# GENERAL HEALTH SYSTEM

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

Years Ended September 30, 2018 and 2017

LAPORTE
CPAs & BUSINESS ADVISORS

**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, 2018 and September 30, 2017, 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, 2018 and September 30, 2017, 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, 2018 and September 30, 2017, 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 28, 2019, 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 28, 2019

**GENERAL HEALTH SYSTEM**
**Consolidated Balance Sheets**
**September 30, 2018 and 2017**

| | | 2018 | | 2017 |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | **$** | **20,568** | $ | 15,223 |
| Short-term investments | | **123,662** | | 125,385 |
| Patient accounts receivable, net (Note 1) | | **38,210** | | 46,399 |
| Current portion of unconditional promises to give, net | | **1,568** | | 759 |
| Inventories | | **9,696** | | 10,131 |
| Prepaid expenses and other assets | | **12,827** | | 11,782 |
| **Total current assets** | | **206,531** | | 209,679 |
| Assets whose use is limited | | **23,760** | | 24,026 |
| Assets restricted by donors or grantors for specific purposes | | **9,470** | | 6,992 |
| Unconditional promises to give, net, less current portion | | **1,625** | | 1,389 |
| Investments in affiliates | | **8,544** | | 5,257 |
| Goodwill | | **5,089** | | 5,089 |
| Trust receivable | | **14,308** | | 8,659 |
| Other assets | | **7,331** | | 4,525 |
| Property, plant, and equipment, net | | **222,306** | | 232,451 |
| **Total assets** | **$** | **498,964** | $ | 498,067 |
| **Liabilities and net assets** | | | | |
| **Current liabilities** | | | | |
| Trade accounts payable | **$** | **22,610** | $ | 27,022 |
| Accrued expenses | | **18,351** | | 17,363 |
| Amounts due to contractual third-party payors | | **4,414** | | 2,501 |
| Current portion of self-insurance reserves | | **9,913** | | 8,666 |
| Current portion of long-term debt | | **21,907** | | 25,600 |
| **Total current liabilities** | | **77,195** | | 81,152 |
| Self-insurance reserves, less current portion | | **3,066** | | 3,369 |
| Long-term debt, less current portion | | | | |
| Principal amount | | **157,812** | | 170,103 |
| Less: debt issuance costs | | **(2,243)** | | (2,116) |
| **Total liabilities** | | **235,830** | | 252,508 |
| **Net assets** | | | | |
| Unrestricted | | **253,664** | | 238,568 |
| Temporarily restricted | | **9,262** | | 6,784 |
| Permanently restricted | | **208** | | 207 |
| **Total net assets** | | **263,134** | | 245,559 |
| **Total liabilities and net assets** | **$** | **498,964** | $ | 498,067 |

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

**GENERAL HEALTH SYSTEM**
**Consolidated Statements of Operations**
**Years Ended September 30, 2018 and 2017**

| | | 2018 | | 2017 |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| **Unrestricted revenues, gains, and other support** | | | | |
| Net patient service revenue | $ | **430,456** | $ | 444,494 |
| Provision for bad debts | | **(15,502)** | | (19,245) |
| Net patient service revenue after provision for bad debts | | **414,954** | | 425,249 |
| Other revenue | | **44,558** | | 42,571 |
| Transfers (to) from restricted net assets | | **(9)** | | 53 |
| Net assets released from restrictions | | **218** | | 326 |
| **Total revenues, gains, and other support** | | **459,721** | | 468,199 |
| **Expenses** | | | | |
| Salaries, wages, and benefits | | **193,838** | | 195,748 |
| Supplies and other expenses | | **233,781** | | 227,296 |
| Depreciation | | **18,008** | | 17,350 |
| Interest expense | | **7,257** | | 7,166 |
| **Total expenses** | | **452,884** | | 447,560 |
| Operating income | | **6,837** | | 20,639 |
| Earnings of subsidiaries | | **1,058** | | 1,322 |
| Investment income | | **6,968** | | 7,542 |
| Nonoperating loss | | **-** | | (25,469) |
| **Excess of revenues over expenses** | $ | **14,863** | $ | 4,034 |

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, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| **Unrestricted net assets** | | |
| Excess of revenues over expenses | $ 14,863 | $ 4,034 |
| Income from minimum pension liability | - | 25,493 |
| Net assets released from restrictions - capital | 233 | 377 |
| Increase in unrestricted net assets | 15,096 | 29,904 |
| **Temporarily restricted net assets** | | |
| Contributions | 2,920 | 3,607 |
| Transfers from (to) unrestricted net assets | 9 | (53) |
| Net assets released from restrictions | (451) | (703) |
| Increase in temporarily restricted net assets | 2,478 | 2,851 |
| **Permanently restricted net assets** | | |
| Interest | 1 | - |
| Increase in permanently restricted net assets | 1 | - |
| **Increase in net assets** | 17,575 | 32,755 |
| **Net assets, beginning of year** | 245,559 | 212,804 |
| **Net assets, end of year** | $ 263,134 | $ 245,559 |

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

**GENERAL HEALTH SYSTEM**
**Consolidated Statements of Cash Flows**
**Years Ended September 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| **Cash flows from operating activities** | | |
| Change in net assets | **$ 17,575** | $ 32,755 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | **18,008** | 17,350 |
| Amortization included in interest | **188** | 198 |
| Loss (Gain) from disposal of assets | **2,404** | (374) |
| Provision for bad debts | **15,502** | 4,374 |
| Unrealized loss on assets whose use is limited | **625** | 426 |
| Realized gain on assets whose use is limited | **(384)** | (292) |
| Unrealized gain on assets restricted by donors for specific purposes | **(61)** | (116) |
| Realized gain on assets restricted by donors for specific purposes | **(318)** | (380) |
| Unrealized gain on investments and other assets | **(4,854)** | (5,351) |
| Realized gain on investments and other assets | **(2,668)** | (2,664) |
| Increase in operating assets: | | |
| Patient accounts receivable | **(7,313)** | (6,442) |
| Inventories, prepaid expenses, and other current assets | **(1,419)** | (3,119) |
| Other assets | **(1,124)** | (2,561) |
| (Decrease) increase in operating liabilities: | | |
| Trade accounts payable and accrued expenses | **(3,424)** | (1,254) |
| Accrued self-insurance reserves | **944** | 1,452 |
| Amounts due to contractual third-party payors | **1,913** | (1,154) |
| Other noncurrent liabilities | **-** | (2,382) |
| **Net cash provided by operating activities** | **35,594** | 30,466 |
| **Cash flows from investing activities** | | |
| Purchases of property, plant, and equipment | **(10,513)** | (21,104) |
| Purchases of assets whose use is limited | **-** | (1,800) |
| Sales of assets whose use is limited | **25** | - |
| Increase in assets restricted by donors for specific purposes | **(2,099)** | (2,356) |
| Proceeds from disposal of property, plant, and equipment | **246** | 374 |
| Proceeds from trust receivable | **926** | 31 |
| Payments for trust receivable | **(6,575)** | (4,004) |
| Sales of investments | **7,950** | 17,514 |
| Purchases of investments | **(3,910)** | (23,180) |
| **Net cash used in investing activities** | **(13,950)** | (34,525) |
| **Cash flows from financing activities** | | |
| Proceeds from note payable | **-** | 6,675 |
| Cost of bond issuance | **(315)** | (117) |
| Principal payments on outstanding debt | **(15,984)** | (15,187) |
| **Net cash used in financing activities** | **(16,299)** | (8,629) |
| **Net increase (decrease) in cash and cash equivalents** | **5,345** | (12,688) |
| **Cash and cash equivalents at beginning of year** | **15,223** | 27,911 |
| **Cash and cash equivalents at end of year** | **$ 20,568** | $ 15,223 |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid during the year for interest | **$ 7,069** | $ 6,968 |

