$ (1,888,100)
Amounts Recognized in the Statement of Financial Position:		
Noncurrent Assets	\$ -	\$ -
Current Liabilities	(153,300)	(167,500)
Noncurrent Liabilities	(1,624,100)	(1,720,600)
Total	\$ (1,777,400)	\$ (1,888,100)
Amounts Recognized in Unrestricted Net Assets:		
Amount Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	\$ -	\$ -
Prior Service Cost/(Credit)	(200)	(8,300)
Net Actuarial (Gain)/Loss	(932,500)	(1,012,900)
Total	\$ (932,700)	\$ (1,021,200)
Total Amount Recognized in Unrestricted Net Assets	\$ (932,700)	\$ (1,021,200)
Assumptions for End of Year Disclosure:		
Discount Rate	3.46%	3.74%
Initial Medical Trend Rate	7.50%	8.50%
Ultimate Medical Trend Rate	5.00%	5.00%
Years from Initial to Ultimate Trend	10	7
Measurement Date	9/30/2014	9/30/2013
Census Date	9/30/2014	9/30/2012

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 11. Accrued Other Postretirement Benefits (Continued)

The following table presents expected future benefit payments to beneficiaries:

	Fiscal Year Ending September 30,	
	2014	2013
Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets:		
Net Periodic Benefit Cost		
Net Periodic Benefit (Income)/Expense	\$ (31,700)	\$ 40,400
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	\$ -	\$ -
Prior Service Cost (Credit)	-	-
Net Loss (Gain)	(10,700)	(848,500)
Amortization of Transition Obligation/(Asset)	-	-
Amortization of Prior Service Cost	8,100	39,300
Amortization of Net Loss (Gain)	91,100	-
Total Change in Unrestricted Net Assets	<u>\$ 88,500</u>	<u>\$ (809,200)</u>
Total Recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	<u>\$ 56,800</u>	<u>\$ (768,800)</u>
Assumptions for Net Periodic Benefit Cost:		
Discount Rate	3.74%	2.94%
Initial Medical Trend Rate	8.50%	9.00%
Ultimate Medical Trend Rate	5.00%	5.00%
Years from Initial to Ultimate Trend	7	8
Measurement Date	9/30/2013	9/30/2012
Expected Benefit Payments:		
2015 Fiscal Year	\$ 153,300	
2016 Fiscal Year	\$ 152,900	
2017 Fiscal Year	\$ 151,700	
2018 Fiscal Year	\$ 149,800	
2019 Fiscal Year	\$ 147,100	
2020 - 2024 Fiscal Year	\$ 665,000	
Expected Employer Contributions Recognized for the 2015 Fiscal Year:	<u>\$ 153,300</u>	
Expected Amortization Amounts Included in Expense for the 2015 Fiscal Year:		
Transition Obligation/(Asset)	\$ -	
Prior Service Cost	\$ (200)	
Actuarial (Gain)/Loss	\$ (85,300)	

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 12. Functional Expenses

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

Expenses related to providing these services for the years ended September 30, 2014 and 2013, were as follows:

	2014	2013
Health Care Services	\$ 375,663,613	\$ 274,551,769
General and Administrative	93,915,903	70,582,183
Total	\$ 469,579,516	\$ 345,133,952

Note 13. Income Taxes

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

Note 14. Commitments and Contingencies

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

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

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 14. Commitments and Contingencies (Continued)

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

Operating Lease Commitments: Rental expense for all operating leases totaled \$22,529,644 and \$12,376,709 for the years ended September 30, 2014 and 2013, respectively.

As initially detailed in Note 1, UHC entered into a lease agreement with LSU and the State to lease the facilities and equipment of University Medical Center. The initial lease term is for 10 years. Beginning on the expiration of the fifth year of the initial term and continuing on each annual anniversary date thereafter, the remaining portion of the initial term will automatically be extended for an additional one year period. Annual rent is \$15,790,500, payable in four quarterly installments. UHC was required to prepay one full year of rent which shall be considered payment of all quarterly rent due for the last year of the term. This prepayment is classified as a noncurrent asset and is included in Other Assets on the September 30, 2014 Balance Sheet.

