LAFAYETTE GENERAL HEALTH

(Lafayette General Health System, Inc. and Subsidiaries)

Consolidated Financial Statements

Years Ended September 30, 2016 and 2015

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization) which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the September 30, 2016 financial statements of Lafayette General Surgical Hospital, LLC and Oil Center Surgical Plaza, LLC, partially owned subsidiaries, which statements reflect total assets of $10,464,000 as of September 30, 2016, and total revenues of $22,746,000 for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lafayette General Surgical Hospital, LLC and Oil Center Surgical Plaza, LLC, as of September 30, 2016, and for the year then ended, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lafayette General Health System, Inc. and Subsidiaries as of September 30, 2016 and 2015, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 25, 2017

LAFAYETTE GENERAL HEALTH
Consolidated Balance Sheets
September 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	$ 68,848,465	$ 61,549,029
Short-Term Investments	10,387,749	10,256,031
Patient Accounts Receivable, Less Allowance for Doubtful Accounts $53,340,383 in 2016 and $59,572,935 in 2015	105,699,318	77,940,245
Amounts Due from Third-Party Payors	32,468,084	17,174,700
Inventories	18,729,750	14,462,821
Other Current Assets	17,480,977	15,463,216
Total Current Assets	253,614,343	196,846,042
Noncurrent Assets		
Assets Limited as to Use		
Under Debt Agreements Held by Third Party	8,967,071	5,762,018
Board Designated for Property and Equipment Additions and Replacements	88,013,679	83,046,681
Total Assets Limited as to Use	96,980,750	88,808,699
Investments in Joint Ventures	5,649,814	4,966,639
Property and Equipment, Net	290,465,734	263,810,122
Unamortized Debt Issuance Costs	2,573,013	1,710,698
Other Assets	24,151,410	25,466,301
Total Noncurrent Assets	419,820,721	384,762,459
Total Assets	$ 673,435,064	$ 581,608,501

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Balance Sheets (Continued)
September 30, 2016 and 2015

	2016	2015
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	**$ 61,425,852**	$ 45,097,738
Salaries and Wages Payable	**22,463,926**	18,990,968
Amounts Due to Third-Party Payors	**13,007,899**	4,110,626
Line of Credit	**18,352,938**	19,562,671
Current Portion of Self-Insurance Reserves	**5,058,256**	3,156,267
Current Portion of Capital Lease Obligation	**362,716**	1,049,855
Current Maturities of Long-Term Debt	**1,717,325**	11,123,202
Total Current Liabilities	**122,388,912**	103,091,327
Noncurrent Liabilities		
Self-Insurance Reserves, Less Current Portion	**1,491,637**	1,307,635
Accrued Postretirement Benefit Costs	**5,829,373**	4,885,830
Capital Lease Obligation, Less Current Portion	**3,582,658**	5,906,052
Long-Term Debt, Less Current Portion, Net of Discount	**255,138,349**	194,148,745
Total Noncurrent Liabilities	**266,042,017**	206,248,262
Total Liabilities	**388,430,929**	309,339,589
Net Assets		
Unrestricted		
Controlling Interest	**279,450,245**	267,462,636
Noncontrolling Interest	**4,200,087**	4,540,917
Unrestricted Net Assets	**283,650,332**	272,003,553
Temporarily Restricted Net Assets	**1,353,803**	265,359
Total Net Assets	**285,004,135**	272,268,912
Total Liabilities and Net Assets	**$ 673,435,064**	$ 581,608,501