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 (decreased) and increased net patient service revenue by approximately $(1,953,000) and $2,662,000 in 2018 and 2017, 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. In previously reported financial statements, certain cash and cash equivalents generated in the System's investment accounts were classified as cash and cash equivalents. In 2018, management changed this policy and now classifies cash and cash equivalents in investment funds as short-term investments. Prior year balances in these consolidated financial statements have been reclassified to reflect this change.

Investments that can be readily traded are considered current assets.

## Note 1. Significant Accounting Policies (Continued)

### Inventories

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

### 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:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Debt retirement funds | **$ 23,633** | $ 23,875 |
| Other restricted assets | **127** | 151 |
| | **$ 23,760** | $ 24,026 |

### 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.

### Trust Receivable

The System entered into irrevocable trust agreements beginning in 2012. The purpose of the trusts are to purchase life insurance policies for certain individuals in which the System has an insurable interest. The trusts act as both the owner and the beneficiary of the life insurance proceeds and are not controlled by the System. Therefore, they are not consolidated in the System's consolidated financial statements. The System has made loans to the trusts in the form of notes receivable to allow the trusts to meet their operational cash needs. The receivables will be paid by the trusts as the benefits of the life insurance policies held by the trusts are realized. The carrying value of the receivables is not reduced by any reserves for potential uncollectability based on the cash surrender value of the policies held by the trusts and the contracted policy benefits anticipated. Based on current estimates, management anticipates a net paydown of the receivables starting in the year 2025.

**Note 1. Significant Accounting Policies (Continued)**

**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.

*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 and other 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.

## Note 1. Significant Accounting Policies (Continued)

### Fair Values (Continued)

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| Cash and cash equivalents | **$ 20,568** | **$ 20,568** | $ 15,223 | $ 15,223 |
| Short-term investments | **$ 123,662** | **$ 123,662** | $ 125,385 | $ 125,385 |
| Assets limited as to use | **$ 23,760** | **$ 23,760** | $ 24,026 | $ 24,026 |
| Assets restricted by donors or grantors | **$ 9,470** | **$ 9,470** | $ 6,992 | $ 6,992 |
| Accounts payable and accrued expenses | **$ 40,961** | **$ 40,961** | $ 44,385 | $ 44,385 |
| Amounts due to contractual third-party payors | **$ 4,414** | **$ 4,414** | $ 2,501 | $ 2,501 |
| Long-term debt | **$ 179,719** | **$ 147,846** | $ 195,703 | $ 161,072 |

### 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.

### 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, 2018 and 2017.

There were no changes in the carrying value of goodwill for the year ended September 30, 2018 or 2017.

## Note 1. Significant Accounting Policies (Continued)

### Self-Insurance Liabilities

The System is self-insured up to certain amounts for employee health, malpractice, general liability, and workers' compensation claims. In 2017, for certain System department providers, the System participated 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, was self-insured for the first $100,000 of each claim. The remaining $400,000 of each claim was covered by the Fund. GHS limited its exposure to general liability and workers' compensation claims through indemnity insurance purchased in the commercial market, which included specific loss and aggregate limit thresholds.

In 2018, the System opted opt out of the Fund in favor of a higher retention of its risks by participating in the captive insurance program described herein. 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 specific to health care facilities professional liability, physicians professional liability, health care providers professional liability, commercial general liability, and employee benefits liability risks attributable to the System and certain affiliates. The System 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.

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.

## Note 1. Significant Accounting Policies (Continued)

### 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:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Restricted for a specific purpose | $ 8,643 | $ 6,067 |
| Medical education | 525 | 579 |
| Employee assistance program | 94 | 138 |
| | $ 9,262 | $ 6,784 |

### 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:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Endowments | $ 208 | $ 207 |
| | $ 208 | $ 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.

## Note 1. Significant Accounting Policies (Continued)

### 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.

### 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.

## Note 1. Significant Accounting Policies (Continued)

### Net Patient Service Revenue and Related Receivables (Continued)

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, 2018 and 2017, was approximately $10,138,000 and $31,585,000, respectively.

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.

## Note 1. Significant Accounting Policies (Continued)

### Net Patient Service Revenue and Related Receivables (Continued)

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.

### 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, 2018 and 2017, were approximately $2,708,000 and $2,750,000, 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.

## Note 1. Significant Accounting Policies (Continued)

**Significant New Accounting Pronouncements (Continued)**
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.

In August 2018, the FASB issued ASU 2018-03, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modify the disclosure requirements on fair value measurements. ASU 2018-03 will be effective for the System beginning in the year ending September 30, 2020, though early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the System's consolidated financial statements.

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

## 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.

## Note 2. Community Benefits - Unaudited (Continued)

As a long-standing member of the Baton Rouge community and one of the largest employers in the Baton Rouge area, BRGMC recognizes the positive impact of non-profit organizations working to improve our community. That's why BRGMC developed the Community Enhancement Award, a grant program that allows us to select and support large projects with significant, multi-year grants. This award replaces our former sponsorship process to focus on complex initiatives that align with our mission to restore and maintain health, one person at a time. BRGMC named HOPE Ministries' The Way to Work Sustainable Workforce SOLUTIONS (TWTW) division as the recipient of its 2018 Community Enhancement Award. The Way to Work division was selected as the first award recipient for its work educating both employers and potential and existing employees on the relationship between life skills, job retention and advancement.

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. For more than 25 years we have had the privilege of training aspiring medical professionals in healthcare. As we treat patients of all ages and virtually every type of medical condition, our hospital is an ideal setting for undergraduate and graduate medical, nursing, and allied healthcare training. Every year we train more than 100 residents, paving a bright future for comprehensive healthcare access in Louisiana. In addition to our School of Nursing and School of Radiologic Technology, undergraduate medical students in the clinical years are able to rotate on services that satisfy medical school requirements in certain disciplines and/or pursue desired electives. We are affiliated with several medical school programs, including the Tulane School of Medicine, LSU School of Medicine and the American University of the Caribbean School of Medicine. We also offer graduate medical education residency programs in internal medicine and family medicine and serve as a participating site in surgery and emergency medicine residency programs.

