GENERAL HEALTH SYSTEM

Consolidated Financial Statements
and
Audit Reports and Schedules Related to
the Uniform Guidance

Years Ended September 30, 2017 and 2016

Contents

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Independent Auditor's Report

To the Board of Trustees
General Health System

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of General Health System (the System) which comprise the consolidated balance sheets as of September 30, 2017 and September 30, 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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. 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 General Health System as of September 30, 2017 and September 30, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating balance sheets as of September 30, 2017 and September 30, 2016, and the consolidating statements of operations for the years then ended are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is also presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2018, on our consideration of General Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 General Health System's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 11, 2018

GENERAL HEALTH SYSTEM
Consolidated Balance Sheets
September 30, 2017 and 2016

	2017	2016
	(In Thousands)	
Assets		
Current assets		
Cash and cash equivalents	**$ 17,552**	$ 39,221
Short-term investments	**123,056**	100,110
Patient accounts receivable, net (Note 1)	**46,399**	44,331
Current portion of unconditional promises to give, net	**759**	-
Inventories	**10,131**	8,589
Prepaid expenses and other assets	**11,782**	10,964
Total current assets	**209,679**	203,215
Assets whose use is limited	**24,026**	22,360
Assets restricted by donors or grantors for specific purposes	**6,992**	4,140
Unconditional promises to give, net, less current portion	**1,389**	-
Investments in subsidiaries	**5,257**	5,348
Goodwill	**5,089**	5,089
Other assets	**13,184**	8,232
Property, plant, and equipment, net	**232,451**	228,697
Total assets	**$ 498,067**	$ 477,081
Liabilities and net assets		
Current liabilities		
Trade accounts payable	**$ 27,022**	$ 28,212
Accrued expenses	**17,363**	17,427
Amounts due to contractual third-party payors	**2,501**	3,655
Current portion of self-insurance reserves	**8,666**	7,769
Current portion of long-term debt	**25,600**	13,308
Total current liabilities	**81,152**	70,371
Self-insurance reserves, less current portion	**3,369**	2,814
Long-term debt, less current portion		
Principal amount	**170,103**	190,907
Less: debt issuance costs	**(2,116)**	(2,197)
Other noncurrent liabilities	**-**	2,382
Total liabilities	**252,508**	264,277
Net assets		
Unrestricted	**238,568**	208,664
Temporarily restricted	**6,784**	3,933
Permanently restricted	**207**	207
Total net assets	**245,559**	212,804
Total liabilities and net assets	**$ 498,067**	$ 477,081

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

GENERAL HEALTH SYSTEM
Consolidated Statements of Operations
Years Ended September 30, 2017 and 2016

	2017	2016
	(In Thousands)	
Unrestricted revenues, gains, and other support		
Net patient service revenue	**$ 429,623**	$ 398,047
Provision for bad debts	**(4,374)**	(14,583)
Net patient service revenue after provision for bad debts	**425,249**	383,464
Other revenue	**42,571**	46,232
Transfers from (to) restricted net assets	**53**	(93)
Net assets released from restrictions	**326**	488
Total revenues, gains, and other support	**468,199**	430,091
Expenses		
Salaries, wages, and benefits	**195,748**	201,488
Supplies and other expenses	**227,296**	182,488
Depreciation	**17,350**	16,489
Interest expense	**7,166**	7,440
Total expenses	**447,560**	407,905
Operating income	**20,639**	22,186
Earnings of subsidiaries	**1,322**	1,404
Investment income	**7,542**	6,412
Nonoperating loss	**(25,469)**	(4,433)
Excess of revenues over expenses	**$ 4,034**	$ 25,569

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

GENERAL HEALTH SYSTEM
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2017 and 2016

	2017	2016
	(In Thousands)	
Unrestricted net assets		
Excess of revenues over expenses	**$ 4,034**	$ 25,569
Income from minimum pension liability	**25,493**	1,499
Net assets released from restrictions - capital	**377**	394
Increase in unrestricted net assets	**29,904**	27,462
Temporarily restricted net assets		
Contributions	**3,607**	858
Transfers (to) from unrestricted net assets	**(53)**	93
Net assets released from restrictions	**(703)**	(882)
Increase in temporarily restricted net assets	**2,851**	69
Increase in net assets	**32,755**	27,531
Net assets, beginning of year	**212,804**	185,273
Net assets, end of year	**$ 245,559**	$ 212,804

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

GENERAL HEALTH SYSTEM
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	**$ 32,755**	$ 27,531
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**17,350**	16,489
Amortization included in interest	**198**	204
Gain from disposal of assets	**(198)**	(4)
Provision for bad debts	**4,374**	14,583
Unrealized loss (gain) on assets whose use is limited	**426**	(333)
Realized loss on assets whose use is limited	**212**	291
Unrealized gain on investments and other assets	**(5,041)**	(4,542)
Realized (gain) loss on investments and other assets	**(831)**	36
(Increase) decrease in operating assets:		
Patient accounts receivable	**(6,442)**	(15,826)
Inventories, prepaid expenses, and other current assets	**(3,119)**	2,112
Other assets	**(4,945)**	(4,513)
(Decrease) increase in operating liabilities:		
Trade accounts payable and accrued expenses	**(1,254)**	599
Accrued self-insurance reserves	**1,452**	(333)
Amounts due to contractual third-party payors	**(1,154)**	(3,358)
Other noncurrent liabilities	**(2,382)**	(4,395)
Net cash provided by operating activities	**31,401**	28,541
Cash flows from investing activities		
Purchases of property, plant, and equipment	**(21,104)**	(8,969)
Purchases of assets whose use is limited	**(10,309)**	(10,161)
Sales of assets whose use is limited	**8,005**	7,238
Increase in assets restricted by donors for specific purposes	**(2,852)**	(69)
Proceeds from disposal of property, plant, and equipment	**198**	4
Purchases of investments, net	**(18,379)**	(8,006)
Net cash used in investing activities	**(44,441)**	(19,963)
Cash flows from financing activities		
Proceeds from note payable	**6,675**	5,000
Cost of bond issuance on anticipation of refinancing	**(117)**	-
Principal payments on outstanding debt	**(15,187)**	(11,641)
Net cash used in financing activities	**(8,629)**	(6,641)
Net (decrease) increase in cash and cash equivalents	**(21,669)**	1,937
Cash and cash equivalents at beginning of year	**39,221**	37,284
Cash and cash equivalents at end of year	**$ 17,552**	$ 39,221
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	**$ 6,968**	$ 7,236

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

Note 1. Significant Accounting Policies

Organization

General Health System (the System) is a private, community-owned, nonprofit health care system located in Baton Rouge, Louisiana. The System primarily provides health care services, including primary care, acute care, rehabilitative services, skilled nursing care, and psychiatric services, all of which are designed to meet the health care needs of the southeast Louisiana area.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the System and it's directly and indirectly owned entities supported by the System. Those entities primarily include Baton Rouge General Medical Center (BRGMC), which provides substantially all of the System's health care services, General Health System Foundation (Foundation), and Behavioral Health Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

The significant estimates affecting the System's net patient service revenue and provision for bad debts relate to the allowance for uncollectible accounts, provision for contractual discounts, and provision for retroactive adjustments under third-party payor arrangements. Differences between original estimates and subsequent revisions are included in the consolidated statement of operations in the period in which the differences become known. These revisions increased net patient service revenue by approximately $2,662,000 and $5,148,000 in 2017 and 2016, respectively.

Cash Equivalents and Investments

Cash equivalents include investments in money market accounts and highly liquid investments with original maturities of three months or less when purchased, excluding amounts whose use is limited by Board designation, under trust agreements, or amounts pledged to third parties. Investments that can be readily traded are considered current assets.

Inventories

Inventories are valued at the latest invoice price. This method approximates the lower of cost (first-in, first-out method) or market.

Note 1. Significant Accounting Policies (Continued)

Assets Whose Use is Limited

Several funds were established concurrent with the issuance of tax-exempt debt. Trustees maintain the capital improvement and debt retirement funds, which include cash, investments, and accrued interest receivable, as special trust accounts for the benefit and security of the holders and owners of the debt. The limited use assets as of September 30 are as follows:

		2017		2016
		(In Thousands)		
Debt retirement funds	**$**	**23,875**	$	22,210
Other restricted assets		**151**		150
	$	**24,026**	$	22,360

Property, Plant, and Equipment

All property, plant, and equipment acquisitions are recorded at cost, except for donated assets, which are recorded at fair market value on the date of donation. Any interest expense incurred on funds acquired to be used for the construction of assets is capitalized and included in construction in process during the construction phase. After construction is complete, the capitalized interest is transferred along with the other costs to the asset to be depreciated. Capital leases are recorded at the present value of future minimum lease payments, and the related amortization is included in depreciation and amortization expense in the consolidated statements of operations. Depreciation of plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the assets range from 3 to 40 years.

Fair Values

The System follows Accounting Standards Update (ASU) 2011-04, regarding disclosure requirements about recurring and non-recurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements, and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value.

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value.

Investments: Fair values, which are the amounts reported in the consolidated balance sheets, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The carrying amount reported in the consolidated balance sheets is fair value.

Note 1. Significant Accounting Policies (Continued)

Fair Values (Continued)

Assets limited as to use: These assets consist primarily of cash and short-term investments and interest receivable. The carrying amount reported in the consolidated balance sheets approximates its fair value.

Accounts payable and accrued expenses: The carrying amount reported in the consolidated balance sheets for accounts payable and accrued expenses approximates its fair value.

Amounts due to contractual third-party payors: The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

Long-term debt: The fair values of bonds are based on current traded values. The fair value of the System's remaining long-term debt is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the System's financial instruments at September 30 are as follows (in thousands):

	2017		2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 17,552**	**$ 17,552**	$ 39,305	$ 39,305
Short-term investments	**$ 123,056**	**$ 123,056**	$ 100,026	$ 100,026
Assets limited as to use	**$ 24,026**	**$ 24,026**	$ 22,360	$ 22,360
Assets restricted by donors or grantors	**$ 6,992**	**$ 6,992**	$ 4,140	$ 4,140
Accounts payable and accrued expenses	**$ 44,385**	**$ 44,385**	$ 45,642	$ 45,642
Amounts due to contractual third-party payors	**$ 2,501**	**$ 2,501**	$ 3,655	$ 3,655
Long-term debt	**$ 195,703**	**$ 161,072**	$ 204,215	$ 170,969

Debt Issuance Costs

Deferred debt issuance costs on the System’s long-term debt are being amortized over the terms of the debt and included in interest expense on the consolidated statements of operations.

In accordance with ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability.

Note 1. Significant Accounting Policies (Continued)

Goodwill

The System's goodwill represents the amount by which the total consideration paid exceeded the estimated fair value of assets acquired in multiple transactions. The System tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment.