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted Revenues, Gains, and Other Support		
Net Patient Service Revenues	$ 793,880,251	$ 682,727,802
Provision for Bad Debts	(115,682,617)	(118,146,840)
Net Patient Service Revenues Less Provisions for Bad Debts	678,197,634	564,580,962
Other Operating Revenues	21,838,057	20,538,632
Total Revenues, Gains, and Other Support	700,035,691	585,119,594
Operating Expenses		
Salaries, Wages, and Benefits	314,331,184	252,871,884
Medical Supplies and Drugs	164,723,614	123,720,233
Contract Services	112,410,885	92,241,565
Utilities and Equipment Rentals	52,541,669	42,810,787
Depreciation and Amortization	24,336,560	21,257,335
Provision for Bad Debts	602,083	495,905
Interest Expense	10,486,982	7,935,491
Insurance Expense	7,810,078	6,659,851
Other Expenses	12,773,402	18,313,343
Total Operating Expenses	700,016,457	566,306,394
Operating Income	19,234	18,813,200
Non-Operating Income		
Interest and Dividend Income	2,752,919	4,475,909
Realized (Loss) Gain on Investments	(1,743,980)	3,262,650
Unrealized Gain (Loss) on Investments	7,013,908	(7,254,280)
Gain (Loss) on Sale/Disposal of Assets	48	(11,440)
Other Revenue, Net	6,742,150	1,302,093
Total Non-Operating Income	14,765,045	1,774,932
Excess of Revenues over Expenses	14,784,279	20,588,132
Attributable to Noncontrolling Interest	2,596,670	2,151,867
Excess of Revenues Over Expenses Attributable to the Health System	$ 12,187,609	$ 18,436,265

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Statements of Operations and Changes in Net Assets (Continued)
For the Years Ended September 30, 2016 and 2015

	September 30, 2016			September 30, 2015		
	Total	Controlling Interest	Noncontrolling Interests	Total	Controlling Interest	Noncontrolling Interests
Unrestricted Net Assets:						
Excess of Revenues over Expenses	$ 14,784,279	$ 12,187,609	$ 2,596,670	$ 20,588,132	$ 18,436,265	$ 2,151,867
Contributions from	-	-	-	1,335,238	1,265,488	69,750
Transfer to	(200,000)	(200,000)	-	-	-	-
Distributions Paid to	(2,937,500)	-	(2,937,500)	(2,925,000)	-	(2,925,000)
Increase (Decrease) in Unrestricted Net Assets	11,646,779	11,987,609	(340,830)	18,998,370	19,701,753	(703,383)
Temporarily Restricted Net Assets:						
Contributions from	888,444	888,444	-	-	-	-
Transfer from	200,000	200,000	-	265,359	265,359	-
Increase in Temporarily Restricted Net Assets	1,088,444	1,088,444	-	265,359	265,359	-
Increase (Decrease) in Net Assets	12,735,223	13,076,053	(340,830)	19,263,729	19,967,112	(703,383)
Net Assets:						
Beginning of the Year	272,268,912	267,727,995	4,540,917	253,005,183	247,760,883	5,244,300
End of the Year	$ 285,004,135	$ 280,804,048	$ 4,200,087	$ 272,268,912	$ 267,727,995	$ 4,540,917