The region's only verified burn center is also located at BRGMC. Recognized by the American Burn Association and American College of Surgeons as Louisiana's only verified burn center, and the only verified center between Florida and Texas, BRGMC treats nearly 90 percent of all burns in the Baton Rouge region each year, including pediatric and adult burn patients. From almost 200 zip codes between Gainesville, Fla., through New Orleans and to Dallas, Texas, BRGMC treats all aspects of burn injuries including flame, scald, electrical, chemical, and hot substances. The Burn Center's 42-member multidisciplinary team has 400 years of combined experience, and includes burn surgeons, specialty nurses, dietitians, respiratory therapists, rehabilitation therapists, psychiatrists, ophthalmologists, ENTs and social workers.

**Note 2. Community Benefits - Unaudited (Continued)**

Health education is one of BRGMC's highest priorities. The Hospital provides many free educational events, health screenings and special programs encouraging community health and wellness. In 2018, 1,893 people signed up to participate in these events. Below are some examples:

- Each year, BRGMC provided health screenings to aid in early detection. The screenings are led by physicians and other clinical experts.
    - Mammography screening – 63 women were screened and volunteer support is valued at $2,700.
    - Heart screening – 134 people were screened and volunteer support is valued at $4,350.
    - Skin screening – 21 people were screened and volunteer support valued at $700.
    - Vascular Screening – 73 people were screened and volunteer support is valued at $1,400.
    - Senior screening – 67 people screened and volunteer support is valued at $2,100.

- 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 $3,275.

- BRGMC provides tours of its Birth Center, classes for expecting parents with topics such as childbirth preparation, breastfeeding, caring for a baby and baby CPR techniques as well as a breastfeeding support group that are led by clinicians and health experts. Volunteer support for this is valued at approximately $1,700.

- 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. Volunteer support for this is valued at approximately $1,200.

- 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 $450.

- 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 FY2018, 141 people attended these seminars.

- BRGMC hosts Holiday Lights Family Nights during Christmas where over 15,000 people visited our Bluebonnet campus in 2018. Volunteer support for these seminars and groups is valued at $10,400.

- BRGMC hosted its inaugural 5K & 1 mile fun run. In 2018 over 100 people were in attendance.

## 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, 2013.

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, 2012.

During the years ended September 30, 2018 and 2017, approximately 42% and 38%, 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.

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.

## Note 3. Third-Party Reimbursement (Continued)

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.

In previously reported consolidated financial statements, the System estimated its cost of care provided under its charity care programs based on the historical collection percentages for non-insured patients.

In 2018, as part of the process of evaluating its accounting systems and data processing capabilities for adoption of ASU 2014-09, the System updated its charity care measurement to be based on the direct and indirect costs of providing charity care services as tracked by the accounting systems. The prior year balances in these consolidated financial statements have been reclassified to reflect this change. The new methodology resulted in a decrease in the 2017 charity care by $14,871,000. The adoption of the new methodology had no effect on the reported, consolidated results of operations, cash flows, or net assets of the System. The adjustment occurred between the provision for bad debts and charity care expense which both are presented as reductions to patient service revenue.

## 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, 2018 and 2017, is as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Charges Foregone** | **Estimated Costs In Excess of Payments** | Charges Foregone | Estimated Costs In Excess of Payments |
| | *(In Thousands)* | | | |
| **Benefits for the indigent** | | | | |
| Charity care | **$ 185** | **$ 17** | $ 69 | $ 3,101 |
| Medicaid program services | **142,144** | **-** | 138,666 | - |
| | **142,329** | **17** | 138,735 | 3,101 |
| **Other community benefits** | | | | |
| Medicare program services | **277,399** | **-** | 272,357 | - |
| Other community benefits | **-** | **302** | - | 302 |
| | **277,399** | **302** | 272,357 | 302 |
| **Total quantifiable benefits** | **$ 419,728** | **$ 319** | $ 411,092 | $ 3,403 |

## Note 4. Unconditional Promises to Give

Unconditional promises to give at September 30, 2018 and 2017 were as follows:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Receivable in less than one year | **$ 2,086** | $ 1,028 |
| Receivable in one to five years | **1,940** | 1,823 |
| Receivable in more than five years | **111** | 21 |
| Total unconditional promises to give | **4,137** | 2,872 |
| Less discount to net present value (discount rate was 2.94% and 1.92% as of September 30, 2018 and 2017, respectively) | **(224)** | (108) |
| Less allowance for unfulfilled pledges | **(720)** | (616) |
| Net unconditional promises to give | **$ 3,193** | $ 2,148 |

## Note 5. Investments

The System's investments at September 30, 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| **Assets whose use is limited** | | |
| Cash and cash equivalents | **$ 220** | $ 390 |
| Certificates of deposit | **127** | 151 |
| U.S. government and government agency obligations and mutual funds | **23,413** | 23,485 |
| **Total assets whose use is limited** | **23,760** | 24,026 |
| **Short-term investments** | | |
| Cash and cash equivalents | **1,281** | 2,229 |
| Certificates of deposit | **125** | 100 |
| Exchange traded funds (ETFs) | **65,465** | 60,954 |
| Bond fund | **11,131** | 17,437 |
| Alternative investments | **45,660** | 44,665 |
| **Total short-term investments** | **123,662** | 125,385 |
| | **$ 147,422** | $ 149,411 |

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:<br><br>• quoted prices for similar assets or liabilities in active markets;<br>• quoted prices for identical or similar assets or liabilities in inactive markets;<br>• inputs other than quoted prices that are observable for the asset or liability;<br>• inputs that are derived principally from or corroborated by observable market data by correlation or other means.<br><br>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, 2018, 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 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 1,281 | $ - | $ - | $ 1,281 |
| Government securities | 23,413 | - | - | 23,413 |
| Money market deposits | 220 | - | - | 220 |
| Certificates of deposit | 252 | - | - | 252 |
| ETFs | 65,465 | - | - | 65,465 |
| Bond fund | 11,131 | - | - | 11,131 |
| Investments measured at NAV per share* | - | - | - | 45,660 |
| | $ 101,762 | $ - | $ - | $ 147,422 |

* 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, 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 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 2,229 | $ - | $ - | $ 2,229 |
| Government securities | 23,159 | 326 | - | 23,485 |
| Money market deposits | 390 | - | - | 390 |
| Certificates of deposit | 251 | - | - | 251 |
| ETFs | 60,954 | - | - | 60,954 |
| Bond fund | 17,437 | - | - | 17,437 |
| Investments measured at NAV per share* | - | - | - | 44,665 |
| | $ 104,420 | $ 326 | $ - | $ 149,411 |

* 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, 2018 and 2017:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Dividends and interest | **$ 2,688** | $ 2,314 |
| Net realized gains | **741** | 831 |
| Net unrealized gains | **4,290** | 5,041 |
| Investment management fees | **(751)** | (644) |
| Total investment income | **$ 6,968** | $ 7,542 |

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, 2018 from those used in 2017.