The System tests goodwill for impairment under a two-step approach. The first step of the goodwill impairment test compares the fair value of the reporting unit that generated the goodwill with its carrying amount, impairing goodwill if the carrying amount exceeds its fair value. The second step of the goodwill impairment test is performed to measure the amount of the impairment loss. This is determined by comparing the implied fair value of the related reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, the System recognizes an impairment loss as an expense. Management has determined there were no impairments of goodwill at September 30, 2017 and 2016.

There were no changes in the carrying value of goodwill for the year ended September 30, 2017 or 2016.

Self-Insurance Liabilities

The System is self-insured up to certain amounts for employee health, malpractice, general liability, and workers' compensation claims. For certain System department providers, the System participates in the Louisiana Patient's Compensation Fund (the Fund), which limits the System's exposure to malpractice losses. The Fund was established through state legislation and statutorily limits each medical professional liability claim to $500,000. The System, through this participation, is self-insured for the first $100,000 of each claim. The remaining $400,000 of each claim is covered by the Fund. GHS limits exposure to general liability and workers' compensation claims through indemnity insurance, of which the System is insured, purchased in the commercial market, which includes specific loss and aggregate limit thresholds. The remaining System providers participate in the captive insurance program described below.

On April 1, 2016 the System created a captive self-insurance company, RRS Insurance Company Ltd. (RRS Insurance), which is a wholly-owned subsidiary of the System. RRS Insurance obtains reinsurance from a commercial carrier related to health care facilities professional liability, physicians professional liability, health care providers professional liability, commercial general liability, and employee benefits liability risks attributable to GHS and certain affiliates. The Hospital is self-insured for the first $1,000,000 of each occurrence and $3,000,000 in the annual aggregate. The commercial general liability is a claims occurrence policy. All other policies are claims made policies. The System carries excess liability limits to cover claims that exceed the primary limits provided by the reinsurer.

Note 1. Significant Accounting Policies (Continued)

Self-Insurance Liabilities (Continued)

The liabilities recorded represent management's best estimate of the ultimate unpaid cost of all reported and unreported claims incurred, including legal costs. The medical malpractice and workers' compensation claims estimates are based on actuarial projections of the historical loss development of claims incurred but not reported and case-basis estimates of claims reported prior to the end of the period. These estimates are continually reviewed and adjusted, as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

Accounting for Pension Plans

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

Unrestricted Net Assets

Unrestricted net assets are those whose use by the System is unlimited and not subject to a donor's restriction as to its use. Included in unrestricted net assets are amounts that have been designated by the Board for specified purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific purpose. Temporarily restricted net assets are held primarily by General Health System Foundation and are available for the following purposes at September 30:

	2017	2016
	(In Thousands)	
Restricted for a specific purpose	**$ 6,067**	$ 3,195
Medical education	**579**	632
Employee assistance program	**138**	106
	$ 6,784	$ 3,933

Note 1. Significant Accounting Policies (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets are those whose use of corpus amounts by the System is prohibited by the donors' request. In most cases, the earnings on these permanently restricted net assets are temporarily restricted and use of is limited by the donors' specific purpose. Permanent restrictions of net assets are as follows for the year ended September 30:

	2017	2016
	(In Thousands)	
Endowments	**$ 207**	$ 207
	$ 207	$ 207

The *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) provides guidance on the net asset classification of donor-restricted endowment funds for a non-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Management has considered the disclosures required under UPMIFA and determined that the additional disclosures are unnecessary due to the immaterial amount of the endowments.

Revenue, Gains, and Losses

The System's mission is to provide a broad range of innovative health care services delivered in a caring, consumer-oriented, and cost-effective manner through a quality-driven system. As such, activities related to this purpose are classified as revenue. Revenue is generated from direct patient care, related support services, and other revenue related to the operation of the System.

Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the System that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are expected to be collected within one year are recorded at net realizable value. Contributions that are expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. The System used the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Note 1. Significant Accounting Policies (Continued)

Net Patient Service Revenue and Related Receivables

The System, through certain subsidiaries and affiliates, has entered into agreements with third-party payors, including government programs and managed health care plans, under which the System is compensated for care based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted as final settlements are determined. Actual results could differ from those estimates.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In establishing its estimate of collectability of accounts receivable, the System analyzed its payor contracts, past history, and collection patterns of its major payor sources of revenue.

For receivables associated with services provided to patients who have third-party coverage, the System estimates, based upon payor contracts if available as well as experience, an allowance on the overall value of the receivables at any given point in time, adjusting the accounting to reflect these new estimates each month. These estimates are adjusted monthly for volume and service mix, and, as needed, for rate increases.

For receivables associated with self pay patients (which includes both patients without insurance who are not covered by the System's Charity Care program and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected, after all reasonable collection efforts have been exhausted, are charged off against the allowance for doubtful accounts.

The System has created a collection model of the patterns of collectability that is based upon the theory of an inverse relationship between age of the debt and its collectability. To estimate the appropriate allowance for doubtful accounts and provision for bad debts, a mathematical algorithm based on account type (pure self pay versus self pay after insurance) and age is applied to all accounts.

The allowance for uncollectable accounts at September 30, 2017 and 2016, was approximately $31,585,000 and $36,198,000, respectively.

Note 1. Significant Accounting Policies (Continued)

Net Patient Service Revenue and Related Receivables (Continued)

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

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) implement Recovery Audit Contractor (RAC) and a Medicaid Integrity Contractor (MIC) program on a permanent and nationwide basis. The program uses 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 or Medicaid reimbursement in an amount estimated to equal the overpayment.

The System 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. Management has evaluated the System's experience with RAC and MIC audits and believes that the estimate for RAC and MIC claims is fairly presented. Actual results could differ from these estimates.

Excess of Revenues Over Expenses

The consolidated statements of operations include the excess of revenues over expenses. Changes in unrestricted net assets, which would be excluded from excess of revenues over expenses when present, consistent with industry practice, include contributions of, and assets released from donor restrictions related to, long-lived assets, equity transfers involving other entities that control the reporting entity, are controlled by the reporting entity, or are under common control with the reporting entity, and pension related changes other than net periodic pension costs.

Note 1. Significant Accounting Policies (Continued)

Income Tax Status

The System, BRGMC, the Foundation, and Behavioral Health, Inc. are not-for-profit organizations as described in Internal Revenue Code Section 501(c)(3) and are exempt from federal income taxation under Internal Revenue Code Section 501(a). All other consolidated corporations/LLCs are for-profit entities electing to be taxed under Internal Revenue Code Sub-Chapter C. Income tax expense for these entities is insignificant and is included in the consolidated statement of operations under supplies and other expenses.

Advertising

The System's policy is to expense advertising costs as the costs are incurred. Advertising costs for the years ended September 30, 2017 and 2016, were approximately $2,750,000 and $3,384,000, respectively.

Significant New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products and services are transferred to customers. ASU 2014-09 will be effective for the System beginning in the year ending September 30, 2020, though early adoption is permitted. The new revenue standard may be applied retrospectively as of the date of adoption. The System is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as finance or operating. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the System beginning in the year ending September 30, 2021, though early adoption is permitted. Management is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 will be effective for the System beginning in the year ending September 30, 2019, though early adoption is permitted. The System is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Note 1. Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to the prior year balances in order to comply with current year presentation.

Change in Accounting Principle

Prior to the fiscal year ended September 30, 2017, contributions were recognized upon receipt. Pursuant to FASB ASC 958-605-25-30, contributions are now recognized when the donor makes a promise to give to the System that is, in substance, unconditional. Pursuant to FASB ASC 250, it has been deemed immaterial to restate the effects of this change in principle retrospectively and therefore prior year net assets have not been restated.

Note 2. Community Benefits - Unaudited

The System provides healthcare services to patients who are economically disadvantaged and medically underserved. Either these patients generally cannot afford health care because of inadequate resources or they are uninsured.

See Note 3 for a discussion of the System's charity care.

Baton Rouge General Medical Center (BRGMC) supports 48 community organizations with financial, volunteer, and in-kind contributions. With more than 40,000 volunteer hours and thousands of community members participating in educational events and health screenings, the hospital is committed to educating, informing and setting a positive example for the people of Louisiana.

Decades ago, BRGMC recognized the need to invest in the Mid City neighborhood surrounding its flagship hospital. As a result, General Health System established the Mid City Redevelopment Alliance (MCRA), a separate nonprofit 501(c)(3) organization with the mission of revitalizing the heart of Baton Rouge.

Though MCRA was launched to independence in 2011, General Health System continues to provide funding to support its programs, which improve the quality of life in the central urban core of Baton Rouge. More than 300 homes and businesses have benefitted from improvement projects led by MCRA, and the number of merchants in the area has grown to more than 150. The organization is actively building new affordable housing units and is working with existing residents to strengthen all Mid City neighborhoods.

BRGMC recognizes the critical role of education in cultivating future clinician leaders. Through its solid medical education programs, BRGMC annually trains about 500 medical students, residents, fellows, nurses, pharmacists, physician assistants, nurse practitioners, certified registered nurse anesthetists, and radiation technologists. BRGMC operates a School of Nursing and a School of Radiologic Technology, providing trained healthcare professionals to the Baton Rouge community. BRGMC also has a PharmD program through the University of Louisiana - Monroe School of Pharmacy.

Note 2. Community Benefits - Unaudited (Continued)

BRGMC is an accredited teaching hospital with residency programs in family medicine and internal medicine, as well as a fellowship program in primary care sports medicine. This commitment to graduate medical education (GME) is important to both Baton Rouge and the state of Louisiana. BRGMC is affiliated with the American University of the Caribbean School of Medicine, Louisiana State University (LSU) School of Medicine, and Tulane University School of Medicine.

BRGMC has collaborated with LSU to train physician residents in a variety of specialties, including internal medicine, emergency medicine and general surgery. And through BRGMC's affiliation with Tulane University School of Medicine, students in their clinical third and fourth years have the opportunity to participate in rotations that may be required in their curricula, all within the framework of a community teaching hospital environment.

Beyond ensuring access to high quality healthcare, BRGMC's medical education programs help support viable communities across Louisiana through ancillary jobs and allied industry, and have created an economic halo that helps sustain local businesses.

The region's only verified burn center is also located at BRGMC. Recognized by the American Burn Association as the only verified burn center in a 250-mile radius, it provides critical burn care to patients in the Gulf Coast region and petrochemical corridor. The Regional Burn Center's comprehensive services include education and prevention programs for the patient, family, and community; with specific programs for work-related burn prevention and treatment. A team approach involves physicians, nurses, occupational and physical therapists, clinical dietitians, respiratory therapists, and pastoral care. The Regional Burn Center's pediatric summer camp and recovery support group are two examples of post-acute care programs developed by BRGMC to meet the rehabilitative and psychosocial needs of this unique patient population.

Health education is one of BRGMC's highest priorities. BRGMC provides many free educational events, health fairs and special programs encouraging community wellness. Overall, for fiscal year 2017, 1,724 people signed up to participate in these events. Below are some examples:

- BRGMC offers cancer patients a number of free resources and support groups led by clinical experts on the topics of breast cancer, lymphedema and prostate cancer, among others. Specialized wellness and exercise classes are also provided. Volunteer support for these groups is valued at more than $2,090.