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Increase in Net Assets	$ 12,735,223	$ 19,263,729
Adjustments to Reconcile Increase in Net Assets to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	24,336,560	21,257,335
Provision for Doubtful Accounts	116,284,700	118,642,745
(Loss) Gain on Sale/Disposal of Assets	(48)	11,440
Unrealized (Gains) Losses on Investments	(7,013,908)	7,254,280
Gain on Forgiveness of Debt	(9,524,000)	-
Equity in Earnings of Joint Ventures	(683,175)	(476,319)
Noncontrolling Interests in Subsidiaries	2,596,670	2,151,867
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(144,043,773)	(124,158,209)
Amounts Due from/to Third-Party Payors	(6,396,111)	(1,925,010)
Inventories	(4,266,929)	(14,565)
Other Assets	(43,403)	(6,133,973)
Accounts Payable and Accrued Expenses	19,801,072	957,886
Deferred Revenue	-	(9,973,361)
Self-Insurance Reserves	2,085,991	(252,500)
Other Liabilities	943,543	1,068,351
Net Cash Provided by Operating Activities	6,812,412	27,673,696
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(50,661,682)	(22,569,991)
Net (Increase) Decrease in Assets Whose Use is Limited	(1,158,143)	31,447
Net (Increase) Decrease in Short-Term Investments	(131,718)	49,330
Net Cash Used in Investing Activities	(51,951,543)	(22,489,214)
Cash Flows from Financing Activities		
Repayment of Long-Term Debt	(121,937,273)	(5,826,367)
Proceeds from Issuance of Long-Term Debt	183,045,000	8,158,638
Cash Paid to Issue New Debt	(1,180,952)	-
Principal Payments Under Capital Lease Obligations	(3,340,975)	(3,055,151)
Net Proceeds from Line of Credit Activity	(1,209,733)	19,428,234
Distributions, Net of Contributions	(2,937,500)	(2,594,264)
Net Cash Provided by Financing Activities	52,438,567	16,111,090
Increase in Cash and Cash Equivalents	7,299,436	21,295,572
Cash and Cash Equivalents		
Beginning	61,549,029	40,253,457
Ending	$ 68,848,465	$ 61,549,029
Supplementary Disclosure of Cash Flow Information:		
Cash Paid During the Year for:		
Interest, Net of Amount Capitalized	$ 8,448,089	$ 7,935,491

See notes to consolidated financial statements.

Note 1. Nature of Business and Significant Accounting Policies

Reporting Entity and Nature of Business:

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

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

Lafayette General Medical Center, Inc. (LGMC) is a not-for-profit Louisiana corporation, organized on a non-stock basis to provide medical care to the residents of southwest Louisiana. It is governed by a board of trustees. The trustees are elected from the general board membership, which consists of not more than 50 members. The operations of LGMC consist of the services provided in Lafayette, Louisiana, at the main campus as well as the newly acquired Lafayette General Southwest (LGSW) campus. See Note 19 for details on LGSW.

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

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

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

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

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

Lafayette General Foundation, Inc. (LGF) is a non-profit Louisiana corporation incorporated on May 7, 2014 on a non-stock basis. The sole member of LGF is LGHS. LGF's mission is to enable the community to invest through philanthropy, in innovation that furthers the Organization's mission to restore, maintain, and improve health.

Kaplan General Hospital, Inc. (KGH) is a non-profit Louisiana corporation incorporated on December 5, 2014 on a non-stock basis. The sole member of KGH is LGHS. In June 2015, KGH assumed the operations of Abrom Kaplan Memorial Hospital (AKMH), a critical access hospital with 35 licensed beds located in Kaplan, Louisiana, through a building and equipment lease. The lease term runs until such date as the sales, use, and millage taxes, dedicated for the purpose of paying costs associated with operating, maintaining and improving AKMH, are not renewed by special election. The Board of Commissioners for Vermillion Parish Hospital Service District 1 (the District) still owns the property and equipment of AKMH.

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

Greater Lafayette Physicians Hospital Organization, Inc. (PHO) is a wholly-owned physician-hospital organization whose business was to negotiate managed care contract arrangements. PHO is currently dormant with no financial statement balances. As such, it is not included in the consolidating schedules presented as supplementary information.

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

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

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

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

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

Healthcare Innovation Fund, LLC is a wholly owned subsidiary of Lafayette General Foundation formed in July 2015. The fund will utilize capital, provided by the Louisiana Economic Development Corporation, to invest in start-up and early-stage firms that demonstrate significant growth potential for product development in the healthcare industry in Louisiana. A funding agreement was formed with the state in order to promote economic development in the State of Louisiana. It is anticipated that these activities will assist in seeking opportunities for the creation or enhancement of economic growth in Louisiana.

Significant Accounting Policies:

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Lafayette General Health System, Inc., its wholly owned subsidiaries and entities in which the Organization has a controlling financial interest as indicated above. All significant inter-company balances and transactions have been eliminated in consolidation. Income from unconsolidated entities is included in consolidated excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets.

