HEALTH CARE SERVICES FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

P&N
Postlethwaite & Netterville
A Professional Accounting Corporation
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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
Health Care Services Foundation
Baton Rouge, Louisiana

We have audited the accompanying consolidated financial statements of the Health Care Services Foundation (the Organization) which comprises the consolidated statement of financial position as of June 30, 2017, the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related consolidated notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of the Health Care Services Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, on pages 17 - 20, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 24, 2017

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$	2,901,735
Capital lease receivable, current portion		927,326
Other receivables		1,988
Prepaid expenses		31,843
Due from affiliate		67,929
Total current assets		3,930,821
NON-CURRENT ASSETS:		
Restricted cash		2,019,853
Capital lease receivable, net of current portion		12,400,000
Property, plant and equipment, net		2,944,590
Total non-current assets		17,364,443
TOTAL ASSETS	$	21,295,264

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

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	$	37,771
Other current liabilities		17,871
Notes payable		467,326
Bonds payable, current portion		460,000
Total current liabilities		982,968
LONG-TERM LIABILITIES:		
Bonds payable (including unamortized bond discount of $63,852 and unamortized issuance costs of $308,858), net of current portion		12,032,290
Other long-term liabilities		95,644
Total long-term liabilities		12,127,934
Total liabilities		13,110,902
NET ASSETS		
Unrestricted		8,180,756
Temporarily restricted		3,606
Total net assets		8,184,362
TOTAL LIABILITIES AND NET ASSETS	$	21,295,264

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Interest income on capital leases	$ 76,658	$ -	$ 76,658
Investment earnings	15,167	-	15,167
Rental income	1,751,903	-	1,751,903
Other income	347,696	-	347,696
Contributions	1,580,508	-	1,580,508
	3,771,932	-	3,771,932
Net assets released from restrictions	-	-	-
Total revenues and other support	3,771,932	-	3,771,932
EXPENSES			
Building costs:			
Depreciation and amortization	123,963	-	123,963
Insurance expense	185,701	-	185,701
Supplies and other	36,949	-	36,949
Utilities	101,735	-	101,735
Capital contributions	1,581,883	-	1,581,883
Other:			
Bank fees	3,960	-	3,960
Interest expense	669,450	-	669,450
Legal and professional	144,753	-	144,753
Loss on debt extinguishment	313,474	-	313,474
Total expenses	3,161,868	-	3,161,868
Changes in net assets	610,064	-	610,064
NET ASSETS - BEGINNING OF THE YEAR	7,570,692	3,606	7,574,298
NET ASSETS - END OF THE YEAR	$ 8,180,756	$ 3,606	$ 8,184,362

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

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets:	$ 610,064
Adjustments to reconcile change in net assets to net cash provided by operating activites:	
Depreciation expense	123,964
Amortization of loan costs	29,476
Amortization of bond discount/premium	(145,105)
Forgiveness of debt	(347,510)
Loss on debt extinguishment	313,474
Change in operating assets and liabilities:	
Decrease in lease receivables	56,837
Decrease in other receivables	507,215
Decrease in prepaid expense	2,629
Increase in accounts payable	2,007
Increase in other liabilities	17,628
Decrease in unearned income	(13,450)
Net cash provided by operating activities	1,157,229
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of land	(310,700)
Transfers from bond sinking fund	45,044
Net cash used in investing activities	(265,656)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on debt	(907,033)
Proceeds from 2017 Series Bonds	13,210,480
Refunding of 2007 Series Bonds	(12,685,178)
Bond issuance cost on 2017 Series Bonds	(291,827)
Net cash used in financing activities	(673,558)
Net increase in cash and cash equivalents	218,015
Cash and cash equivalents at beginning of period	2,683,720
Cash and cash equivalents at end of period	$ 2,901,735

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Payments for Interest	$ 768,032

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Foundation

Organization

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

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

Consolidation

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

Operations

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

Reporting Entity

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

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

2. Summary of significant accounting policies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Use of estimates

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

Basis of accounting

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

Cash and cash equivalents

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

Net assets

The Organization classifies net assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions. The Organizations had no permanently restricted net assets at June 30, 2017.