- 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, 2018 (in thousands):

| September 30, 2018 | | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Hedge Funds: | | | | | |
| AQR Style Premia Fund LP (CL B) | (A) | $ 2,658 | None | Semi-Monthly or Monthly | 15 or 30 Days |
| Clinton Equity Strategies FD LTD | (C) | 1,609 | None | Monthly | 30 Days |
| Cumulus Energy FD (CL A) | (D) | 25 | None | Monthly | 30 Days |
| HFR RVA Harvest MLP Master Trust | (E) | 2,849 | None | Monthly | 15 Days |
| Kayne Anderson Midstream Energy FD LTD | (F) | 2,691 | None | Monthly | 30 Days |
| Lyxor-Balyasny Atlas Enhanced FD LTD (CL B) | (G) | 1,825 | None | Monthly | 45 Days |
| Lyxor-Balyasny Atlas Enhanced FD LTD (CL L) | (G) | 901 | None | Quarterly | 65 Days |
| Lyxor-Bridgewater PAMM (CL B) | (H) | 2,274 | None | Weekly | 2 Days |
| Lyxor-Sandler Plus Offshore FD (CL B) | (I) | 1,958 | None | Weekly | 2 Days |
| Millennium International LTD | (K) | 7,483 | None | Quarterly | 90 Days |
| Palmetto Fund LTD (Nephila) (CL D) | (L) | 1,837 | None | Quarterly | 90 Days |
| PIMCO LN Int and CR Offshore FD LTD | (M) | 7,658 | None | Monthly | 60 Days |
| Two Sigma Abslt Rtrn Caymn Fund LTD (CL A1) | (N) | 2,436 | None | Monthly | 30 Days |
| Winton Futures FD LTD (CL B) | (O) | 2,213 | None | Monthly | 2 Days |
| York Credit Opp Unit Fund LTD (CL A) | (P) | 1,537 | None | Annually | 60 Days |
| DW Catalyst Offshore Fund LTD (CL A) | (Q) | 2,155 | None | Quarterly | 90 Days |
| Oceanic Hedge Fund (CL B) | (R) | 1,023 | None | Monthly | 90 Days |
| Lyxor - Marshall Wace Tops FD LTD | (S) | 827 | None | Weekly | 2 Days |
| Lyxor - Jana Partners FD LTD | (T) | 1,701 | None | Weekly | 2 Days |
| | | $ 45,660 | | | |

## 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, 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 Rtm 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 | | | |

(A) AQR Style Premia Fund LP is a feeder fund in a master-feeder structure and invests exclusively in AQR Style Premia Master Account, L.P., an exempted limited partnership incorporated under the laws of the Cayman Islands. AQR Style Premia Fund LP and AQR Style Premia Master Account, L.P's primary objectives are to produce high risk-adjusted returns while maintaining low-to-zero correlation to traditional markets. AQR Style Premia Master Account, L.P 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. AQR Style Premia Master Account, L.P 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 CC+ Fund trades on registered derivative exchanges and over-the-counter (OTC) contracts and has the ability to be active in the physical markets. The CC+ 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. is a feeder fund in a master-feeder structure and invests exclusively in Clinton Equity Strategies Master Fund Ltd, an exempted company incorporated under the laws of the Cayman Islands. Clinton Equity Strategies Fund, Ltd. and Clinton Equity Strategies Master Fund Ltd.'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 Clinton Equity Strategies Master Fund Ltd. The Clinton Equity Strategies Master Fund Ltd.'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 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, an open-ended multi-class exempted company incorporated with limited liability in the Cayman Islands. Cumulus Energy Fund, LP is a shareholder in Cumulus Energy Master Fund together with another entity. The investment objective of Cumulus Energy 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 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. PIMCO Loan Interests and Credit Offshore Fund LTD and PIMCO Loan Interests and Credit 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 Two Sigma Absolute Return Cayman Fund LTD 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, is a feeder fund in a master-feeder structure and invests exclusively in DW Partners LP, an exempted company with limited liability which was incorporated under the Companies Law of the Cayman Islands. The investment objective of DW Partners LP 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. Oceanic Hedge Fund's objective is to achieve capital appreciation through focused long/short investments in the shipping, energy, and related sectors and associated commodities.

## Note 5. Investments (Continued)

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

(S) Lyxor-Marshall Wace TOPS European Fund, LTD, is a hedge fund that invests in long and short term positions in equities and related derivatives.

(T) Lyxor-Jana Partners Fund, LTD, is a hedge fund that invests in long and short term positions in equities and related derivatives using an event driven and risk arbitrage strategy.

## 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. On October 1, 2017, the System increased its membership interest from 50% to 70%. In accordance with its 70% membership interest, the System entered into a contribution agreement for contributions when needed. As of September 30, 2018, the System contributions to date totaled approximately $2,095,000. 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 because management determined the other LLC Member has substantive participating rights. This investment 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)

On November 1, 2017, the System purchased an 18% interest in Transformyx Inc. for a purchase price of $2,970,000. Transformyx Inc. provides strategic technology and business solutions Baton Rouge. The investment in Transformyx Inc. is reported on the equity method of accounting because management determined the System has significant influence on the operations of Transformyx Inc. This investment is included in the accompanying consolidated balance sheets as other assets. The System contracts with Transformyx Inc. for information technology services. During the period from November 1, 2017 to September 30, 2018, these contract payments totaled $1,667,000.

On January 1, 2018, the System purchased a 50% interest in Dutchtown Urgent Care (DUTC) for a purchase price of $250,000. DUTC operates an urgent care center in Geismar, Louisiana, specializing in common illnesses and injuries. The investment in DUTC is reported on the equity method of accounting and is included in the accompanying consolidated balance sheets as other assets.

On March 1, 2018, the System purchased a 30% interest in Mid City Specialty Center, L.L.C. (MCSC) for a purchase price of $207,000. The joint venture operates an ambulatory surgery center located at the System's Mid City campus, specializing in same-day surgeries and minimally invasive procedures for vascular patients. The investment in MCSC 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:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| **Rehabilitation Hospital (BRRH)** | | |
| Beginning balance | **$ 1,874** | $ 1,701 |
| Distributions | **(1,004)** | (878) |
| Net income (45%) | **996** | 1,051 |
| | **$ 1,866** | $ 1,874 |
| **Rehabilitation Development (BRRD)** | | |
| Beginning balance | **$ 2,552** | $ 2,695 |
| Distributions | **(648)** | (711) |
| Net income (45%) | **583** | 568 |
| | **$ 2,487** | $ 2,552 |
| **ROC-Zachary** | | |
| Beginning balance | **$ 795** | $ 919 |
| Contributions | **458** | 176 |
| Net loss (70% from October 1, 2017 and 50% in preceding periods) | **(423)** | (300) |
| | **$ 830** | $ 795 |
| **Baton Rouge General Home Health** | | |
| Beginning balance | **$ 37** | $ 33 |
| Distributions | **(4)** | - |
| Net income (33%) | **12** | 4 |
| | **$ 45** | $ 37 |
| **Transformyx, LLC** | | |
| Beginning balance | **$ -** | $ - |
| Contributions | **2,970** | - |
| Net loss (18%) | **(45)** | - |
| | **$ 2,925** | $ - |
| **Dutchtown Urgent Care Clinic, LLC** | | |
| Beginning balance | **$ -** | $ - |
| Contributions | **250** | - |
| Net income (50%) | **36** | - |
| | **$ 286** | $ - |
| **Mid City Specialty Center, LLC** | | |
| Beginning balance | **$ -** | $ - |
| Contributions | **207** | - |
| Net loss (30%) | **(84)** | - |
| | **$ 123** | $ - |
| **Total equity investments** | **$ 8,562** | $ 5,258 |