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

Temporarily Restricted Net Assets: Temporarily restricted net assets are those assets whose use by the Organization has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are used in accordance with the donors' wishes. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted. Temporarily restricted net assets consist solely of controlling interests of the Organization.

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

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

Short-Term Investments: Short-term investments consist of investments with original maturities exceeding three months and up to one year. Short-term investments are stated at fair value based on quoted market values.

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

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

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

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

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

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

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

Deferred Revenue: The balance in this account consists of that portion of Medicaid supplemental payments under the CEA described above. The Organization was responsible for providing services associated with these payments through 2016.

Property and Equipment: Property and equipment are recorded at acquisition cost, including interest expense capitalized during construction. Interest cost of approximately $105,092 and $54,900, was capitalized in 2016 and 2015, respectively. Donated property and equipment are recorded at fair value at the date of donation, which is then treated at cost. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years.

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

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

Noncontrolling Interest: The consolidated financial statements include all assets, liabilities, revenues, and expenses of entities that are controlled by the Organization and therefore consolidated. Noncontrolling interests in the consolidated balance sheets represent the portion of net assets owned by entities outside the Organization, for those entities in which the Organization's ownership interest is less than 100%.

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

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

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

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

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

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

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

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

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

Net Patient Service Revenues, Patient Accounts Receivable, and Amounts Due to or from Third-Party Payors: The Organization provides medical services to government program beneficiaries and has agreements with other third-party payors that provide payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, prospectively determined rates per procedure, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 55% and 54%, in 2016 and 2015, respectively.

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

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

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

Federal matching funds are not available for Medicaid payments that exceed UPLs. Each state's UPL methodology must comply with its state plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Under this methodology, LGMC, AKMH, and SMH received funding from the State of Louisiana during the fiscal years ended September 30, 2016 and 2015, collectively totaling $5,140,906 and $3,497,159, respectively, which is included as a component of net patient service revenue.

As mentioned above, LGHS and UHC collaborated with the State of Louisiana through a CEA and related lease, assuming operational responsibility for LSU's teaching Hospital in Lafayette Louisiana. The Centers for Medicare & Medicaid Services (CMS) has provided for direct graduate medical education payments and indirect medical education reimbursement (DGME and IME) to LSU. The DGME and IME payment rules establish "caps" on the number of residency positions that are reimbursable but allow the caps (the Residency Caps) to be shared among and/or affiliated to other hospitals under certain circumstances. In order for LSU to continue to effectively provide the LSU GME Programs, LSU transferred certain Residency Caps to Lafayette General Medical Center. The CEA also provides for other cost-based funding to LGMC and Louisiana Medicaid uncompensated care payments to UHC for the provision of health care services to UHC's Medicaid and self-pay / uninsured patients in a given State fiscal year. LGMC and UHC recognized a total of $63,123,999 ($3,070,813 of which was paid to Lake Charles Memorial Hospital (LCM) as part of a community benefit agreement) and $68,490,065 ($9,324,016 of which was paid to LCM as part of a community benefit agreement), during fiscal year ended September 30, 2016 and 2015, respectively, as a component of net patient service revenue, in accordance with the terms of the CEA.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports and regulatory audit. Such settlements are estimated and recorded as amounts due to or from third-party payors in the consolidated financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in an increase to net patient service revenue of $65,747,917 and $63,281,274, in 2016 and 2015, respectively.

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

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

	Medicare	Medicaid
LGMC	2012	2010
SMH	2013	2012
LGSH	2013	2012
UHC	i	i
AGH	iii	ii
KGH	iii	iii

i. UHC has retained a June 30 year end for cost reporting purposes. As the effective date of the CEA was June 24, 2013, the last week of June 2013 was included in the June 30, 2014 cost report when filed for UHC. LSU has filed a closing cost report through June 23, 2013. Settlement or recoupment actions associated with the closing cost report remain the responsibility of LSU. The June 30, 2014 cost report has been settled. The 2015 cost report remains open.

ii. AGH filed a cost report for the period June 1, 2014 through September 30, 2014, as well as the fiscal year ended September 30, 3015, both of which remain unsettled as of September 30, 2016.

iii. KGH filed a cost report for the period June 1, 2015 through September 30, 2015 which remains unsettled as of September 30, 2016.