- Through a cardiac reconditioning program, BRGMC offers an ongoing rehabilitation maintenance program in which cardiac patients and community members can exercise in the hospital's gym under the supervision of certified therapists and nutritionists.

- BRGMC provides tours of its Birth Center and classes for expecting parents on childbirth preparation, breastfeeding basics, baby care basics, and CPR. The tours and courses are led by clinicians and health experts. Volunteer support for these classes and educational events for fiscal year 2017 is valued at approximately $10,500.

Note 2. Community Benefits - Unaudited (Continued)

- Several times a year, BRGMC offers a 5-week, comprehensive smoking cessation program to help smokers quit and to address real issues surrounding the lifestyle of a smoker. The overall facility support for these classes for fiscal year 2017 is valued at $3,000.

- BRGMC offers free weight loss support groups for patients who are considering or have undergone weight loss surgery. Volunteer support for these seminars and groups is valued at $300.

- Recognizing the importance of programs that support the emotional well-being of patients, BRGMC established an Arts in Medicine (AIM) program in 2012. The program promotes hope and healing by offering creative activities such as painting, crafts, music, movement, and oral histories. Free live music concerts are held frequently and are open to the community. To date, AIM has touched the lives of nearly 20,000 patients, 15,700 family members, and nearly 12,000 staff members. The Friday Lunch Live concerts have featured 760 musicians performing in 213 concerts.

- Each year, BRGMC provides free community health screenings to aid in early detection. The screenings are led by physicians and other clinical experts.
    - In 2017, BRGMC offered a free skin cancer screening, which drew 28 participants. Volunteer support from 11 people for this event is valued at $770.
    - BRGMC offered a heart screening package which included an EKG, glucose screening, BMI screening, and blood pressure reading and drew 185 patients. Volunteer support from 37 people for this event is valued at $4,300.

- BRGMC was a corporate sponsor of the American Heart Association's Go Red for Women Luncheon. It provides education activities that promote heart health awareness and also features physician experts who answer heart health questions. Volunteer support from 10 people for this event is valued at more than $750.

- BRGMC also participated as a corporate sponsor of the American Heart Association's annual Heart Walk. Volunteer support for this event is valued at approximately $23,000.

- BRGMC publishes a free community newsletter, Health Matters, which provides healthy recipes, nutrition information, fitness and wellness tips, and expert advice from clinicians and physicians on a wide range of health topics. The newsletter has a total of 5,500 subscribers in fiscal year 2017.

- BRGMC also has an online health risk assessment tool, which provides users with a free health profile that helps identify their risk for certain health conditions, including breast cancer, colon cancer, diabetes, and heart disease. In fiscal year 2017, more than 579 people completed health risk assessments.

Note 2. Community Benefits - Unaudited (Continued)

- BRGMC uses its social media platforms, including Facebook and Twitter, to encourage healthy behaviors through responsible messaging with health information and wellness tips, such as nutrition and fitness videos. In fiscal year 2017, BRGMC gained 1,190 new Facebook, Instagram and Twitter followers.

- BRGMC hosts monthly Lunch & Learn seminars that feature physician and clinical experts discussing topics such as heart health, women's health, senior wellness, and immunizations. In fiscal year 2017, 175 people attended these seminars.

Note 3. Third-Party Reimbursement

The System has agreements with third-party payors that provide for payments to the System at amounts different from established rates. The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the System's revenue. A summary of the payment arrangements with major third-party payors follows:

Medicare - The System is paid for inpatient and outpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates. Outpatient services are also reimbursed prospectively under a rate per Ambulatory Payment Classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Final settlement is determined after submission of the System's annual cost reports and audits thereof by the Medicare fiscal intermediary.

The System's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2012.

Medicaid - Inpatient care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary.

The System's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2010.

During the years ended September 30, 2017 and 2016, approximately 38% and 37%, respectively, of consolidated net patient service revenue was derived from Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 3. Third-Party Reimbursement (Continued)

The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates-per-discharge, discounts from established charges and prospectively determined daily rates. The System provides healthcare services to patients who are economically disadvantaged and medically underserved. Either these patients generally cannot afford health care because of inadequate resources or they are uninsured.

For patients who meet certain criteria under the System's charity care policy, care is provided without charge or at amounts that are less than established rates. Benefits to the indigent also include charges foregone and costs in excess of government payments for services provided to Medicaid beneficiaries.

The System also commits significant time and resources to others who may not qualify as indigent, but who still require special services and support. These benefits include charges foregone and costs in excess of government payments for care provided to Medicare beneficiaries.

The System follows ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, which states that the level of charity care provided should be measured based on the health care entity's direct and indirect costs of providing charity care services. It further states that if the costs cannot be specifically attributed to services provided to charity care patients, management may estimate the costs of those services using reasonable techniques, including calculating a ratio of costs to gross charges and multiplying that ratio by the gross uncompensated charges associated with providing charity care.

The System estimates its cost of care provided under its charity care programs based on the historical collection percentages for non-insured patients.

Note 3. Third-Party Reimbursement (Continued)

A summary of charges foregone (representing charges in excess of payments) and estimated costs in excess of payments related to community benefits provided during the years ended September 30, 2017 and 2016, is as follows:

	2017		2016	
	Charges Foregone	**Estimated Costs In Excess of Payments**	Charges Foregone	Estimated Costs In Excess of Payments
		(In Thousands)		
Benefits for the indigent				
Charity care	**$ 14,929**	**$ 3,101**	$ 18,960	$ 3,938
Medicaid program services	**138,666**	**-**	92,062	-
	153,595	**3,101**	111,022	3,938
Other community benefits				
Medicare program services	**272,357**	**-**	248,127	-
Other community benefits	**-**	**302**	-	302
	272,357	**302**	248,127	302
Total quantifiable benefits	**$ 425,952**	**$ 3,403**	$ 359,149	$ 4,240

Note 4. Unconditional Promises to Give

Unconditional promises to give at September 30, 2017 and 2016 were as follows:

	2017	2016
	(In Thousands)	
Receivable in less than one year	**$ 1,028**	$ -
Receivable in one to five years	**1,823**	-
Receivable in more than five years	**21**	-
Total unconditional promises to give	**2,872**	-
Less discount to net present value (discount rate was 1.92% as of September 30, 2017 and 2016)	**(108)**	-
Less allowance for unfulfilled pledges	**(616)**	-
Net unconditional promises to give	**$ 2,148**	$ -

Prior to the fiscal year ended September 30, 2017, unconditional promises to give were recognized upon receipt. See Note 1 – Change in Accounting Principle.

Note 5. Investments

The System's investments at September 30, 2017 and 2016 were as follows:

	2017	2016
	(In Thousands)	
Assets whose use is limited		
Cash and cash equivalents	**$ 390**	$ 157
Certificate of deposit	**151**	150
U.S. government and government agency obligations and mutual funds	**23,485**	22,053
Total assets whose use is limited	**24,026**	22,360
Short-term investments		
Government securities	**-**	4,768
Exchange traded funds (ETFs)	**60,954**	41,806
Bond fund	**17,437**	7,160
Corporate bonds	**-**	11,988
Mortgage backed securities	**-**	494
Alternative investments	**44,665**	33,894
Total short-term investments	**123,056**	100,110
	$ 147,082	$ 122,470

See Note 1, Significant Accounting Policies, for further information about assets whose use is limited.

As mentioned in Note 1, 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).

Note 5. Investments (Continued)

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 System has the ability to access.
Level 2	Inputs to the valuation methodology include: • 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. 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.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value on a recurring basis at September 30, 2017, are summarized below (in thousands), and are included on the consolidated balance sheets as assets whose use is limited and short-term investments:

Assets	Level 1	Level 2	Level 3	Net Balance
Government securities	$ 23,159	$ 326	$ -	$ 23,485
Money market deposits	390	-	-	390
Certificate of deposit	151	-	-	151
ETFs	60,954	-	-	60,954
Bond fund	17,437	-	-	17,437
Investments measured at NAV per share*	-	-	-	44,665
	$ 102,091	$ 326	$ -	$ 147,082

* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Note 5. Investments (Continued)

Assets measured at fair value on a recurring basis at September 30, 2016, are summarized below (in thousands), and are included on the consolidated balance sheets as assets whose use is limited and short-term investments:

Assets	Level 1	Level 2	Level 3	Net Balance
Government securities	$ 26,046	$ 775	$ -	$ 26,821
Money market deposits	157	-	-	157
Certificate of deposit	150	-	-	150
ETFs	41,806	-	-	41,806
Corporate bonds	11,367	621	-	11,988
Mortgage backed securities	-	494	-	494
Bond fund	7,160	-	-	7,160
Investments measured at NAV per share*	-	-	-	33,894
	$ 86,686	$ 1,890	$ -	$ 122,470

* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The following schedule summarizes the investment income in the consolidated statements of operations for the years ended September 30, 2017 and 2016:

	2017	2016
	(In Thousands)	
Dividends and interest	**$ 2,314**	$ 2,448
Net realized gains (losses)	**831**	(36)
Net unrealized gains	**5,041**	4,542
Investment management fees	**(644)**	(542)
Total investment income	**$ 7,542**	$ 6,412

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017 from those used in 2016.

- Common stocks, corporate bonds, and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Note 5. Investments (Continued)

- Exchange Traded Funds (ETF): Valued at the daily closing price as quoted in active markets. Mutual funds held by the System are open-end mutual funds that are registered with the Securities and Exchange Commission (SEC). The Net Asset Value (NAV) of an ETF is calculated in the same manner as it is for a mutual fund: by summing the total assets and subtracting the total liabilities, divided by the number of shares outstanding. The NAV is the value used to compare it with other funds and to calculate performance statistics. However, the NAV may not represent the current value of an ETF since the component prices change throughout the trading day. Therefore, the NAV is calculated only at the end of the trading day. The ETFs held by the System are deemed to be actively traded and valued at the NAV calculated at the end of the trading day.

- Certificate of deposit: Valued at cost which approximates fair value.

- Alternative investments (hedge funds): Hedge funds are usually organized as limited partnerships, with the manager being the general partner who makes the investments decisions, and has a significant stake in the fund. Since hedge funds are private investment pools, securities are issued as private offerings. Valued based on the net asset value per share, without further adjustment. Net asset value is based upon the fair value of the underlying investments.