## 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, 2018:

| | Total Assets | Total Liabilities | Equity | Net Income (Loss) |
|---|---|---|---|---|
| | *(In Thousands)* | | | |
| **BRRH** | $ 5,859 | $ 1,724 | $ 4,135 | $ 2,214 |
| **BRRD** | $ 5,529 | $ - | $ 5,529 | $ 1,295 |
| **ROC - Zachary** | $ 1,710 | $ 325 | $ 1,385 | $ (604) |
| **BRG Home Health** | $ 177 | $ 44 | $ 133 | $ 36 |
| **Transformyx** | $ 11,397 | $ 6,597 | $ 4,800 | $ (251) |
| **Dutchtown Urgent Care** | $ 152 | $ 110 | $ 42 | $ 71 |
| **Mid City Specialty Center** | $ 824 | $ 413 | $ 411 | $ (280) |

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

| | Total Assets | Total Liabilities | Equity | Net Income (Loss) |
|---|---|---|---|---|
| | *(In Thousands)* | | | |
| BRRH | $ 5,467 | $ 1,314 | $ 4,153 | $ 2,334 |
| BRRD | $ 5,675 | $ 1 | $ 5,674 | $ 1,263 |
| ROC - Zachary | $ 1,687 | $ 214 | $ 1,473 | $ (600) |
| BRG Home Health | $ 150 | $ 32 | $ 118 | $ 12 |

### Transactions with Affiliates

At September 30, 2018 and 2017, the System had a receivable of approximately $1,952,000 and $1,138,000, 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 2018 and 2017, these contract payments totaled $6,477,000 and $3,284,000, respectively.

## Note 7. Property, Plant, and Equipment

Property, plant, and equipment and accumulated depreciation at September 30, 2018 and 2017, are as follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Land and land improvements | **$ 39,033** | $ 39,033 |
| Buildings and fixed equipment | **306,061** | 305,325 |
| Equipment | **168,024** | 160,752 |
| Construction in progress | **4,041** | 4,573 |
| | **517,159** | 509,683 |
| Accumulated depreciation | **(294,853)** | (277,232) |
| | **$ 222,306** | $ 232,451 |

Depreciation expense was approximately $18,008,000 and $17,350,000, for the years ended September 30, 2018 and 2017, 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 non-compliance with these requirements.

## Note 8. Long-Term Debt (Continued)

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

| | 2018 | 2017 |
|---|---|---|
| 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 $250,000 through maturity at October 1, 2041. Secured by a mortgage on medical office building which was constructed with the proceeds of issue. | **$ 23,000** | $ 24,000 |
| Note payable with Bank for the purchase of land, with interest rate of 3.96% per annum, principal and interest payable monthly, maturing on July 18, 2019. Unsecured. | **2,508** | 3,738 |
| 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 2.95% per annum, principal and interest payable monthly in the amount of $82,071 through November 15, 2018, $60,000 thereafter until balloon payment of $8,677,911 on January 15, 2019. Secured by building and deposits held by trustee under indenture. | **8,858** | 9,220 |
| Note payable with Bank, original principal of $3,704,000, with 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. | **3,067** | 3,276 |
| 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. | **1,906** | 2,897 |
| 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. | **135,605** | 143,133 |
| Note payable with Bank, original amount of $2,100,000, interest rate of 3.95%, per annum, principal and interest payable monthly in the amount of $26,876, maturing on September 30, 2023. Secured by deposits held by Bank. | **1,458** | 2,148 |
| 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 |
| 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. | **1,077** | 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 quarterly, thereafter, in the amount of $70,000 through maturity on October 14, 2019. Secured by real estate. | **2,240** | 2,520 |
| | **179,719** | 195,703 |
| Less principal payments due within one year | **(21,907)** | (25,600) |
| Less debt issuance costs | **(2,243)** | (2,116) |
| Noncurrent portion | **$ 155,569** | $ 167,987 |

## 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)

| | |
|---|---|
| 2019 | $ 21,907 |
| 2020 | 12,469 |
| 2021 | 9,732 |
| 2022 | 12,180 |
| 2023 | 10,030 |
| Thereafter | 113,401 |
| | $ 179,719 |

## 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 $2,997,000 and $2,666,000, for the years ended September 30, 2018 and 2017, respectively.

**Defined Benefit Plan**

The System maintained 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 did 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 retirees totaling $16,969,000. These payments combined triggered settlement accounting and resulted in a net periodic benefit cost of $26,983,000, which is included as a non-operating loss on the consolidated financial statements. 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 during the year ended September 30, 2017. 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.

Assets were liquidated to effect settlement of the plan as of September 30, 2017. Therefore, there are no plan assets at September 30, 2018 and 2017.

## 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 $5,717,000 at September 30, 2018 of which, a portion, $2,620,000, was discounted at 5% and, the remainder, $3,097,000, was undiscounted. 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. $750,000 is included in current liabilities at each of those dates. Fully undiscounted malpractice and general liability self-insurance claims totaled $5,874,000 and $5,784,000, at September 30, 2018 and 2017, 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 $5,596,000 and $4,923,000, at September 30, 2018 and 2017, respectively, all of which is included as current liabilities at each of those dates. Undiscounted workers' compensation claims totaled $6,722,000 and $6,096,000, at September 30, 2018 and 2017, 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.

The health claims liabilities at September 30, 2018 and 2017, 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):

| | **2018** | 2017 |
|---|---|---|
| Claims liability, beginning of year | **$ 1,726** | $ 1,546 |
| Current year claims and changes in estimates | **16,334** | 13,074 |
| Current year claims payments | **(16,393)** | (12,894) |
| Claims liability, end of year | **$ 1,667** | $ 1,726 |

## 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 2023. Rental expense under operating leases totaled approximately $2,958,000 and $3,773,000, for the years ended September 30, 2018 and 2017, respectively.