Lease receivable

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

Prepaid expenses

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

2. Summary of significant accounting policies (continued)

Property, plant and equipment

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

Buildings	40 years
Equipment	5 years
Furniture and Fixtures	7 years

Maintenance and repairs are charged to expense when incurred.

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

Cost of borrowing and deferred financing costs

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

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

The Company adopted ASU 2015-03, *Interest-Imputation of Interest*, for the fiscal year ending June 30, 2017, which changed the presentation of deferred financing costs as a reduction of the related debt as opposed to a deferred asset. The adoption of this new accounting pronouncement will have no impact on the statement of activities and changes in net assets.

Contributions

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

2. Summary of significant accounting policies (continued)

Contributions (continued)

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

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

Income taxes

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

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

3. Restricted cash

Certain proceeds of the Series 2017 Bonds (see note 8), as well as certain resources set aside for their repayment, are classified as restricted assets on the consolidated statement of financial position because they are maintained in a separate bank account and their use is limited by applicable bond covenants. The assets included in restricted cash include; 2017 Bond Cost of Issuance Fund, 2017 Bond Debt Service Fund, Capitalized Interest Fund, and 2007B Special Sinking Fund.

4. Related parties

The Foundation entered into an agreement to lease space, land and equipment to HCSD to be used as a medical office and clinic facility. For the year ended June 30, 2017, rental income received from HCSD totaled $158,659. The amount received is based off of an approved budget prepared by the Foundation. A reconciliation of actual expenditures to amounts received from HCSD is made at year end and any differences are settled between the Foundation and HCSD. Amounts owed to the Foundation at June 30, 2017 amounted to $3,244 for actual expenditures expended in excess of rent received. This amount is included in due from affiliate on the consolidated statements of financial position.

4. Related parties (continued)

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

The Foundation provides management and administrative services to BCMC. Administrative fees for the fiscal year ended June 30, 2017 totaled $94,500 and were eliminated in these financial statements.

The BCMC and HCSF entered into a recapitalization agreement with the Board of Supervisors of LSU A&M on September 28, 2007. Prior to the agreement, HCSD leased from BCMC all net rentable space in its hospital. For the year ended June 30, 2017, rental income received from HCSD totaled $1,577,494. Amounts owed to HCSD at June 30, 2017, amounted to $581 for rent received in excess of actual expenditures expended. This amount is included in other current liabilities, on the consolidated statement of financial position.

During the fiscal year ended June 30, 2017, BCMC expended State Capital Outlay funds relating to the Emergency Room Expansion Project in the amount of $47,608. These funds have been reimbursed by the State of Louisiana as of June 30, 2017. The total costs of $7,344,921 incurred to date on this this project have been donated to HCSD at June 30, 2017, and are recorded as capital contributions in the consolidated statement of changes in net assets.

BCMC expended $2,099,561 in the prior years, for a heating, ventilation and air conditioning (HVAC) system, which is to be reimbursed by LSU under the terms of a cooperative endeavor agreement. The agreement states that payments of $500,000 will be made each year until all funds have been reimbursed. The amount remaining to be reimbursed by LSU, as of June 30, 2017 is $64,685 reported as amounts due from affiliate in the consolidated statement of financial position.

5. Concentrations

Credit risk
The Organization maintains cash accounts with commercial banks which are insured by the Federal Deposit Insurance Corporation up to the maximum amount allowed. The uninsured and uncollateralized balance at June 30, 2017 totaled $3,851,680.

Revenues
During 2017, the Organization received approximately 65% of total revenue from HCSD. The Organization is unaware of any modifications or reductions to the current agreements which may impact these revenue sources.

6. Property, plant and equipment

A summary of property, plant and equipment at June 30, 2017, is set forth below:

Building and improvements	$ 3,555,489
Furniture	100,950
Equipment	182,512
	3,838,951
Less: Accumulated depreciation	(1,575,061)
	2,263,890
Land	680,700
Net Property, Plant and Equipment	$ 2,944,590

Depreciation expense for the year ended June 30, 2017 amounted to $123,963.

7. Leases

Operating Leases

Foundation

The Foundation entered into an agreement to lease land and a building to the Louisiana State University Health Care Sciences Division (HCSD) to be used as a medical office and clinic facility. The rent commencement date was June 1, 2004 and continued until May 31, 2015. The lessee has given written notice to extend the lease through June 30, 2024. Rent is based on monthly estimated operating costs. The operating costs component of rent shall be reconciled annually. Rent income for the year ended June 30, 2017 was $158,659. All of the property and equipment owned by the Foundation (see Note 6) is being leased under the terms of this agreement with the HCSD.