Fair Value of Investments that Calculate Net Asset Value per Share

The following table summarizes investments measured at fair value based on net asset value per share as of September 30, 2017 (in thousands):

September 30, 2017		Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Hedge Funds:					
AQR Style Premia Fund LP (CL B)	(A)	$ 2,731	None	15th Calendar Day of Each Month or Last Business Day of Each Month	15/30 Days
Armajaro CC+ FD LTD (CL A)	(B)	971	None	Monthly	90 Days
Clinton Equity Strategies FD LTD	(C)	2,073	None	Monthly	30 Days
Cumulus Energy FD (CL A)	(D)	666	None	Monthly	30 Days
HFR RVA Harvest MLP Master Trust	(E)	2,719	None	Monthly	15 Days
Kayne Anderson Midstream Energy FD LTD	(F)	2,680	None	Monthly	30 Days
Lyxor-Balyasny Atlas Enhanced FD LTD	(G)	2,635	None	Monthly	2 Days
Lyxor-Bridgewater PAMM (CL B)	(H)	2,186	None	Weekly	2 Days
Lyxor-Sandler Plus Offshore FD (CL B)	(I)	1,784	None	Weekly	2 Days
Lyxor-Twin Offshore LTD (CL B)	(J)	1,599	None	Weekly	2 Days
Millennium International LTD	(K)	6,804	None	Quarterly	90 Days
Palmetto Fund LTD (Nephila) (CL D)	(L)	1,852	None	Quarterly	90 Days
PIMCO LN Int and CR Offshore FD LTD	(M)	7,242	None	Quarterly	60 Days
Two Sigma Abslt Rtrn Caymn Fund LTD (CL A1)	(N)	2,238	None	Monthly	30 Days
Winton Futures FD LTD (CL B)	(O)	2,016	None	Monthly	2 Days
York Credit Opp Unit Fund LTD (CL A)	(P)	1,470	None	Annually	60 Days
DW Catalyst Offshore Fund LTD (CL A)	(Q)	2,052	None	Quarterly	85 Days
Oceanic Hedge Fund (CL B)	(R)	947	None	Monthly	90 Days
		$ 44,665			

Note 5. Investments (Continued)

Fair Value of Investments that Calculate Net Asset Value per Share (Continued)
The following table summarizes investments measured at fair value based on net asset value per share as of September 30, 2016 (in thousands):

September 30, 2016		Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Hedge Funds:					
AQR Style Premia Fund LP (CL B)	(A)	$ 1,702	None	15th Calendar Day of Each Month or Last Business Day of Each Month	15/30 Days
Armajaro CC+ FD LTD (CL A)	(B)	966	None	Monthly	90 Days
Clinton Equity Strategies FD LTD	(C)	1,793	None	Monthly	30 Days
Cumulus Energy FD (CL A)	(D)	908	None	Monthly	30 Days
HFR RVA Harvest MLP Master Trust	(E)	2,061	None	Monthly	15 Days
Kayne Anderson Midstream Energy FD LTD	(F)	1,124	None	Monthly	30 Days
Lyxor-Balyasny Atlas Enhanced FD LTD	(G)	1,713	None	Monthly	2 Days
Lyxor-Bridgewater PAMM (CL B)	(H)	1,978	None	Weekly	2 Days
Lyxor-Sandler Plus Offshore FD (CL B)	(I)	1,244	None	Weekly	2 Days
Lyxor-Twin Offshore LTD (CL B)	(J)	1,066	None	Weekly	2 Days
Millennium International LTD	(K)	5,182	None	Quarterly	90 Days
Palmetto Fund LTD (Nephila) (CL D)	(L)	1,633	None	Quarterly	90 Days
PIMCO LN Int and CR Offshore FD LTD	(M)	5,832	None	Quarterly	60 Days
Two Sigma Abslt Rtrn Caymn Fund LTD (CL A1)	(N)	2,066	None	Monthly	30 Days
Winton Futures FD LTD (CL B)	(O)	1,591	None	Monthly	2 Days
York Credit Opp Unit Fund LTD (CL A)	(P)	890	None	Annually	60 Days
DW Catalyst Offshore Fund LTD (CL A)	(Q)	1,445	None	Quarterly	85 Days
Oceanic Hedge Fund (CL B)	(R)	700	None	Monthly	90 Days
		$ 33,894			

(A) AQR Style Premia Fund LP (the Fund) is a feeder fund in a master-feeder structure and invests exclusively in AQR Style Premia Master Account, L.P. (the Master Account), and an exempted limited partnership incorporated under the laws of the Cayman Islands. The Fund and Master Account's primary objectives are to produce high risk-adjusted returns while maintaining low-to-zero correlation to traditional markets. The Master Account pursues these goals by investing in a combination of different investment strategies that apply quantitative return forecasting models and systematic risk control methods. Each of these investment strategies is designed to (a) target positive excess returns over a cash investment, (b) target a specific controlled level of volatility and (c) exhibit low-to-zero correlation to other traditional and nontraditional markets. The Master Account will invest globally in a broad range of instruments, including without limitation, equities, currencies, futures, forwards, options, swaps, and other derivative products.

(B) The CC+ Fund is a specialist commodity fund that focuses on the coffee and cocoa markets, with the discretion to trade up to 25% of its capital in other soft and agricultural commodities. The Fund trades on registered derivative exchanges and over-the-counter (OTC) contracts and has the ability to be active in the physical markets. The Fund will trade both directional and arbitrage long or short futures positions, exchange traded options and OTC options/derivatives.

Note 5. Investments (Continued)

Fair Value of Investments that Calculate Net Asset Value per Share (Continued)

(C) Clinton Equity Strategies Fund, Ltd. (the Fund) is a feeder fund in a master-feeder structure and invests exclusively in Clinton Equity Strategies Master Fund Ltd. (the Master Fund), an exempted company incorporated under the laws of the Cayman Islands. The Fund and Master Fund's primary objectives are to seek capital appreciation while minimizing risk by following a trading strategy based on the Investment Manager's proprietary models. The Investment Manager's trading strategy is intended to be market-neutral and attempts to exploit and profit from pricing aberrations in the financial instruments and markets traded by the Master Fund. The Master Fund's focus will be on the trading of, and investment in, U.S. and non-U.S. equity and equity-related securities, including "new-issues" indices and convertible debt securities.

(D) Cumulus Energy Fund, LP (the Fund) is organized as a feeder fund and all of the Fund's assets (to the extent not retained in cash) are invested solely in the shares of Cumulus Energy Master Fund (the Master Fund), an open-ended multi-class exempted company incorporated with limited liability in the Cayman Islands. The Fund is a shareholder in the Master Fund together with another entity. The investment objective of the Master Fund is to achieve an enhanced risk-adjusted return from the available assets through focusing typically, but not exclusively, on opportunities arising from weather and climate events and expectations whilst seeking to minimize exposure to general market risk.

(E) HFR RVA Harvest MLP Master Trust is a hedge fund whose objective is to generate positive, consistent, and stable risk-adjusted returns by exploiting market inefficiencies and the fundamental mispricing of Master Limited Partnerships (MLPs) and energy infrastructure assets.

(F) Kayne Anderson Midstream Energy Fund (KMF) LTD’s investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to its stockholders. KMF invests principally in securities of companies in the Midstream/Energy Sector, consisting of: (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs, and (d) Other Energy Companies. KMF anticipates that the majority of its investments will consist of equity investments in Midstream MLPs and Midstream Companies.

(G) Lyxor-Balyasny Atlas Enhanced Fund LTD is setup as a multi-class investment fund whose investment objective is to primarily achieve capital appreciation and deliver absolute returns across a number of investment strategies in all market environments.

(H) Lyxor-Bridgewater Fund LTD is setup as a multi-class investment fund to provide a competitive return by trading the global markets.

(I) Lyxor-Sandler Plus Offshore Fund Limited is a hedge fund that invests in public equity markets. It also employs long/short strategy to make its investments. Lyxor/Sandler Plus Offshore Fund Limited is domiciled in United States.

Note 5. Investments (Continued)

Fair Value of Investments that Calculate Net Asset Value per Share (Continued)

(J) Lyxor-Twin Offshore Fund Limited is setup as a multi-class investment fund to provide an event driven and risk arbitrage strategy with a merger arbitrage orientation.

(K) Millennium International LTD is the domestic feeder fund of Millennium Partners LP. Millennium USA, LP is used to receive investments made by domestic investors. Millennium Partners LP is a trading partnership engaged in the business of trading equities, fixed income products, options, futures, and other financial instruments.

(L) Palmetto Fund, LTD (Nephila) is incorporated under the laws of Bermuda as an open-ended investment company and seeks to achieve its investment objectives through investing substantially all of its investable assets in Palmetto Catastrophe Master Fund, LTD.

(M) PIMCO Loan Interests and Credit Offshore Fund Ltd. is a hedge fund that invests all or substantially all of its assets in PIMCO Loan Interests and Credit Master Fund LLC (the Master Fund). The Fund's and the Master Fund's investment objective is to provide enhanced risk-adjusted total return through investment primarily in high-yield instruments, including without limitation, investing in the global loan and high-yield bond markets.

(N) Two Sigma Absolute Return Cayman Fund, LTD was organized as a Cayman Islands exempted company, registered under the Cayman Islands' Mutual Funds Law. The investment objective of the Fund is to achieve absolute U.S. dollar-denominated returns primarily by combining multiple model-driven investment strategies with proprietary risk management and execution techniques.

(O) Winton Futures Fund LTD incorporated under the laws of the British Virgin Islands as an open-ended investment company with limited liability and engages in the speculative trading and investment in international futures, options, and forward markets.

(P) York Credit Opportunities Unit Trust is a fund that invests in a Master Fund which in turn invests in long and short positions in equity and debt of companies undergoing Chapter 11 reorganization or other types of restructuring.

(Q) DW Catalyst Offshore Fund, LTD, formerly Brevan Howard Credit Catalysts Fund Limited, (the Feeder Fund) is a feeder fund in a master-feeder structure and invests exclusively in DW Partners LP (the Master Fund), an exempted company with limited liability which was incorporated under the Companies Law of the Cayman Islands. The investment objective of the Master Fund is to employ a multi-strategy approach to investing in order to generate attractive risk-adjusted returns via careful investment selection, portfolio construction, and risk management.

(R) Oceanic Hedge Fund is an exempted company incorporated in the Cayman Islands. The Fund's objective is to achieve capital appreciation through focused long/short investments in the shipping, energy, and related sectors and associated commodities.

Note 6. Affiliates

Investment in Affiliates

On December 23, 2009, the System purchased a 45% interest in Baton Rouge Rehabilitation Hospital, L.L.C. (BRRH) and Baton Rouge Rehabilitation Development, L.L.C. (BRRD) for a purchase price of $4,380,000. Baton Rouge Rehabilitation Hospital is an 80 bed, Medicare certified inpatient rehabilitation hospital that offers a variety of rehabilitation services to Baton Rouge and the surrounding area. The investments in BRRH and BRRD are reported on the equity method of accounting and are included in the accompanying consolidated balance sheets as other assets.

On July 17, 2012, the System entered into an operating agreement to own and operate Radiation Oncology Center - Zachary (ROC-Zachary) with the Hospital Service District No. 1 of the Parish of East Baton Rouge, Louisiana, a Louisiana political subdivision d/b/a Lane Regional Medical Center, and Bayou Income Group, LLC. In accordance with its 50% membership interest, the System entered into a contribution agreement for contributions when needed. As of September 30, 2017, the System contributions to date totaled approximately $1,637,000. The purpose of ROC-Zachary is to operate a radiation oncology center. The center opened in February 2014. The investment in ROC-Zachary is reported on the equity method of accounting and is included in the accompanying consolidated balance sheets as other assets.