The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2016, will be reported in the Organization's consolidated operations as such determinations are made.

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

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

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

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

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

For receivables associated with self-pay patients, those with no third-party coverage, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

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

The Organization's allowance for uncollectible accounts remained at 99% of self pay accounts receivable at September 30, 2016 and 2015. The Organization continues to experience high levels of charity care and bad debt write-offs as a result of rising patient responsibilities due in part to high deductible and high co-pay insurance plans.

The Organization did not change its charity care or uninsured discount policies during fiscal years 2016 or 2015.

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

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

The percentage of patient service revenue, net of contractual allowance and discounts (but before the provision for bad debts), derived from these major payor sources as of September 30, 2016 and 2015 are as follows:

	2016	2015
Third-Party Payors	**76%**	73%
Self Pay	**24%**	27%
Total All Payors	**100%**	100%

<u>Charity Care</u>: The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, and these amounts are not expected to result in cash flows, they are not reported as revenue. Charges foregone, based on established rates and estimated charity care costs, are shown below for the years ended September 30, 2016 and 2015, respectively.

	2016		2015	
	Charges Foregone	**Estimated Costs In Excess of Payments**	Charges Foregone	Estimated Costs In Excess of Payments
Charity Care	**$ 119,649,918**	**$ 39,944,767**	$ 95,735,079	$ 43,846,561

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

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

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

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

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

Significant New Accounting Pronouncements Adopted: In April 2013, the FASB issued Accounting Standards Update (ASU) 2013-06 "*Not-for-Profit Entities (Topic 958).*" The amendments in this Update apply to not-for-profit entities, including not-for-profit, business-oriented health care entities that receive services from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. Charging the recipient not-for-profit entity means requiring payment from the recipient not-for profit entity at least for the approximate amount of the direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing a service to the recipient not-for-profit entity or the approximate fair value of that service. The Update requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. A recipient not-for-profit entity within the scope of Topic 954, *Health Care Entities*, that is required to provide a performance indicator (analogous to income from continuing operations of a for-profit entity) should report as an equity transfer the increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. This Organization adopted the guidance on October 1, 2014. Adoption of the guidance had no the impact on the consolidated financial statements.

Note 2. Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2016 and 2015, were as follows:

	2016	2015
Gross Patient Service Revenue	**$ 2,581,277,180**	$ 1,851,390,996
Provisions for Contractual and Other Adjustments	**(1,667,747,011)**	(1,072,928,115)
Charges Forgone for Charity Care	**(119,649,918)**	(95,735,079)
Net Patient Service Revenue	**$ 793,880,251**	$ 682,727,802

Note 3. Business and Credit Concentration

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

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

The approximate percentages of net patient accounts receivable by payor at September 30, 2016 and 2015, were as follows:

	2016	2015
Managed Care \ Commercial	**55 %**	56 %
Medicare	**21**	22
Medicaid	**5**	5
Other Third-Party Payors	**6**	6
Self-Pay Patients	**13**	11
	100 %	100 %

Note 3. Business and Credit Concentration (Continued)

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

As of September 30, 2016 and 2015, the Organization reported cash and cash equivalents balances of $68,848,465 and $61,549,029, respectively. Certain deposits exceed the amount of insurance coverage. The Organization's policy is to place its cash and cash equivalent deposits with high credit quality financial institutions. Accordingly, management does not believe these excess deposits expose the Organization to a significant risk of loss.

The Organization has entered into a daily overnight repurchase agreement with one financial institution, which is a cash sweep service arrangement. The arrangement withdraws and deposits cash balances above a specified dollar amount from one of the Organization's deposit accounts daily and invests it in short-term government securities overnight. The dollar amount associated with this repurchase agreement and included in the total cash and cash equivalents balances referenced above was $18,030,347 and $18,012,313, as of September 30, 2016 and 2015, respectively.