Future minimum payments under all non-cancelable operating leases with original or remaining terms of one year or more at September 30, 2018, are as follows: (in thousands)

| | |
|---|---|
| 2019 | $ 2,043 |
| 2020 | 1,507 |
| 2021 | 561 |
| 2022 | 432 |
| 2023 | 332 |
| Total minimum rental commitments | $ 4,875 |

## Note 12. Leases and Other Commitments (Continued)

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, 2018 and 2017.

## 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, 2018 and 2017 was as follows:

| | **2018** | 2017 |
|---|---|---|
| Medicare | **23 %** | 21 % |
| Medicaid | **13 %** | 14 % |
| Commercial | **64 %** | 64 % |
| Private pay | **- %** | 1 % |
| | **100 %** | 100 % |

## Note 14. Other Operating Revenue

Other operating revenue recognized during the years ended September 30, 2018 and 2017, consists of the following (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Management fees | $ 10,476 | $ 9,549 |
| Retail pharmacy sales | 5,144 | 5,474 |
| Rent revenues | 5,264 | 5,181 |
| Cafeteria revenue | 5,264 | 5,054 |
| Physician shared savings payments | 2,674 | 3,725 |
| Lab service revenue | 3,367 | 1,711 |
| Contributions | 3,995 | 1,541 |
| Training revenue | 1,037 | 1,224 |
| Gift shop sales | 864 | 914 |
| Purchase rebates | 603 | 871 |
| EHR revenues | - | 1,460 |
| Other | 5,870 | 5,867 |
| | $ 44,558 | $ 42,571 |

**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, 2018, the System did not recognize any revenue related to Medicaid incentive payments for EHR.

## 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):

| | | |
|---|---|---|
| 2019 | $ | 3,573 |
| 2020 | | 2,467 |
| 2021 | | 1,764 |
| 2022 | | 971 |
| 2023 | | 630 |
| Thereafter | | 291 |
| | $ | 9,696 |

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, 2018 and 2017, Medicaid UPL payments received by the System were $50,591,000 and $37,199,000, 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, 2018 and 2017, related community benefit payments made by the Hospital were approximately $31,055,000 and $27,620,000, 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:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| Health care services | $ | **278,480** | $ | 280,947 |
| General and administrative | | **174,317** | | 166,551 |
| Fundraising | | **87** | | 62 |
| | $ | **452,884** | $ | 447,560 |

## 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.

| | | 2018 | | 2017 |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| Property and equipment | $ | **233** | $ | 377 |
| Supplies | | **98** | | 202 |
| Patient care | | **46** | | 67 |
| Nursing | | **26** | | 25 |
| Education | | **21** | | 19 |
| Employee assistance | | **21** | | 7 |
| Scholarships | | **6** | | 6 |
| Total amounts released from restriction | $ | **451** | $ | 703 |

## Note 18. Transfer of Net Assets

During the years ended September 30, 2018 and 2017, respectively, there was a transfer from (to) unrestricted assets to (from) 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, 2018 and 2017, of approximately $87,423,000 and $90,914,000, respectively. At September 30, 2018, one of the for-profit subsidiaries had $7,514,000 of unused net operating loss from fiscal year 1998. This carryover amount has now expired and is not available for carryover to fiscal year 2019. The remaining net operating loss carryforwards expire in varying amounts beginning in 2019 through 2038. 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

On December 31, 2018, BRGMC executed a loan of $115,571,300 with the Department of Housing and Urban Development. The proceeds of the loan will be used for the purpose of constructing a neighborhood hospital in Ascension parish and refinancing the medical office building on the Bluebonnet property that is currently leased to tenants. Costs incurred during the year ended September 30, 2018 total $315,000 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 28, 2019, 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, 2018**
(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. | RRS Insurance | Office Park 73 | Behavioral Health, Inc., & Other Entities | Eliminations | General Health System Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | | |
| **Current assets** | | | | | | | | | | | | | |
| Cash and cash equivalents | $ - | $ (356) | $ 13,187 | $ - | $ 545 | $ - | $ 1,510 | $ - | $ 5,682 | $ - | $ - | $ - | $ 20,568 |
| Short-term investments | - | 69,999 | 53,663 | - | - | - | - | - | - | - | - | | 123,662 |
| Patient accounts receivable, net | - | - | 37,165 | - | - | - | 1,089 | - | - | - | (44) | - | 38,210 |
| Unconditional promises to give, net | - | - | - | - | 1,568 | - | - | - | - | - | - | - | 1,568 |
| Inventories | - | - | 9,445 | - | - | - | 251 | - | - | - | - | - | 9,696 |
| Prepaid expenses and other assets | - | 8,510 | 3,201 | - | - | - | 892 | - | 3 | - | 221 | - | 12,827 |
| **Total current assets** | **-** | **78,153** | **116,661** | **-** | **2,113** | **-** | **3,742** | **-** | **5,685** | **-** | **177** | **-** | **206,531** |
| Assets whose use is limited | - | - | 23,760 | - | - | - | - | - | - | - | - | - | 23,760 |
| Assets restricted by donors or grantors for specific purpose | - | - | - | - | 9,470 | - | - | - | - | - | - | - | 9,470 |
| Unconditional promises to give, net, less current portion | - | - | - | - | 1,625 | - | - | - | - | - | - | - | 1,625 |
| Investment in affiliates | 263,134 | - | - | - | - | (18) | - | - | - | - | 8,562 | (263,134) | 8,544 |
| Goodwill | - | 383 | 4,706 | - | - | - | - | - | - | - | - | - | 5,089 |
| Trust Receivable | - | 14,308 | - | - | - | - | - | - | - | - | - | - | 14,308 |
| Other Assets | - | 7,331 | - | - | - | - | - | - | - | - | - | - | 7,331 |
| Due from affiliates | - | 12,206 | 34,913 | - | - | 5,208 | - | 12 | - | - | 12,541 | (66,059) | (1,179) |
| Property and equipment, net | - | 72,291 | 144,126 | 88 | - | - | 567 | - | - | 5,234 | - | - | 222,306 |
| **Total assets** | **$ 263,134** | **$ 184,672** | **$ 324,166** | **$ 88** | **$ 13,208** | **$ 5,190** | **$ 4,309** | **$ 12** | **$ 5,685** | **$ 5,234** | **$ 21,280** | **$ (329,193)** | **$ 497,785** |
| **LIABILITIES AND NET ASSETS** | | | | | | | | | | | | | |
| **Current liabilities** | | | | | | | | | | | | | |
| Trade accounts payable | $ - | $ 13,816 | $ 8,008 | $ - | $ 25 | $ - | $ 743 | $ - | $ 17 | $ 1 | $ - | $ - | $ 22,610 |
| Accrued expenses | - | 9,746 | 6,765 | - | 27 | 55 | 711 | 112 | 450 | 32 | 453 | - | 18,351 |
| Amounts due to contractual third-party payors | - | - | 4,414 | - | - | - | - | - | - | - | - | - | 4,414 |
| Current portion of self-insurance reserves | - | 8,012 | - | - | - | - | - | - | 1,901 | - | - | - | 9,913 |
| Current portion of long-term debt | - | 14,597 | 7,100 | - | - | - | - | - | - | 210 | - | - | 21,907 |
| **Total current liabilities** | **-** | **46,171** | **26,287** | **-** | **52** | **55** | **1,454** | **112** | **2,368** | **243** | **453** | **-** | **77,195** |
| Self-insurance reserves, less current portion | - | 2,737 | - | - | - | - | - | - | 329 | - | - | - | 3,066 |
| Long-term debt, less current portion | | | | | | | | | - | | | | |
| Principal amount | - | 27,277 | 128,505 | - | - | - | - | - | - | 2,030 | - | - | 157,812 |
| Less debt issuance costs | - | (136) | (2,107) | - | - | - | - | - | - | - | - | - | (2,243) |
| Due to affiliates | - | - | - | 8,813 | - | - | 52,834 | - | - | 3,231 | - | (66,059) | (1,181) |
| **Total liabilities** | **-** | **76,049** | **152,685** | **8,813** | **52** | **55** | **54,288** | **112** | **2,697** | **5,504** | **453** | **(66,059)** | **234,649** |
| **Net assets** | | | | | | | | | | | | | |
| Unrestricted | 253,664 | 108,623 | 171,481 | (8,725) | 3,686 | 5,135 | (49,979) | (100) | 2,988 | (270) | 20,827 | (253,666) | 253,664 |
| Temporarily restricted | 9,262 | - | - | - | 9,262 | - | - | - | - | - | - | (9,262) | 9,262 |
| Permanently restricted | 208 | - | - | - | 208 | - | - | - | - | - | - | (208) | 208 |
| **Total net assets** | **263,134** | **108,623** | **171,481** | **(8,725)** | **13,156** | **5,135** | **(49,979)** | **(100)** | **2,988** | **(270)** | **20,827** | **(263,136)** | **263,134** |
| **Total liabilities and net assets** | **$ 263,134** | **$ 184,672** | **$ 324,166** | **$ 88** | **$ 13,208** | **$ 5,190** | **$ 4,309** | **$ 12** | **$ 5,685** | **$ 5,234** | **$ 21,280** | **$ (329,195)** | **$ 497,783** |