On April 1, 2016, the System purchased a 33% interest in Hood Home Health Service, L.L.C. for a purchase price of $51,650. The joint venture operates a Home Health agency in the state of Louisiana under the name of Baton Rouge General Home Health. The investment in Baton Rouge General Home Health is reported on the equity method of accounting and is included in the accompanying consolidated balance sheets as other assets.

Note 6. Affiliates (Continued)

Investment in Affiliates (Continued)

These investments are summarized as follows:

	2017	2016
	(In Thousands)	
Rehabilitation Hospital (BRRH)		
Beginning balance	**$ 1,890**	$ 1,904
Distributions	**(878)**	(1,013)
Net income (45%)	**1,051**	999
	$ 2,063	$ 1,890

	2017	2016
	(In Thousands)	
Rehabilitation Development (BRRD)		
Beginning balance	**$ 2,506**	$ 2,580
Distributions	**(711)**	(630)
Net income (45%)	**568**	556
	$ 2,363	$ 2,506

	2017	2016
	(In Thousands)	
ROC-Zachary		
Beginning balance	**$ 919**	$ 1,052
Contributions	**176**	-
Net loss (50%)	**(300)**	(133)
	$ 795	$ 919

	2017	2016
Baton Rouge General Home Health	(In Thousands)	
Beginning balance	**$ 33**	$ -
Contributions	**-**	52
Net income (loss) (33%)	**4**	(19)
	$ 37	$ 33
Total equity investments	**$ 5,258**	$ 5,348

Note 6. Affiliates (Continued)

Investments in Affiliates (Continued)

Summarized financial information for entities carried under the equity method are as follows as of and for the year ended September 30, 2017:

	BRRH	BRRD	ROC-Zachary	BRG Home Health
	(In Thousands)			
Total assets	**$ 5,467**	**$ 5,675**	**$ 1,686**	**$ 151**
Total liabilities	**$ 1,314**	**$ 1**	**$ 214**	**$ 32**
Equity	**$ 4,153**	**$ 5,674**	**$ 1,473**	**$ 118**
Net income (loss)	**$ 2,334**	**$ 1,263**	**$ (600)**	**$ 12**

Summarized financial information for entities carried under the equity method are as follows as of and for the year ended September 30, 2016:

	BRRH	BRRD	ROC-Zachary	BRG Home Health
	(In Thousands)			
Total assets	$ 4,930	$ 5,825	$ 1,963	$ 127
Total liabilities	$ 1,023	$ (26)	$ 126	$ 20
Equity	$ 3,907	$ 5,851	$ 1,837	$ 107
Net income (loss)	$ 2,218	$ 1,236	$ (264)	$ (57)

Transactions with Affiliates

At September 30, 2017 and 2016, the System had a receivable of approximately $1,138,000 and $705,000, respectively, due from joint venture partners for various operating and payroll expenses, which is reported in the accompanying consolidated balance sheets as prepaid expenses and other assets.

The System also contracts with an affiliate for physician services and medical teaching services. Affiliates, as used within these statements, are persons or entities that are affiliated with the System though common ownership and directorate control. During 2017 and 2016, these contract payments totaled $3,284,000 and $3,947,000, respectively.

Note 7. Property, Plant, and Equipment

Property, plant, and equipment and accumulated depreciation at September 30, 2017 and 2016, are as follows:

	2017	2016
	(In Thousands)	
Land and land improvements	**$ 39,033**	$ 35,571
Buildings and fixed equipment	**305,325**	304,787
Equipment	**160,752**	148,295
Construction in progress	**4,573**	1,258
	509,683	489,911
Accumulated depreciation	**(277,232)**	(261,214)
	$ 232,451	$ 228,697

Depreciation expense was approximately $17,350,000 and $16,489,000, for the years ended September 30, 2017 and 2016, respectively.

Note 8. Long-Term Debt

Long-term debt, as presented on the consolidated balance sheets, is comprised of both bond indentures and bank debt. The bond indentures are as follows:

On December 8, 2004, the Louisiana Public Facilities Authority issued the Series 2004 Bonds, for which BRGMC is obligated. The proceeds of the Series 2004 Bonds were used in refunding previously issued bond series, together with providing funds for (a) funding a $98.1 million capital expansion of the Bluebonnet campus, including capitalized interest during the construction period, (b) funding a debt service reserve fund, and (c) paying certain costs incurred in connection with the issuance of the bonds. These bonds were defeased on December 4, 2012 and new mortgage payable was issued. The proceeds were used for the purpose of advance refunding and defeasance of the nontaxable Series 2004 Bonds.

On October 1, 2011, the Louisiana Local Government Environmental Facilities and Community Development Authority issued $28,000,000 in Gulf Opportunity Zone Revenue Bonds, for which GHS is obligated. The proceeds of the Series 2011 Bonds were used to construct a 106,000 square foot medical office building on the Bluebonnet campus.

Under the terms of the bond indentures, the System is required to make certain deposits with a trustee. Such deposits are included within assets whose use is limited on the consolidated balance sheets. See Note 1. The bond indentures also limit the incurrence of additional borrowings and require that certain measures of financial performance be met as long as the bonds are outstanding. Management is not aware of any noncompliance with these requirements.

Note 8. Long-Term Debt (Continued)

A summary of both bond indentures and bank debt is summarized as follows (in thousands):

	2017	2016
Series 2011, LA Local Government Environmental Facilities and Community Development Authority-Gulf Opportunity Zone Revenue Bonds issued on behalf of General Health System (Obligor). $28,000,000 of serial bonds, variable interest. Quarterly principal and interest payments of $250,000 through maturity at October 1, 2041. Secured by a mortgage on medical office building which was constructed with the proceeds of issue.	$ 24,000	$ 25,000
Note payable with Bank for the purchase of land, with interest rate of 3.78% per annum, principal and interest payable monthly, maturing on July 23, 2018. Unsecured.	3,738	4,710
Series 2008, Louisiana Public Financing Authority Revenue Bonds issued on behalf of General Health System (obligor), original principal of $15,000,000 with interest rate of 4.00% per annum, principal and interest payable monthly in the amount of $90,897 with balloon payment of $9,038,530 on February 1, 2018, maturing on March 2, 2018. Secured by building and deposits held by trustee under indenture.	9,220	9,926
Note payable with Bank, original principal of $3,704,000, interest rate of 3.25% per annum, monthly principal and interest payments of $26,116 beginning on September 1, 2015 and maturing on August 31, 2022. Secured by deposits held by Bank.	3,276	3,477
Note payable with Bank, original principal of $4,936,000, interest rate of 3.25% per annum. Monthly principal and interest payments of $89,359 beginning on September 1, 2015 and maturing on August 31, 2020. Unsecured.	2,897	3,857
Mortgage payable to Bank, original principal of $175,983,168, interest rate of 2.98% per annum, principal and interest payable monthly in the amount of $974,237, maturing on January 1, 2033. Secured by building. Insured by HUD. Loan was issued to refinance 2004 series bonds.	143,133	150,440
Notes payable with Bank, original amount of $2,100,000 and $1,004,185, respectively, with interest rate of LIBOR + 1.75%, per annum, principal and interest payable monthly in the amount of $22,728, maturing on April 30, 2023. Secured by deposits held by Bank.	2,148	2,361
Note payable with Bank, interest rate of 2.44% per annum, principal and interest payable monthly in the amount of $277,778, maturing on February 1, 2018. Loan was issued to finance the cost of terminating the noncontributory defined benefit pension plan. Unsecured.	1,111	4,444
Note payable with Bank, interest rate of 3.00% per annum, principal and interest payable monthly in the amount of $277,778, maturing on March 1, 2019. Loan was issued to finance the cost of terminating the noncontributory defined benefit pension plan. Unsecured.	3,660	-
Notes payable with bank, original principal of $2,800,000, interest rate of LIBOR + 1.60% per annum; principal and interest payable in the amount of $280,000 on October 1, 2017 and quaterly, thereafter, in the amount of $70,000 through maturity on October 14, 2019. Secured by real estate.	2,520	-
	195,703	204,215
Less principal payments due within one year	(25,600)	(13,308)
Less debt issuance costs	(2,116)	(2,197)
Noncurrent portion	$ 167,987	$ 188,710

Note 8. Long-Term Debt (Continued)

The scheduled maturities of long-term debt for the next five years ending September 30th are as follows: (in thousands)

2018	$ 25,600
2019	11,757
2020	12,401
2021	9,652
2022	12,089
Thereafter	124,204
	$ 195,703

Note 9. Employee Benefit Plans

Defined Contribution Plan

Substantially all employees of the System are eligible to participate in the General Health System Retirement Plus Plan (GHSRP Plan) provided they meet certain service and eligibility requirements. The GHSRP Plan is a defined contribution plan. Newly hired and eligible employees are automatically enrolled in the GHSRP Plan within 30 days after their hire date. If employees do not specifically elect an alternative deferral amount (including zero), then as soon as administratively feasible after the end of that 30-day period, 2% of their compensation will automatically be withheld from each paycheck and deposited into a plan account in their name as a salary deferral. The GHSRP Plan also allows for voluntary contributions by employees up to 100% of their annual compensation, subject to certain limits. The System matches 50% of the employee's deferral up to 3% of annual compensation, to participants who are at least 21 years of age and have completed one year of service, defined as a 1,000 hours worked. A participant is 100% vested in the System match after completing three years of credited service. System matching contributions to the GHSRP Plan totaled approximately $2,666,000 and $2,481,000, for the years ended September 30, 2017 and 2016, respectively.

Defined Benefit Plan

The System maintains sponsorship of a noncontributory, defined benefit plan covering employees who were eligible at the curtailment date of January 1, 2000. Only participants who either attained age 55 and had 5 years of credited service as of December 31, 1999, or met the "Rule of 70" as of that date, continued to earn credited service; however, the Plan was effectively "frozen" January 1, 2011. As a result, participants will not receive credit for any additional Credited Service for any period after December 31, 2010.

Note 9. Employee Benefit Plans (Continued)

During fiscal year 2017, 540 plan participants received lump sums totaling $20,564,000. In addition, annuities were purchased for 262 participants totaling $16,969,000. These payments combined in connection with the plan termination triggered settlement and curtailment accounting and resulted in a net periodic benefit cost of $26,983,000, which is included as a nonoperating loss on the consolidated statement of operations. These payments reduced the plan liability to $-0-. As part of the plan termination, all benefits were required to be distributed (either through lump sum or annuity purchase) and any remaining unrecognized (gain)/loss and remaining prior service cost must be recognized. As a result, $25,297,000 unrecognized net loss as well as $172,000 remaining prior service cost was recognized. Since the plan terminated and all benefits were distributed as of September 30, 2017, the liability was measured as actual payments based on the assumptions used to determine those payments.