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

2015	\$ 20,696,135
2016	19,525,617
2017	18,280,537
2018	17,448,073
2019	16,240,920
Thereafter	58,978,353
Total	\$ 151,169,635

The Organization and its affiliates lease office space and clinical facilities, generally to members of the medical staff, under operating leases whose terms range from monthly up to five years. Assets held for lease, at September 30, 2014 and 2013, consist of buildings and improvements with an original cost of \$77,040,954 and \$73,449,288, respectively. Accumulated depreciation of the leased assets totaled \$38,863,818 and \$35,199,726, at September 30, 2014 and 2013, respectively.

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

Note 14. Commitments and Contingencies (Continued)

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

2015	\$	4,507,329
2016		3,893,058
2017		2,126,597
2018		1,288,005
2019		911,317
Thereafter		1,559,205
Total	\$	14,285,511

Community Benefits - The Organization has committed, under Low Income and Needy Collaborative Care Agreements (LINCCA), to funding quality healthcare services to low income and needy residents in its community. During the years ended September 30, 2014 and 2013, the Organization recorded, within operating expenses on its consolidated statements of operations, payments of \$1,202,337 and \$7,845,737, respectively, in accordance with the terms of its LINCCAs.

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

Note 15. Electronic Health Record (EHR) Incentives

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

LAFAYETTE GENERAL HEALTH

Notes to Consolidated Financial Statements

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

The Organization recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling \$2,794,708 and \$873,158 for the years ended September 30, 2014 and 2013, respectively, are included in other operating revenue in the accompanying consolidated statements of operations. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. The Organization's compliance with the meaningful use criteria is subject to audit by the federal government.

Note 16. Subsequent Events

Management evaluated events and transactions occurring subsequent to September 30, 2014, and through January 26, 2015, the date of issuance of the consolidated financial statements.

The following events were deemed necessary for disclosure recognition in the consolidated financial statements.

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

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

During December 2014, the amended and restated cooperative endeavor agreement described in Note 1, was approved by CMS.

Effective October 1, 2014, LGH became the sole member of SMH.

Note 17. New and Pending Financial Accounting Standards Board (FASB) Pronouncements Not Yet Adopted

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

In February 2013, the FASB issued ASU 2013-04, "*Liabilities (Topic 405): Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date.*" This guidance requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation with the scope of this guidance is fixed at the reporting date. This guidance is effective for the Organization beginning October 1, 2014. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06 "*Not-for-Profit Entities (Topic 958)*" The amendments in this Update apply to not-for-profit entities, including not-for-profit, business-oriented health care entities that receive services from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. Charging the recipient not-for-profit entity means requiring payment from the recipient not-for profit entity at least for the approximate amount of the direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing a service to the recipient not-for-profit entity or the approximate fair value of that service. The update requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. A recipient not-for-profit entity within the scope of Topic 954, *Health Care Entities*, that is required to provide a performance indicator (analogous to income from continuing operations of a for-profit entity) should report as an equity transfer the increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. This guidance is effective for the Organization beginning October 1, 2014. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

Note 17. New and Pending Financial Accounting Standards Board (FASB) Pronouncements Not Yet Adopted (Continued)

In January 2014, The FASB issued ASU 2014-05, "*Service Concession Arrangements (Topic 853)*." This guidance defines service concession arrangements as an arrangement between a public-sector entity¹ grantor and an operating entity under which the operating entity operates the grantor's infrastructure (for example, airports, roads, bridges, and hospitals). The operating entity also may provide the construction, upgrading, or maintenance services of the grantor's infrastructure. The amendments specify that an operating entity should not account for a service concession arrangement that is within the scope of this Update as a lease in accordance with Topic 840. An operating entity should refer to other Topics as applicable to account for various aspects of a service concession arrangement. The amendments also specify that the infrastructure used in a service concession arrangement should not be recognized as property, plant, and equipment of the operating entity. This guidance is effective for the Organization beginning October 1, 2015, with early adoption permitted. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance is effective for the Organization beginning October 1, 2017. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In November 2014, the FASB issued ASU 2014-17, "*Business Combination (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)*". This update provides guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. The provisions of this amendment are effective on November 18, 2014.