See Independent Auditor's Report

**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. | RRS Insurance | Office Park 73 | Behavioral Health, Inc., & Other Entities | Eliminations | General Health System Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | | |
| **Current assets** | | | | | | | | | | | | | |
| Cash and cash equivalents | $ - | $ (2,345) | $ 10,587 | $ - | $ 1,426 | $ - | $ 743 | $ - | $ 4,812 | | $ - | $ - | $ 15,223 |
| Short-term investments | - | 73,752 | 51,633 | - | - | - | - | - | - | | - | - | 125,385 |
| Patient accounts receivable, net | - | - | 46,352 | - | - | - | 98 | - | - | | (51) | - | 46,399 |
| Unconditional promises to give, net | - | - | - | - | 759 | - | - | - | - | | - | - | 759 |
| Inventories | - | - | 9,868 | - | - | - | 263 | - | - | | - | - | 10,131 |
| Prepaid expenses and other assets | - | 7,768 | 3,707 | - | - | - | 144 | - | 32 | | 131 | - | 11,782 |
| **Total current assets** | **-** | **79,175** | **122,147** | **-** | **2,185** | **-** | **1,248** | **-** | **4,844** | **-** | **80** | **-** | **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 |
| Investments in Subsidiaries | 245,559 | - | - | - | - | (1) | - | - | - | - | 5,258 | (245,559) | 5,257 |
| Goodwill | - | 383 | 4,706 | - | - | - | - | - | - | - | - | - | 5,089 |
| Trust Receivable | - | 8,659 | - | - | - | - | - | - | - | - | - | - | 8,659 |
| Other assets | - | 4,422 | - | - | - | - | 13 | - | 90 | - | - | - | 4,525 |
| 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** | **$ 4,934** | **$ 4,438** | **$ 20,080** | **$ (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 | 699 | 8 | 360 | - | 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** | **1,981** | **218** | **360** | **-** | **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) |
| Due to affiliates | - | - | - | 8,813 | - | - | 44,538 | - | - | 2,045 | - | (55,396) | - |
| **Total liabilities** | **-** | **84,535** | **161,216** | **8,813** | **31** | **-** | **46,182** | **113** | **2,081** | **4,573** | **360** | **(55,396)** | **252,508** |
| **Net assets** | | | | | | | | | | | | | |
| Unrestricted | 238,568 | 96,746 | 164,787 | (8,725) | 3,544 | 4,133 | (44,255) | (100) | 2,853 | (135) | 19,720 | (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)** | **2,853** | **(135)** | **19,720** | **(245,559)** | **245,559** |
| **Total liabilities and net assets** | **$ 245,559** | **$ 181,281** | **$ 326,003** | **$ 88** | **$ 10,566** | **$ 4,133** | **$ 1,927** | **$ 13** | **$ 4,934** | **$ 4,438** | **$ 20,080** | **$ (300,955)** | **$ 498,067** |

See Independent Auditor's Report

**GENERAL HEALTH SYSTEM**
**Consolidating Statement of Operations**
**Year Ended September 30, 2018**
(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. | RRS Insurance | Office Park 73 | Behavioral Health, Inc., & Other Entities | Eliminations | General Health System Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | | | | | | | |
| Net patient service revenue | $ - | $ - | $ 412,420 | $ - | $ - | $ - | $ 18,036 | $ - | $ - | $ - | $ - | $ 430,456 |
| Provision for bad debts | - | - | (14,485) | - | - | - | (1,017) | - | - | - | - | (15,502) |
| Net patient service revenue after provision for bad debts | - | - | 397,935 | - | - | - | 17,019 | - | - | - | - | 414,954 |
| Other revenue | - | 86,911 | 22,404 | 50 | 1,076 | 1,166 | 10,020 | 1,150 | - | 8,294 | (86,513) | 44,558 |
| Transfers to restricted net assets | - | - | - | - | (9) | - | - | - | - | - | - | (9) |
| Net assets released from restrictions | - | - | - | - | 218 | - | - | - | - | - | - | 218 |
| **Total revenues** | **-** | **86,911** | **420,339** | **50** | **1,285** | **1,166** | **27,039** | **1,150** | **-** | **8,294** | **(86,513)** | **459,721** |
| **Expenses:** | | | | | | | | | | | | |
| Salaries, wages, and benefits | - | 16,795 | 145,632 | - | 746 | - | 22,451 | - | - | 8,214 | - | 193,838 |
| Supplies and other expenses | - | 56,476 | 251,383 | 50 | 854 | 147 | 10,208 | 1,076 | 52 | 48 | (86,513) | 233,781 |
| Depreciation | - | 5,076 | 12,828 | - | - | - | 104 | - | - | - | - | 18,008 |
| Interest expense | - | 1,567 | 5,570 | - | 37 | - | - | - | 83 | - | - | 7,257 |
| **Total expenses** | **-** | **79,914** | **415,413** | **50** | **1,637** | **147** | **32,763** | **1,076** | **135** | **8,262** | **(86,513)** | **452,884** |
| Operating income (loss) | - | 6,997 | 4,926 | - | (352) | 1,019 | (5,724) | 74 | (135) | 32 | - | 6,837 |
| Earnings of subsidiaries | 14,863 | - | - | - | - | (17) | - | - | - | 1,075 | (14,863) | 1,058 |
| Investment income | - | 4,880 | 1,768 | - | 261 | - | - | 59 | - | - | - | 6,968 |
| Nonoperating loss | - | - | - | - | - | - | - | - | - | - | - | - |
| **Excess (deficit) of revenues over expenses** | **$ 14,863** | **$ 11,877** | **$ 6,694** | **$ -** | **$ (91)** | **$ 1,002** | **$ (5,724)** | **$ 133** | **$ (135)** | **$ 1,107** | **$ (14,863)** | **$ 14,863** |