During fiscal year 2016, 277 plan participants received lump sums totaling $4,454,000. In addition, annuities were purchased for 154 retirees totaling $2,312,000. These payments combined triggered settlement accounting and resulted in a net periodic benefit cost of $4,433,000, which is included as a non-operating loss on the consolidated financial statements. These payments reduced the plan liability by $6,691,000.

A summary of the defined benefit plan funding status and assumptions is as follows for the year ended September 30, 2016:

	2016
	(In Thousands)
Projected benefit obligation at year end	$ 37,492
Fair value of plan assets at year end	35,110
Underfunded status	$ (2,382)

The System has reflected its under-funded status at September 30, 2016 as a component of other noncurrent liabilities on the consolidated balance sheet.

Note 9. Employee Benefit Plans (Continued)

The summary of the defined benefit plan actual expenses, benefits paid, and System contributions for fiscal year 2017, are as follows:

	Actual 2017
Service cost	$ 437,954
Interest cost	1,378,707
Expected return on assets	(1,170,001)
Net cost	646,660
Net prior service cost amortization	35,655
Net loss amortization	831,201
Net amortization	866,856
Net periodic benefit cost	$ 1,513,516
Employer contributions	$ -
Benefits paid from plan assets	$ 1,466,814

The plan had prior service cost of approximately $-0- and $208,000 and net accumulated losses of approximately $-0- and $25,286,000, at September 30, 2017 and 2016, respectively; with an accumulated other comprehensive income balance of approximately $-0- and $25,493,000, at September 30, 2017 and 2016, respectively.

Significant defined benefit plan assumptions used in actuarial calculations, which are based on historical performances and expected market and economic conditions, are as follows:

	2017	2016
Weighted-average assumptions:		
Discount rate	**3.85%**	4.50%
Expected return on plan assets	**3.50%**	3.50%
Expected compensation increase	**N/A**	N/A

The composition of plan assets at September 30, 2016, is as follows:

	2016
Asset category:	
Equity securities	32.30%
Debt securities	20.40%
Cash	17.40%
Other	29.90%
	100.00%

Note 9. Employee Benefit Plans (Continued)

A summary of the defined benefit plan asset allocation strategy is as follows for the year ended September 30, 2017.

	Minimum	Target Average	Maximum
Asset class:			
Equity	15%	25%	70%
Fixed income	25%	41%	85%
Real assets	0%	14%	15%
Alternative investments	0%	20%	30%
Cash and cash equivalents	0%	0%	50%

Assets were liquidated to effect settlement of the plan as of September 30, 2017.

Assets measured at fair value on a recurring basis at September 30, 2016, are summarized below (in thousands):

Assets	Level 1	Level 2	Level 3	Net Balance
Cash	$ 6,109	$ -	$ -	$ 6,109
Equity securities	11,341	-	-	11,341
Debt securities	7,162	-	-	7,162
Investments measured at NAV per share*	-	-	-	10,498
	$ 24,612	$ -	$ -	$ 35,110

* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the notes to consolidated financial statements.

The System's qualified pension plan became underfunded in 2002 primarily as a result of the weak stock market in 2001 and 2002 and subsequent declines in interest rates. This produced actuarial losses that are amortized to expense in subsequent years. Non-cash pension loss amortization was $831,000 and $835,000, in fiscal years ended September 30, 2017 and 2016, respectively.

A pension settlement charge is recorded when the total lump sum payments for a year exceed total service and interest costs recognized for that year.

Note 10. Contingencies and Risk Management

Malpractice claims that fall within the System's adopted policy of self-insurance (see Note 1) have been asserted against the System by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial.

The accrual for malpractice and general liability self-insurance reserves totaled $5,386,000 at September 30, 2017 of which, a portion, $3,370,000, was discounted at 5% and, the remainder, $2,016,000, was undiscounted. The accrual for malpractice and general liability self-insurance reserves totaled $4,899,000 at September 30, 2016 of which, a portion, $3,504,000, was discounted at 5% and, the remainder, $1,395,000, was undiscounted. $750,000 is included in current liabilities at each of those dates. Fully undiscounted malpractice and general liability self-insurance claims totaled $5,884,000 and $5,517,000, at September 30, 2017 and 2016, respectively. Based on management's best knowledge and belief, it is the opinion of management that the ultimate resolution of malpractice claims and incidents will not have a material effect on the System's consolidated financial statements.

In addition to the malpractice and general liabilities reserves, the System has reserved for workers' compensation claims. The reserves, which were discounted at 4%, totaled $4,923,000 and $4,138,000, at September 30, 2017 and 2016, respectively, all of which is included as current liabilities at each of those dates. Undiscounted workers' compensation claims totaled $6,096,000 and $4,847,000, at September 30, 2017 and 2016, respectively.

Note 11. Insurance Programs

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee's injuries and illnesses; natural disasters; and medical malpractice.

As mentioned in Notes 1 and 10, the System is self-insured for medical claims and certain medical malpractice claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The System has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying consolidated financial statements.

Note 11. Insurance Programs (Continued)

The health claims liabilities at September 30, 2017 and 2016, are reported if information prior to the issuance of the consolidated financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the System's claims liability amount during the past two years are reflected below (in thousands):

	2017	2016
Claims liability, beginning of year	**$ 1,546**	$ 1,353
Current year claims and changes in estimates	**13,074**	16,462
Current year claims payments	**(12,894)**	(16,269)
Claims liability, end of year	**$ 1,726**	$ 1,546

Note 12. Leases and Other Commitments

The System leases medical and office equipment and office buildings under several operating leases, which expire in various years through 2022. Rental expense under operating leases totaled approximately $3,373,000 and $4,479,000, for the years ended September 30, 2017 and 2016, respectively.

Future minimum payments under all non-cancelable operating leases with original or remaining terms of one year or more at September 30, 2017, are as follows: (in thousands)

2018	$ 1,882
2019	1,630
2020	1,285
2021	370
2022	254
Total minimum rental commitments	$ 5,421

The System is required by the State of Louisiana Department of Employment and Training, Office of Workers' Compensation, to maintain a cash reserve for the self-insured workers' compensation plan. The System acquired a standby letter of credit to satisfy this requirement with an available balance of $2,500,000 at September 30, 2017 and 2016.

Note 13. Business and Credit Concentrations

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of unsecured accounts receivable and interest-bearing depository accounts in excess of federally insured limits. The System has not experienced any losses from deposits in excess of federally insured limits and does not believe that significant credit risk exists as a result of this practice.

The System grants credit to patients, substantially all of whom are regional residents, and generally does not require collateral or other security in extending this credit; however, the System routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, and commercial insurance policies).

The mix of receivables due from patients and third-party payors at September 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	**21 %**	22 %
Medicaid	**14 %**	13 %
Commercial	**64 %**	64 %
Private pay	**1 %**	1 %
	100 %	100 %

Note 14. Other Operating Revenue

Other operating revenue recognized during the years ended September 30, 2017 and 2016, consists of the following (in thousands):

	2017	2016
Management fees	$ 9,549	$ 17,163
Retail pharmacy sales	5,474	5,002
Rent revenues	5,181	4,649
Cafeteria revenue	4,978	4,735
Physician shared savings payments	3,725	1,935
Lab service revenue	1,711	542
Contributions	1,541	1,476
Training revenue	1,224	1,102
EHR revenues	1,107	1,744
Purchase rebates	871	881
Gain (loss) on disposal of assets	374	(14)
Other	6,836	7,017
	$ 42,571	$ 46,232

Electronic Health Records (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that adopt and meaningfully use certified EHR technology. These incentive payments are determined based on a formula, including inputs such as charity charges and total discharges. The revenue associated with EHR incentive payments is recognized by the System when received.

For the year ended September 30, 2017, the System recognized $1,107,000 of revenue related to Medicaid incentive payments for EHR. This amount was recognized in full as of the date received and is included within other operating revenues as presented in the table above. For the year ended September 30, 2016, the System recognized $1,744,000 of revenue related to Medicaid incentive payments for EHR. This amount was recognized in full as of the date received and is included within other operating revenues as presented in the table above.

Note 14. Other Operating Revenue (Continued)

Future Rental Income

The System leases space to outside entities. These rental agreements are typically multi-year periods and are operating leases. Rental income is reported as earned over the term of the lease. Future minimum rental income under these leases is as follows (in thousands):

2018	$	4,396
2019		2,345
2020		1,321
2021		1,249
2022		598
Thereafter		1,082
	$	10,991

It is management's intent to seek renewal of these leases as they expire.

Note 15. Cooperative Endeavor Agreements

The System and other health care providers have collaborated with the State of Louisiana and units of local government in Louisiana, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population. The provision 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 such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). The System recognizes UPL revenue upon receipt of UPL payments. At September 30, 2017 and 2016, Medicaid UPL payments received by the System were $37,199,000 and $27,140,000, respectively which is recorded in net patient service revenues on the consolidated statements of operations, as the payments related directly to patient care. At September 30, 2017 and 2016, related community benefit payments made by the Hospital were approximately $27,620,000 and $6,735,000, respectively, which are recorded in supplies and other expenses on the statements of operations. Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs.

Note 16. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services were as follows:

	2017	2016
	(In Thousands)	
Health care services	$ **280,947**	$ 257,741
General and administrative	**166,551**	150,012
Fundraising	**62**	152
	$ **447,560**	$ 407,905

Note 17. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

	2017	2016
	(In Thousands)	
Property and equipment	$ **377**	$ 394
Supplies	**202**	114
Patient care	**67**	64
Nursing	**25**	21
Education	**19**	28
Employee assistance	**7**	255
Scholarships	**6**	6
Total amounts released from restriction	$ **703**	$ 882

Note 18. Transfer of Net Assets

During the years ended September 30, 2017 and 2016, there was a transfer from unrestricted assets to temporarily restricted assets that was donor directed. These transfers are shown on the consolidated statements of operations and the consolidated statements of changes in net assets.

Note 19. Accounting for Uncertainty in Taxes

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. The System believes that it has appropriate support for any tax positions taken, and management has determined that there are no uncertain tax positions that are material to the financial statements.

Note 19. Accounting for Uncertainty in Taxes (Continued)

The System and certain of its subsidiaries are not-for-profit entities under Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxation. Certain other subsidiaries are for-profit entities. The operations of the for-profit subsidiaries have resulted in cumulative net operating losses for federal income tax purposes at September 30, 2017 and 2016, of approximately $90,914,000 and $87,308,000, respectively. These net operating loss carryforwards expire in varying amounts beginning in 2018 through 2037. No tax benefits related to these operating losses have been recognized in the accompanying consolidated financial statements as the for-profit entities are not expected to generate sufficient taxable income to utilize the losses prior to their expiration.

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

Note 20. Subsequent Events

BRGMC applied for a loan of $115,571,300 with the Department of Housing and Urban Development on December 27, 2017. The proceeds of the loan, if executed, will be used for the purpose of constructing a neighborhood hospital in Ascension parish, constructing an additional critical care tower within the Bluebonnet facility, and refinancing the medical office building on the Bluebonnet property that is currently leased to tenants. Costs incurred as of September 30, 2017, total $117,000 and are included in debt issuance costs on the consolidated balance sheet.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 11, 2018, and determined that there were no other items that require disclosure to or changes in the financial statements.