In January 2015, the FASB issued ASU 2015-01, "*Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*". The provisions of this update eliminate from GAAP the concept of extraordinary items. This guidance is effective for the Organization beginning October 1, 2016.



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

Independent Auditor's Report

To the Board of Trustees of
Lafayette General Health System
Lafayette, LA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lafayette General Health System (the Organization), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Organization's consolidated financial statements, and have issued our report thereon dated January 26, 2015.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Organization, the State of Louisiana, federal awarding agencies and pass-through entities, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

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

A Professional Accounting Corporation

Metairie, LA
January 26, 2015



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To the Audit Committee of the Board of Trustees
Attn: Julie Falgout
Lafayette General Health System
1214 Coolidge St.
Lafayette, Louisiana 70503

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of Lafayette General Health System (The System) as of and for the year ended September 30, 2014, 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, we considered the System's internal control over financial reporting (internal control) as a basis for designing 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 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

There were no control deficiencies identified during the audit of the consolidated financial statements as of and for the year ended September 30, 2014. There were control deficiencies noted in our audit of the 2013 consolidated financial statements, but we are happy to inform you that management's response to those deficiencies is considered sufficient and those issues are considered resolved.

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This communication is intended solely for the information and use of management, the Board of Trustees, and others within the System, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "LaPorte". The letters are fluid and connected, with a prominent loop on the 'L' and a trailing flourish on the 'e'.

LaPorte
A Professional Accounting Corporation

Metairie, LA
January 26, 20154

Attachment

CURRENT YEAR CONTROL DEFICIENCIES

None.

STATUS OF PRIOR YEAR CONTROL DEFICIENCIES

Following are descriptions of the status of other deficiencies identified in the prior year management letter:

2013-1 UHC Charity Care and Bad Debt Provision Considerations

Condition: When recording patient service revenue for UHC during the year, there was not a process in place to distinguish between charity care and the provision for bad debts for financial reporting purposes.

We Recommended: We recommend that the UHC accounting staff work with the LSU central billing office to obtain the necessary information, monthly, to separately record offsets to gross charges for charity or “free care” and the provision for bad debts. Any estimated allowance provision on uninsured patient receivables balances at month-end should be recognized as a bad debt provision, as that estimate is related to billed patients. GAAP requires this separate reporting to distinguish between the care provided to patients in accordance with the entity’s established charity care policy and the charge off of billed charges associated with the credit risk of the patient or other responsible party.

Status – Resolved: Management agreed with the recommendation and invested the resources necessary to integrate the UHC patient accounting system in 2014 making the process subject to the standardized recording practices present at Lafayette General Health’s other facilities.

2013-2 Reconciling Subsidiary Ledger for Installment Receivables

Condition: When patient receivables are placed in installment status they are kept in separate subsidiary ledger maintained by Delta Financial. This separate subsidiary is not integrated with the Health Systems’ general ledger accounts, so manual entries are posted each month to adjust the general ledger control account to agree to the subsidiary. This entry, however, currently only involves an offset to bad debt expense to balance the control account. There is not a reconciliation process in place on a monthly basis.

We Recommend: We recommend that the System utilize transfer accounts on the general ledger to which installment placements from Cerner should be recorded at the time of placement. At month end a journal entry should be prepared to record the activity from Delta’s system to the general ledger with placements reported by that system offsetting the transfer account which should then be zero. Any difference would indicate a difference to be further investigated. Ultimately, we would recommend that installments be established as a financial class within Cerner which should both alleviate the need for the reconciliation process as well as the chance of errors arising.

Status – Resolved: Management agreed with the recommendation and developed procedures for the reconciliation process.

2013-3 Cerner Patient Receivables System Report Formats

Condition: With the implementation of the Cerner software, management was unable to provide subsidiary ledgers in a format that allowed the auditor to efficiently use those schedules in achieving its audit assertions. In comparison to previous years, certain ledgers could only be produced in pdf format in the current year. The set-up of the Cerner system did not allow for efficient report writing whereby reports could be converted into Excel format.

We Recommend: We recommend that management invest time internally and in discussion with Cerner representatives so that the processes for report production that are necessary for both internal processing and facilitation of the audit of the financial statements are documented, understood and agreed to by both parties.

Status – Resolved: Management agreed with the recommendation and developed the necessary report writing capabilities.