BCMC

BCMC has entered into several lease agreements for the rental of parking space whose terms expire at various times through the year ending March 31, 2019, and require monthly payments ranging from $500 to $1,600.

7. Leases (continued)

Operating Leases

BCMC

The following is a schedule by year of future minimum lease payments required under all of these operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2017:

Year ending June 30,	Amount
2018	$ 35,100
2019	27,200
2020	9,900
2021	4,125
	$ 76,325

Capital Leases

Foundation

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

BCMC

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Leases (continued)

Capital Leases

BCMC

For the years ending June 30,	Foundation	BCMC	Total
2018	$ 473,719	$ 869,119	$ 1,342,838
2019	-	874,919	874,919
2020	-	870,419	870,419
2021	-	870,819	870,819
2022	-	871,019	871,019
Thereafter	-	13,928,555	13,928,555
Total minimum lease payment receivable	473,719	18,284,850	18,758,569
Less: unearned revenue	(6,393)	(5,424,850)	(5,431,243)
Net investment in capital lease receivable	467,326	12,860,000	13,327,326
Less: current portion of capital lease	(467,326)	(460,000)	(927,326)
Capital lease receivable, net of current portion	$ -	$ 12,400,000	$ 12,400,000

8. Bonds payable

BCMC

BCMC entered into a loan agreement with Health Care Community Development Corporation (HCCDC) on September 1, 2007. In this agreement, HCCDC loaned the proceeds of the Series 2007A Health Care Community Development Corporation Revenue Bonds and the Series 2007B Health Care Community Development Corporation Taxable Revenue Bonds. These proceeds were to be used to finance the cost of (1) the renovation of the first floor for an acute care and obstetrics unit of the hospital, (2) the acquisition of a generator and power distribution system, (3) the renovation and expansion of the clinic to be known as Family Medicine Residency Clinic, (4) refinancing the line of credit used to purchase equipment for the hospital and make repairs to the roof, (5) refinancing an existing loan with the United States Department of Agriculture and (6) the funding of the Debt Service Reserve, capitalized interest and the payment of issuance cost. On April 26, 2017, BCMC issued $13,275,000 Revenue Refunding Bonds, Series 2017 to refund the previously mentioned 2007 series bonds. The Series 2017 Bonds are being issued (1) to refund outstanding maturities of the Issuer's Series 2007A Bonds and (2) to pay the cost of issuing the Series 2017 Bonds. Within the loan agreement, BCMC agreed to assign certain rights under the Facilities Lease (including rent) and to make payments in the amount sufficient to make timely payment of principle and interest on these bonds. At June 30, 2017, the loss associated with the refunding of the Series 2007A bonds was $313,474. The refunding resulted in a reduction of the total debt service payments by almost $2,100,000 and gave BCMC an economic gain, related to the difference between the present values of the debt service payments on the Series 2007 bonds and Series 2017 bonds, of approximately $1,500,000.

8. Bonds payable (continued)

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

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

At June 30, 2017, debt consisted of the following:	Amount
Series 2017	$ 12,860,000
Less: unamortized bond discount	(63,852)
Less: deferred bond issuance costs, net	(303,858)
	$ 12,492,290

For the year ended June 30, 2017, BCMC recorded interest expense of $649,607, which is net of the amortization of the bond premium of $145,105 and amortization of the issuance costs of the bonds of $29,476.

Under the terms of the Trust Indenture for the bonds, BCMC is required to maintain a Debt Service Reserve Fund for the Series 2017. The Debt Service Reserve fund deposit should be an amount equal to the debt service fund requirement. The balance in the debt service reserve fund at June 30, 2017 equaled $881,875. The debt service fund balance is included in restricted cash on the consolidated statement of financial position. The Series 2007 Bond had a mandatory sinking fund requirement, which was lifted during the cancellation of the Series 2007B bonds on February 24, 2015. The 2007 Sinking Fund balance is included in restricted cash on the consolidated statement of financial position. The balance of this sinking fund as of June 30, 2017 was $1,107,271. The Series 2017 Bond also has a cost of issuance account of the bonds process fund and an interest account of the debt service fund. The balance in the cost of issuance and interest accounts at June 30, 2017 was $30,707.