Supplemental Information

GENERAL HEALTH SYSTEM
Consolidating Balance Sheet
September 30, 2017
(in thousands)

	General Health System Parent Company	General Health System Corporate Services	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc.	Baton Rouge General Physicians, Inc.	Gulf South Health Plans, Inc.	Behavioral Health, Inc., HMS, Inc. & GLC, Inc.	RRS Insurance	Office Park 73	Eliminations	General Health System Consolidated
ASSETS													
Current assets													
Cash and cash equivalents	$ -	$ (1,082)	$ 11,653	$ -	$ 1,426	$ -	$ 743	$ -	$ -	$ 4,812	$ -	$ -	$ 17,552
Short-term investments	-	72,489	50,567	-	-	-	-	-	-	-	-		123,056
Patient accounts receivable, net	-	-	46,352	-	-	-	98	-	(51)	-	-	-	46,399
Assets whose use is limited	-	-	-	-	-	-	-	-	-	-	-	-	-
Unconditional promises to give, net	-	-	-	-	759	-	-	-	-	-	-	-	759
Inventories	-	-	9,868	-	-	-	263	-	-	-	-	-	10,131
Prepaid expenses and other assets	-	7,768	3,707	-	-	-	144	-	131	32	-	-	11,782
Total current assets	**-**	**79,175**	**122,147**	**-**	**2,185**	**-**	**1,248**	**-**	**80**	**4,844**	**-**	**-**	**209,679**
Assets whose use is limited	-	-	24,026	-	-	-	-	-	-	-	-	-	24,026
Assets restricted by donors or grantors for specific purpose	-	-	-	-	6,992	-	-	-	-	-	-	-	6,992
Unconditional promises to give, net, less current portion	-	-	-	-	1,389	-	-	-	-	-	-	-	1,389
Investment in subsidiaries	245,559	-	-	-	-	(1)	-	-	5,258	-	-	(245,559)	5,257
Goodwill	-	383	4,706	-	-	-	-	-	-	-	-	-	5,089
Other non-current assets	-	13,081	-	-	-	-	13	-	-	90	-	-	13,184
Due from affiliates	-	12,031	24,476			4,134		13	14,742	-	-	(55,396)	-
Property and equipment, net	-	76,611	150,648	88	-	-	666	-	-	-	4,438	-	232,451
Total assets	**$ 245,559**	**$ 181,281**	**$ 326,003**	**$ 88**	**$ 10,566**	**$ 4,133**	**$ 1,927**	**$ 13**	**$ 20,080**	**$ 4,934**	**$ 4,438**	**$ (300,955)**	**$ 498,067**
LIABILITIES AND NET ASSETS													
Current liabilities													
Trade accounts payable	$ -	$ 15,181	$ 10,808	$ -	$ -	$ -	$ 1,018	$ -	$ -	$ 15	$ -	$ -	$ 27,022
Accrued expenses	-	8,781	6,745	-	31	-	626	113	360	699	8	-	17,363
Amounts due to contractual third-party payors	-	-	2,501	-	-	-	-	-	-	-	-	-	2,501
Current portion of self-insurance reserves	-	7,399	-	-	-	-	-	-	-	1,267	-	-	8,666
Current portion of long-term debt	-	18,498	6,892	-	-	-	-	-	-	-	210	-	25,600
Total current liabilities	**-**	**49,859**	**26,946**	**-**	**31**	**-**	**1,644**	**113**	**360**	**1,981**	**218**	**-**	**81,152**
Self-insurance reserves, less current portion	-	3,269	-	-	-	-	-	-	-	100	-	-	3,369
Long-term debt, less current portion													
Principal amount	-	31,552	136,241	-	-	-	-	-	-	-	2,310	-	170,103
Less debt issuance costs	-	(145)	(1,971)	-	-	-	-	-	-	-	-	-	(2,116)
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to affiliates	-	-	-	8,813	-	-	44,538	-	-	-	2,045	(55,396)	-
Total liabilities	**-**	**84,535**	**161,216**	**8,813**	**31**	**-**	**46,182**	**113**	**360**	**2,081**	**4,573**	**(55,396)**	**252,508**
Net assets													
Unrestricted	238,568	96,746	164,787	(8,725)	3,544	4,133	(44,255)	(100)	19,720	2,853	(135)	(238,568)	238,568
Temporarily restricted	6,784	-	-	-	6,784	-	-	-	-	-	-	(6,784)	6,784
Permanently restricted	207	-	-	-	207	-	-	-	-	-	-	(207)	207
Total net assets	**245,559**	**96,746**	**164,787**	**(8,725)**	**10,535**	**4,133**	**(44,255)**	**(100)**	**19,720**	**2,853**	**(135)**	**(245,559)**	**245,559**
Total liabilities and net assets	**$ 245,559**	**$ 181,281**	**$ 326,003**	**$ 88**	**$ 10,566**	**$ 4,133**	**$ 1,927**	**$ 13**	**$ 20,080**	**$ 4,934**	**$ 4,438**	**$ (300,955)**	**$ 498,067**

See Independent Auditor's Report

GENERAL HEALTH SYSTEM
Consolidating Balance Sheet
September 30, 2016
(in thousands)

	General Health System Parent Company	General Health System Corporate Services	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc.	Baton Rouge General Physicians, Inc.	Gulf South Health Plans, Inc.	Behavioral Health, Inc., HMS, Inc. & GLC, Inc.	RRS Insurance	Eliminations	General Health System Consolidated
ASSETS												
Current assets												
Cash and cash equivalents	$ -	$ 16,582	$ 18,858	$ -	$ 3,088	$ -	$ 247	$ -	$ -	$ 446	$ -	$ 39,221
Short-term investments	-	59,334	40,776	-	-	-	-	-	-	-	-	100,110
Patient accounts receivable, net	-	-	44,446	-	-	-	(58)	-	(57)	-	-	44,331
Inventories	-	-	8,324	-	-	-	265	-	-	-	-	8,589
Prepaid expenses and other assets	-	6,038	2,493	-	-	-	109	-	109	2,215	-	10,964
Total current assets	**-**	**81,954**	**114,897**	**-**	**3,088**	**-**	**563**	**-**	**52**	**2,661**	**-**	**203,215**
Assets whose use is limited	-	-	22,360	-	-	-	-	-	-	-	-	22,360
Assets restricted by donors or grantors for specific purpose	-	-	-	-	4,140	-	-	-	-	-	-	4,140
Other assets												
Investment in subsidiaries	212,804	-	-	-	-	-	-	-	5,348	-	(212,804)	5,348
Goodwill	-	383	4,706	-	-	-	-	-	-	-	-	5,089
Other non-current assets	-	8,110	-	-	-	-	-	-	-	122	-	8,232
Other assets	212,804	8,493	4,706	-	-	-	-	-	5,348	122	(212,804)	18,669
Due from affiliates	-	2,218	27,175	-	-	3,174	-	13	13,494	-	(46,074)	-
Property and equipment, net	-	80,143	147,996	88	-	-	470	-	-	-	-	228,697
Total assets	**$ 212,804**	**$ 172,808**	**$ 317,134**	**$ 88**	**$ 7,228**	**$ 3,174**	**$ 1,033**	**$ 13**	**$ 18,894**	**$ 2,783**	**$ (258,878)**	**$ 477,081**
LIABILITIES AND NET ASSETS												
Current liabilities												
Trade accounts payable	$ -	$ 15,780	$ 11,135	$ -	$ -	$ -	$ 1,282	$ -	$ -	$ 15	$ -	$ 28,212
Accrued expenses	-	4,316	10,117	-	24	-	1,108	113	522	1,227	-	17,427
Amounts due to contractual third-party payors	-	-	3,655	-	-	-	-	-	-	-	-	3,655
Current portion of self-insurance reserves	-	6,434	-	-	-	-	-	-	-	1,335	-	7,769
Current portion of long-term debt	-	6,618	6,690	-	-	-	-	-	-	-	-	13,308
Total current liabilities	**-**	**33,148**	**31,597**	**-**	**24**	**-**	**2,390**	**113**	**522**	**2,577**	**-**	**70,371**
Self-insurance reserves, less current portion	-	2,814	-	-	-	-	-	-	-	-	-	2,814
Long-term debt, less current portion												
Principal amount	-	47,157	143,750	-	-	-	-	-	-	-	-	190,907
Less debt issuance costs	-	(160)	(2,037)	-	-	-	-	-	-	-	-	(2,197)
Other non-current liabilities	-	2,382	-	-	-	-	-	-	-	-	-	2,382
Due to affiliates	-	-	-	8,813	-	-	37,261	-	-	-	(46,074)	-
Total liabilities	**-**	**85,341**	**173,310**	**8,813**	**24**	**-**	**39,651**	**113**	**522**	**2,577**	**(46,074)**	**264,277**
Net assets												
Unrestricted	208,664	87,467	143,824	(8,725)	3,064	3,174	(38,618)	(100)	18,372	206	(208,664)	208,664
Temporarily restricted	3,933	-	-	-	3,933	-	-	-	-	-	(3,933)	3,933
Permanently restricted	207	-	-	-	207	-	-	-	-	-	(207)	207
Total net assets	**212,804**	**87,467**	**143,824**	**(8,725)**	**7,204**	**3,174**	**(38,618)**	**(100)**	**18,372**	**206**	**(212,804)**	**212,804**
Total liabilities and net assets	**$ 212,804**	**$ 172,808**	**$ 317,134**	**$ 88**	**$ 7,228**	**$ 3,174**	**$ 1,033**	**$ 13**	**$ 18,894**	**$ 2,783**	**$ (258,878)**	**$ 477,081**

See Independent Auditor's Report

GENERAL HEALTH SYSTEM
Consolidating Statement of Operations
Year Ended September 30, 2017
(in thousands)