**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. | RRS Insurance | Office Park 73 | Behavioral Health, Inc., & Other Entities | Eliminations | General Health System Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | | | | | | | |
| Net patient service revenue | $ - | $ - | $ 424,939 | $ - | $ - | $ - | $ 19,555 | $ - | $ - | $ - | $ - | $ 444,494 |
| Provision for bad debts | - | - | (18,426) | - | - | - | (819) | - | - | - | - | (19,245) |
| 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 | 1,951 | - | 7,835 | (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** | **1,951** | **-** | **7,835** | **(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 | 366 | 65 | 46 | (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** | **366** | **135** | **7,810** | **(82,355)** | **447,560** |
| Operating income (loss) | - | 5,738 | 18,337 | - | (232) | 958 | 5,637 | 1,585 | (135) | 25 | - | 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** | **$ 1,586** | **$ (135)** | **$ 1,347** | **$ (4,034)** | **$ 4,034** |

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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, 2018, 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 28, 2019.

## 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 28, 2019

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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, 2018. 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the System's compliance.

**Basis for Qualified Opinion on the Student Financial Aid Cluster**

As described in the accompanying schedule of findings and questioned costs, the System did not comply with requirements regarding the Student Financial Aid Cluster, 84.063 Federal Pell Grant Program and 84.268 Federal Direct Student Loans, described in finding number 2018-001 for Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for the System to comply with the requirements applicable to that program.

**Qualified Opinion on the Student Financial Aid Cluster**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect the Student Financial Aid Cluster, 84.063 Federal Pell Grant Program and 84.268 Federal Direct Student Loans, for the year ended September 30, 2018.

**Unmodified Opinion on Each of the Other 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 other 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, 2018.

**Other Matters**

The System's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2018.001 to be a material weakness.

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 System's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 28, 2019

# GENERAL HEALTH SYSTEM
## Schedule of Expenditures of Federal Awards
## Year Ended September 30, 2018

| 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 | 10/01/17-09/30/18 | $ 135,604,827 |
| | | | |
| **U.S. Department of Education *(Note 2)* :** | | | |
| **Student Financial Aid Cluster** | | | |
| Federal Pell Grant Program | 84.063 | 07/01/17-06/30/18 | 96,000 |
| | | 07/01/18-06/30/19 | 101,750 |
| Federal Direct Student Loans | 84.268 | 07/01/17-06/30/18 | 301,370 |
| | | 07/01/18-06/30/19 | 267,186 |
| | | | 766,306 |
| | | | |
| **U.S. Department of Health and Human Services:** | | | |
| **Louisiana Hospital Association** | | | |
| National Bioterrorism Hospital Preparedness Program | 93.889 | 7/01/17 - 05/15/18 | 20,000 |
| | | | |
| **U.S. Department of Health and Human Services:** | | | |
| **Louisiana Hospital Association** | | | |
| Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities | 93.817 | 7/01/17 - 05/31/18 | 4,972 |
| | | | |
| **Total Expenditures of Federal Awards** | | | $ 136,396,105 |

## 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, 2018.

## 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):

| | **2018** | 2017 |
|---|---|---|
| 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 $974,237, maturing on January 1, 2033. Secured by building. Insured by HUD. Loan was issued to refinance 2004 series bonds. | **$ 135,605** | $ 143,133 |

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, 2018 the fund had a balance of $23,632,950, 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? | Yes |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | No |
| Type of auditor's report issued on compliance for major programs: | Qualified |
| Any audit findings disclosed that are required to be reported in accordance with the *Uniform Guidance*? | Yes |
| Identification of Major Programs: | |

14.128 Mortgage Insurance - Hospitals
84.063 Federal Pell Grant Program
84.268 Federal Direct Student Loans

| | |
|---|---|
| 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**

**2018.001 Untimely Enrollment Reporting**
CFDA Number: 84.063 and 84.268
Program Name: Student Financial Aid Cluster, Federal Pell Grant Program and Federal Direct Student Loans
Federal Agency: U.S. Department of Education
Finding Type: Material Weakness and Compliance
Compliance Requirement: Special Tests and Provisions
Questioned Costs: N/A

Condition: The System did not timely report changes in students' status to the U.S. Department of Education (DOE) via the National Student Loan Data System for Students (NSLDS).

Criteria: Title 34, section 690.83(b)(2), of the Code of Federal Regulations (CFR) for the Federal Pell Grant Program and Title 34, section 685.309 of the CFR for the Federal Direct Student Loans program requires that schools complete and return within 30 days the Enrollment Reporting roster file placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by the DOE via NSLDS. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

Context: For two of two withdrawal students selected, the change in the student's status was not reported to the NSLDS within the mandated reporting period.

Effect: The System is not in compliance with DOE requirements.

Cause: There are no review procedures in place to ensure status changes for students who withdraw are reported to the NSLDS within the mandated reporting period.

Recommendation: Processes should be designed to ensure that all changes in student enrollment status are monitored, identified, and timely reported. A person independent of the submission process should review the status of enrolled students to ensure all reports are submitted in the required timeframe.

Views of Responsible Officials: Management agrees with the finding and recognizes the importance of maintaining strong controls to ensure compliance with timely NSLDS status change reporting. The System will work on drafting the needed policies and procedures into the student financial aid policy and procedures manual.

General Health System

**Part II - Financial Statement Findings Section**

None reported.

**Part III - Federal Award Findings and Questioned Costs Section**

2018.001 Untimely Enrollment Reporting

Name of contact person: Kendall Johnson, Chief Financial Officer

Corrective Action Plan: Management agrees with the finding and recognizes the importance of maintaining strong controls to ensure compliance with timely NSLDS status change reporting. The System will work on drafting the needed policies and procedures into the student financial aid policy and procedures manual.

Proposed Completion Date: Management will implement the above procedure immediately.

A Community of Caring

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**GENERAL HEALTH SYSTEM**
**Summary Schedule of Prior Audit Findings**
**Year Ended September 30, 2018**

None