9. Notes payable

On June 11, 2012, the Foundation entered into a loan agreement with JP Morgan Chase Bank, N.A. This note bears interest at 2.7% per annum and is payable in monthly installments of $42,656 with a final balance in the amount of $4,499 due on June 11, 2018. The Foundation has assigned the lease and rent related to the Lease Agreement for Construction and Occupancy of HCSD Administrative Offices dated effective June 1, 2012 as collateral for the note.

9. Notes payable (continued)

The balance of the note totaling $467,326 is scheduled to mature during the year ending June 30, 2018.

For the year ended June 30, 2017, the Foundation recorded interest expense of $19,843.

The Foundation's notes payable agreement with the bank contains certain restrictions and covenants. Under these restrictions, the Foundation is required to maintain certain levels of net operating income over the cost of the debt service (debt service coverage ratio).

10. Net assets released from restrictions

During the year ended June 30, 2017, no net assets were released from donor restrictions.

11. Restrictions on net assets

Temporarily restricted net assets are available for the following purposes:

	Foundation	BCMC	Total
Employee Activities	$ 19	$ -	$ 19
Earl K. Long Foundation	129	-	129
Family Center Equipment	-	3,458	3,458
	$ 148	$ 3,458	$ 3,606

12. Due to Medicaid/Forgiveness of Debt

BCMC has shown an amount due to Medicaid totaling $347,510 which was acquired when the University took over the operations of the hospital in 2007. During the current fiscal year, BCMC was notified by a Medicaid representative that these obligations no longer exist and BCMC removed the obligation from its records and recognized income for the write off of this obligation.

13. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 24, 2017, and determined that no events occurred that require additional disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 587,877	$ 2,313,858	$ -	$ 2,901,735
Capital lease receivable, current portion	467,326	460,000	-	927,326
Other receivables	1,988	-	-	1,988
Prepaid expenses	915	30,928	-	31,843
Due from affiliate	3,244	64,685	-	67,929
Total current assets	1,061,350	2,869,471	-	3,930,821
NON-CURRENT ASSETS:				
Restricted cash	-	2,019,853	-	2,019,853
Capital lease receivable, net of current portion	-	12,400,000	-	12,400,000
Property, plant and equipment, net	2,633,890	310,700	-	2,944,590
Total non-current assets	2,633,890	14,730,553	-	17,364,443
TOTAL ASSETS	$ 3,695,240	$ 17,600,024	$ -	$ 21,295,264
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	$ 11,271	$ 26,500	$ -	$ 37,771
Other current liabilities	243	17,628	-	17,871
Bonds payable, current portion	-	460,000	-	460,000
Notes payable, current portion	467,326	-	-	467,326
Total current liabilities	478,840	504,128	-	982,968
LONG-TERM LIABILITIES:				
Bonds payable (including unamortized bond discount of $63,852 and unamortized issuance costs of $308,858), net of current portion	-	12,032,290	-	12,032,290
Other long-term liabilities	95,644	-	-	95,644
Total long-term liabilities	95,644	12,032,290	-	12,127,934
Total liabilities	574,484	12,536,418	-	13,110,902
NET ASSETS				
Unrestricted	3,120,608	5,060,148	-	8,180,756
Temporarily restricted	148	3,458	-	3,606
Total net assets	3,120,756	5,063,606	-	8,184,362
TOTAL LIABILITIES AND NET ASSETS	$ 3,695,240	$ 17,600,024	$ -	$ 21,295,264

See independent auditors' report.