	General Health System Parent Company	General Health System Corporate Services	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc.	Baton Rouge General Physicians, Inc.	Behavioral Health, Inc., HMS, Inc. & GLC, Inc.	RRS Insurance	Office Park 73	Eliminations	General Health System Consolidated
Revenues:												
Net patient service revenue	$ -	$ -	$ 410,068	$ -	$ -	$ -	$ 19,555	$ -	$ -	$ -	$ -	$ 429,623
Provision for bad debts	-	-	(3,555)	-	-	-	(819)	-	-	-	-	(4,374)
Net patient service revenue after provision for bad debts	-	-	406,513	-	-	-	18,736	-	-	-	-	425,249
Other revenue	-	83,237	20,930	56	1,541	1,046	8,330	7,835	1,951	-	(82,355)	42,571
Transfers to restricted net assets	-	-	-	-	53	-	-	-	-	-	-	53
Net assets released from restrictions	-	-	-	-	326	-	-	-	-	-	-	326
Total revenues	**-**	**83,237**	**427,443**	**56**	**1,920**	**1,046**	**27,066**	**7,835**	**1,951**	**-**	**(82,355)**	**468,199**
Expenses:												
Salaries, wages, and benefits	-	15,616	147,913	-	715	-	23,740	7,764	-	-	-	195,748
Supplies and other expenses	-	55,232	243,507	56	1,402	88	8,889	46	366	65	(82,355)	227,296
Depreciation	-	4,883	12,393	-	-	-	74	-	-	-	-	17,350
Interest expense	-	1,768	5,293	-	35	-	-	-	-	70	-	7,166
Total expenses	**-**	**77,499**	**409,106**	**56**	**2,152**	**88**	**32,703**	**7,810**	**366**	**135**	**(82,355)**	**447,560**
Operating income (loss)	-	5,738	18,337	-	(232)	958	(5,637)	25	1,585	(135)	-	20,639
Earnings of subsidiaries	4,034	-	-	-	-	-	-	1,322	-	-	(4,034) -	1,322
Investment income	-	4,582	2,626	-	333	-	-	-	1	-	-	7,542
Nonoperating loss	-	(25,469)	-	-	-	-	-	-	-	-	-	(25,469)
Excess (deficit) of revenues over expenses	**$ 4,034**	**$ (15,149)**	**$ 20,963**	**$ -**	**$ 101**	**$ 958**	**$ (5,637)**	**$ 1,347**	**$ 1,586**	**$ (135)**	**$ (4,034)**	**$ 4,034**

See Independent Auditor's Report

GENERAL HEALTH SYSTEM
Consolidating Statement of Operations
Year Ended September 30, 2016
(in thousands)

	General Health System Parent Company	General Health System Corporate Services	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc.	Baton Rouge General Physicians, Inc.	Behavioral Health, Inc., HMS, Inc. & GLC, Inc.	RRS Insurance	Eliminations	General Health System Consolidated
Revenues:											
Net patient service revenue	$ -	$ -	$ 377,289	$ -	$ -	$ -	$ 20,758	$ -	$ -	$ -	$ 398,047
Provision for bad debts	-	-	(13,725)	-	-	-	(858)	-	-	-	(14,583)
Net patient service revenue after provision for bad debts	-	-	363,564	-	-	-	19,900	-	-	-	383,464
Other revenue	-	58,646	19,328	53	1,476	1,054	5,162	15,626	1,229	(56,342)	46,232
Transfers to restricted net assets	-	-	-	-	(93)	-	-	-	-	-	(93)
Net assets released from restrictions	-	-	-	-	488	-	-	-	-	-	488
Total revenues	-	58,646	382,892	53	1,871	1,054	25,062	15,626	1,229	(56,342)	430,091
Expenses:											
Salaries, wages, and benefits	-	17,752	145,446	-	455	-	22,551	15,284	-	-	201,488
Supplies and other expenses	-	29,467	196,611	53	1,341	47	9,447	323	1,541	(56,342)	182,488
Depreciation	-	5,289	11,142	-	-	-	58	-	-	-	16,489
Interest expense	-	1,836	5,568	-	36	-	-	-	-	-	7,440
Total expenses	-	54,344	358,767	53	1,832	47	32,056	15,607	1,541	(56,342)	407,905
Operating income (loss)	-	4,302	24,125	-	39	1,007	(6,994)	19	(312)	-	22,186
Earnings of subsidiaries	26,032	-	-	-	-	-	-	1,404	-	(26,032)	1,404
Investment income	-	3,474	2,765	-	173	-	-	-	-	-	6,412
Nonoperating loss	-	(4,433)	-	-	-	-	-	-	-	-	(4,433)
Excess (deficit) of revenues over expenses	$ 26,032	$ 3,343	$ 26,890	$ -	$ 212	$ 1,007	$ (6,994)	$ 1,423	$ (312)	$ (26,032)	$ 25,569

See Independent Auditor's Report

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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
General Health System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of General Health System (a nonprofit organization) (the System) which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 11, 2018

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS

Independent Auditor's Report

To the Board of Trustees
General Health System

Report on Compliance for Each Major Federal Program

We have audited General Health System's (the System) compliance with the types of compliance requirements described in OMB *Compliance Supplement and the Consolidated Audit Guide for Audits of HUD Programs* that could have a direct and material effect on each of the System's major federal programs for the year ended September 30, 2017. The System's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Unmodified Opinion on Each Major Federal Programs

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 11, 2018

GENERAL HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Grantor/Program Title/ Pass-Through Grantor's Number	Federal CFDA Number	Contract Period		Federal Expenditures
U.S. Department of Housing and Urban Development:				
Mortgage Insurance - Hospitals	14.128	10/01/16-09/30/17	$	143,132,589
U.S. Department of Education *(Note 2)* :				
Student Financial Aid Cluster				
Federal Pell Grant Program	84.063	07/01/16-06/30/17		102,798
		07/01/17-06/30/18		109,065
Federal Direct Student Loans	84.268	07/01/16-06/30/17		346,150
		07/01/17-06/30/18		330,656
				888,669
U.S. Department of Health and Human Services:				
Louisiana Hospital Association				
National Bioterrorism Hospital Preparedness Program	93.889	7/01/16 - 05/15/17		25,957
U.S. Department of Health and Human Services:				
Louisiana Hospital Association				
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	7/01/16 - 06/30/17		16,420
Total Expenditures of Federal Awards			**$**	**144,063,635**

Note 1. Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.

Complete Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers were available. CFDA prefixes and other identifying numbers are presented for programs for which a complete CFDA number is not available.

Note 2. Disbursements Outstanding

The System participates in student loan programs guaranteed by an agency of the U.S. government. The System is involved in determining eligibility, while a financial institution is responsible for funding the loan.

All disbursements outstanding (approved but not paid) during the audit period have been included in expenditures on the Schedule of Expenditures of Federal Awards. Disbursements outstanding for the Federal Pell Grant Program were $0 and for the William D. Ford Federal Direct Loan Program were $0 at September 30, 2017.

Note 3. Mortgage Insurance

The System participates in the Section 242 Program which is a loan guarantee by the Department of Housing and Urban Development (HUD). The objective of the program is to facilitate affordable financing of hospitals for the care and treatment of persons who are acutely ill or who otherwise require medical care and related services of the kind customarily furnished by hospitals. HUD insures lenders against a loss on mortgages. The loans may be used to finance construction, modernization, equipment, or refinancing of acute care hospitals. (See Note 4 for the use of bond proceeds).

Note 4. Insured Mortgage

On December 8, 2004, the Louisiana Public Facilities Authority (the Authority) issued the Series 2004 Bonds, for which Baton Rouge General Medical Center (the Hospital), the mortgaged entity, is obligated. The mortgaged entity's financial statements have been presented in the Consolidating Balance Sheets and Statements of Operations as Baton Rouge General Medical Center.

Note 4. Insured Mortgage (Continued)

Concurrently with the issuance of the bonds, the Authority entered into a loan agreement related to the bonds dated as of November 1, 2004, with Baton Rouge General Medical Center. Pursuant to this loan agreement, the Authority lent the proceeds of the Bonds to the mortgaged entity for the purpose of providing funds, together with other available funds for (a) refunding a $98.1 million capital expansion of the Bluebonnet Campus including capitalized interest during the construction period, (b) funding a debt service reserve fund, (c) retiring previously issued bonds, and (d) pay certain costs incurred in connection with the issuance of the bonds. To provide a source of repayment of such loan, the mortgage entity executed a mortgage note and mortgage. Payments on the mortgage note and the mortgage, together with other available funds, will be required to be sufficient to pay the principal of, premium, if any, and interest on the Bonds as they become due. HUD, acting by and through FHA, insures the advances of funds secured by the mortgage pursuant to Section 242 of Title II of the National Housing Act.

On December 4, 2012, the Louisiana Public Facilities Authority Series 2004 Bonds were defeased and a new mortgage payable was issued. The proceeds of the mortgage payable were used for the purpose of advance refunding and defeasance of the nontaxable Series 2004 Bonds. The mortgage was attached to the 2012 mortgage payable at the defeasance of the 2004 Bonds.

The related mortgage payables as of September 30th, are summarized as follows (in thousands):

	2017	2016
Mortgage payable to Bank, original principal of $175,983,168, interest rate of 2.98% per annum, principal and interest payable monthly in the amount of $974,237, maturing on January 1, 2033. Secured by building. Insured by HUD. Loan was issued to refinance 2004 series bonds.	**$ 143,133**	$ 150,440

As mentioned above, proceeds from the Series 2004 Bonds were used to refund previous bond issuances that were obligations of the Hospital. Approximately, $96,894,000 of the proceeds of the bonds, together with other monies of the Hospital, was used to refund the Series 1989A Bonds, Series 1989B Bonds, Series 1992 Bonds and Series 1994 Bond, which were redeemed within ninety (90) days after the delivery of the bonds.

A mortgage reserve fund was established as a trust fund with a trustee. As of September 30, 2017 the fund had a balance of $23,875,000, which is presented as a component of assets whose use is limited on the consolidated balance sheet.

Part I - Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	None Reported
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards Section

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with *the Uniform Guidance*?	No

Identification of Major Programs:

14.128 Mortgage Insurance - Hospitals
84.063 Federal Pell Grant Program/E-P063P42691-91
84.268 William D. Ford Federal Direct Loan Program

Dollar threshold used to determine Type A programs:	$750,000
Auditee qualified as low-risk auditee?	No

Part II - Financial Statement Findings Section

None

Part III - Federal Award Findings and Questioned Costs Section

None

U.S. Department of Housing and Urban Development

2016.001 Late Submission of Financial Reports

Condition: The System did not submit required annual budget for fiscal year ended September 30, 2016 to the U.S. Department of Housing and Urban Development (HUD) within the required timeframe.

Recommendation: The auditor recommended the System should develop a system that incorporates the submission of the required HUD reporting into its monthly close and year end close process. In addition, this process should be monitored by someone independent of the actual submission process to ensure all reports are submitted in the required timeframe.

Current Status: Corrected.

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Independent Auditor's Report on Supplementary Information

To the Board of Trustees
General Health System
Baton Rouge, Louisiana

We have audited the consolidated financial statements of General Health System (the System), which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming and opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to January 11, 2018.

The accompanying supplementary information is presented for the purpose of additional analysis, as required by Louisiana Revised Statutes, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the comptroller General of the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 11, 2018

GENERAL HEALTH SYSTEM

Schedule of Compensation, Benefits and Other Payments to Agency Head
For the Year Ended September 30, 2017

Agency Head
Edgardo Tenriero
Chief Executive Officer

Purpose	**Amount**
Salary	$0
Benefits - Insurance	$0
Benefits - Retirement	$0
Benefits - Other	$0
Car Allowance	$0
Vehicle Provided by Organization	$0
Per Diem	$0
Reimbursements	$0
Travel	$0
Registration Fees	$0
Conference Travel	$0
Continuing Professional Education Fees	$0
Miscellaneous Expenses	$0

See Independent Auditor's Report on Supplementary Information.