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	Health Care Services Foundation - Unrestricted	Health Care Services Foundation - Temporarily Restricted	Health Care Services Foundation - Total
REVENUES			
Management and implementation fees	$ 94,500	$ -	$ 94,500
Interest income on capital leases	19,843	-	19,843
Investment earnings	4,982	-	4,982
Rental income	158,659	-	158,659
Other income	-	-	-
Contributions	-	-	-
Total revenues	277,984	-	277,984
Net assets released from restrictions	-	-	-
Total revenues and other support	277,984	-	277,984
EXPENSES			
Building costs:			
Depreciation and amortization	123,963	-	123,963
Insurance expense	15,505	-	15,505
Supplies and other	325	-	325
Utilities	101,735	-	101,735
Captial contributions	1,192	-	1,192
Other:			
Bank fees	1,340	-	1,340
Interest expense	19,843	-	19,843
Legal and professional	134,253	-	134,253
Loss on debt extinguishment	-	-	-
Total expenses	398,156	-	398,156
Change in net assets	(120,172)	-	(120,172)
NET ASSETS - BEGINNING OF THE YEAR	3,240,780	148	3,240,928
NET ASSETS - END OF THE YEAR	$ 3,120,608	$ 148	$ 3,120,756

See independent auditors' report.

Bogalusa Community Medical Center - Unrestricted	Bogalusa Community Medical Center - Temporarily Restricted	Bogalusa Community Medical Center - Total	Eliminations	Consolidated
$ -	$ -	$ -	$ (94,500)	$ -
56,815	-	56,815	-	76,658
10,185	-	10,185	-	15,167
1,593,244	-	1,593,244	-	1,751,903
347,696	-	347,696	-	347,696
1,580,508	-	1,580,508	-	1,580,508
3,588,448	-	3,588,448	(94,500)	3,771,932
-	-	-	-	-
3,588,448	-	3,588,448	(94,500)	3,771,932
-	-	-	-	123,963
170,196	-	170,196	-	185,701
36,624	-	36,624	-	36,949
-	-	-	-	101,735
1,580,691	-	1,580,691	-	1,581,883
2,620	-	2,620	-	3,960
649,607	-	649,607	-	669,450
105,000	-	105,000	(94,500)	144,753
313,474	-	313,474	-	313,474
2,858,212	-	2,858,212	(94,500)	3,161,868
730,236	-	730,236	-	610,064
4,329,912	3,458	4,333,370	-	7,574,298
$ 5,060,148	$ 3,458	$ 5,063,606	$ -	$ 8,184,362

HEALTH CARE SERVICES FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

	Health Care Services Foundation	Bogalusa Community Medical Center	Eliminations	Consolidated Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets:	$ (120,172)	$ 730,236	$ -	$ 610,064
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation expense	123,964	-	-	123,964
Amortization of loan costs	-	29,476	-	29,476
Amortization of bond discount/premium	-	(145,105)	-	(145,105)
Forgiveness of debt	-	(347,510)	-	(347,510)
Loss on debt extinguishment	-	313,474	-	313,474
Change in operating assets and liabilities:				
Decrease (increase) in lease receivables	505,483	(448,646)	-	56,837
Decrease in other receivables	6,338	500,877	-	507,215
(Increase) decrease in prepaid expense	(146)	2,775	-	2,629
Increase (decrease) in accounts payable	2,732	(725)	-	2,007
Increase in other liabilities	-	17,628	-	17,628
Decrease in unearned income	(13,450)	-	-	(13,450)
Net cash provided by operating activities	504,749	652,480	-	1,157,229
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of land	-	(310,700)	-	(310,700)
Transfers to bond sinking fund	-	45,044	-	45,044
Net cash used in financing activities	-	(265,656)	-	(265,656)
CASH FLOWS FROM FINANCING ACTIVITIES				
Principal payments on debt	(492,033)	(415,000)	-	(907,033)
Proceeds from 2017 Series Bonds	-	13,210,480	-	13,210,480
Refunding of 2007 Series Bonds		(12,685,178)	-	(12,685,178)
Bond issuance cost on 2017 Series Bonds	-	(291,827)	-	(291,827)
Net cash provided by (used in) financing activities	(492,033)	(181,525)	-	(673,558)
Net increase in cash and cash equivalents	12,716	205,299	-	218,015
Cash and cash equivalents at beginning of period	575,161	2,108,559	-	2,683,720
Cash and cash equivalents at end of period	$ 587,877	$ 2,313,858	$ -	$ 2,901,735
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Payments for Interest	$ 19,843	$ 748,189	$ -	$ 768,032

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Health Care Services Foundation
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of The Health Care Services Foundation (the Organization), which comprise the consolidated statement of financial position as of June 30, 2017, the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 24, 2017