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

Short-term investments, at September 30, 2016 and 2015, were primarily invested in money market funds. The balance in short-term investments was $10,387,749 and $10,256,031, at September 30, 2016 and 2015, respectively.

Assets limited as to use at September 30, 2016 and 2015, were as follows:

	2016	2015
Under Debt Agreement Held by Third Party		
Cash and Cash Equivalents	**$ 8,967,071**	$ 29,910
Loan Participation Interests	**-**	5,732,108
	8,967,071	5,762,018
By Board for Property and Equipment Additions and Replacements		
Equity Mutual Funds	**42,791,850**	39,036,420
Fixed Income Funds	**39,707,892**	39,939,024
Cash and Cash Equivalents	**4,480,759**	2,778,401
Other	**1,033,178**	1,292,836
	88,013,679	83,046,681
Total Assets Whose Use is Limited	**$ 96,980,750**	$ 88,808,699

Note 5. Fair Value Measurements

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

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

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
Level 2	Inputs to the valuation methodology include: • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

- Common stocks, corporate bonds, and U.S. government securities, when present are valued at the closing price reported on the active market on which the individual securities are traded.
- Mutual Funds are valued at the net asset value (NAV) of shares held at year end.
- Money Market Funds and certificates of deposit are reported at the net asset value and amount reported by the issuing financial institution, respectively.

Note 5. Fair Value Measurements (Continued)

- Pooled Investment accounts are valued at the liquidation value of the underlying instruments.
- Insurance Company Group Annuity Contract is carried at contract value as reported by the insurance company, which approximates fair value. The concept of a value other than contract value does not apply to this insurance company issued general account backed evergreen (no maturity date) group annuity spread investment. This contract's operation is different than many other evergreen group annuity products in the market by virtue of the fact that a market value (fair value) adjustment does not apply upon discontinuance. There are no specific securities in the general account that back the liabilities of the annuity contract and it would be inappropriate to look to the market value of the securities within the insurer's general account to determine a fair value.

The following table sets forth, by level within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2016:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds				
Equity Funds	$ 45,955,733	$ 45,955,733	$ -	$ -
Fixed Income Funds	49,844,468	49,844,468	-	-
Total Mutual Funds	95,800,201	95,800,201	-	-
Cash Equivalents, Money Market, and Certificates of Deposit	4,720,272	4,720,272	-	-
Pooled Investment Accounts	-	-	-	-
Marketable Equity Securities	2,729,790	2,729,790	-	-
Insurance Company Group Annuity Contract	1,685,329	-	-	1,685,329
Other	1,033,178	-	1,033,178	-
Total	$ 105,968,770	$ 103,250,263	$ 1,033,178	$ 1,685,329

These instruments are included on the Organization's September 30, 2016, balance sheet under the following captions:

Short-Term Investments	$ 10,387,749
Assets Limited as to Use	88,013,679
Items Included as a Component of Other Noncurrent Assets	
Marketable Equity Securities	2,718,130
Deferred Compensation Arrangement Assets	4,849,212
Total	$ 105,968,770

Note 5. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2015:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds				
Equity Funds	$ 40,319,794	$ 40,319,794	$ -	$ -
Fixed Income Funds	49,926,883	49,926,883	-	-
Total Mutual Funds	90,246,677	90,246,677	-	-
Cash Equivalents, Money Market, and Certificates of Deposit	3,046,573	3,046,573	-	-
Pooled Investment Accounts	-	-	-	-
Marketable Equity Securities	2,023,228	2,023,228	-	-
Insurance Company Group Annuity Contract	1,512,076	-	-	1,512,076
Other	1,292,835	-	1,292,835	-
Total	$ 98,121,389	$ 95,316,478	$ 1,292,835	$ 1,512,076

These instruments are included on the Organization's September 30, 2015 balance sheet under the following captions:

Short-Term Investments	$ 10,256,031
Assets Limited as to Use	83,046,681
Items Included as a Component of Other Noncurrent Assets	
Marketable Equity Securities	2,023,228
Deferred Compensation Arrangement Assets	2,795,449
Total	$ 98,121,389

Note 5. Fair Value Measurements (Continued)

The following tables set forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended September 30, 2016 and 2015:

September 30, 2016	**Level 3**	**Total**
Beginning Balance	**$ 1,512,076**	**$ 1,512,076**
Total Gains or Losses (Realized and Unrealized)		
Included in Changes in Net Assets	**-**	**-**
Interest Reinvested	**29,571**	**29,571**
Purchases	**570,494**	**570,494**
Sales	**(241,892)**	**(241,892)**
Other	**(184,920)**	**(184,920)**
Ending Balance	**$ 1,685,329**	**$ 1,685,329**

September 30, 2015	Level 3	Total
Beginning Balance	$ 1,187,585	$ 1,187,585
Total Gains or Losses (Realized and Unrealized)		
Included in Changes in Net Assets	24,614	24,614
Interest Reinvested	-	-
Purchases	723,702	723,702
Sales	(423,825)	(423,825)
Ending Balance	$ 1,512,076	$ 1,512,076

Changes in Fair Value Levels

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

We evaluate the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended September 30, 2016 and 2015, there were no transfers in or out of Level 3.

Note 5. Fair Value Measurements (Continued)

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

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

September 30, 2016

Investment	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund	$ 1,685,329	See Discussion Above	See Discussion Above	N/A	N/A

September 30, 2015

Investment	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund	$ 1,512,076	See Discussion Above	See Discussion Above	N/A	N/A

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

Financial Instrument Fair Value Disclosures

At September 30, 2016 and 2015, the Organization's financial instruments included cash and cash equivalents, accounts receivable, investments, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term obligations, approximate their fair values.

The fair value of the Organization’s Series 2010 debt at September 30, 2016 is estimated at $91,145,824, compared to its carrying value of $81,035,230 (net of unamortized original issue discount of $559,770). The fair value of this instrument is based on currently traded values of similar financial instruments.

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

Note 6. Investments in Joint Ventures and Other Investees

The Organization holds a 50% interest in Lafayette General Endoscopy Center, Inc. (GI-ASC). This Company provides ambulatory surgical services in Lafayette, Louisiana. The investment in GI-ASC, accounted for under the equity method, is $1,624,372 and $1,462,396, as of September 30, 2016 and 2015, respectively. Equity method goodwill arising upon the 2005 acquisition of GI-ASC by LGMC is included as a component of the carrying amount of the investment. The carrying amount of the equity method goodwill component comprises the substantial portion of the investment balance as of September 30, 2016 and 2015.

Summarized financial information of GI-ASC as of September 30, 2016 includes total assets of $455,100 and total liabilities of $103,837. GI-ASC operates on a calendar year basis and reported $1,389,102 of net income for the nine months ended September 30, 2016. Summarized financial information of GI-ASC as of September 30, 2015 includes total assets of $474,284 and total liabilities of $216,157. GI-ASC operates on a calendar year basis and reported $1,402,992 of net income for the nine months ended September 30, 2015. Net income is routinely distributed to LGMC and the other IRS subchapter S-corporation shareholders each year.

Investee companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Other Noncurrent Assets include $117,321 and $147,580, of investments accounted for under the cost method as if September 30, 2016 and 2015, respectively.

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

Note 7. Property and Equipment

Property and equipment consists of the following:

	2016	2015
Land and Land Improvements	**$ 14,538,721**	$ 12,635,121
Buildings and Fixed Equipment	**389,512,977**	347,625,611
Major Movable Equipment	**128,396,496**	119,562,360
	532,448,194	479,823,092
Less: Accumulated Depreciation	**247,561,139**	224,172,542
	284,887,055	255,650,550
Construction in Progress	**5,578,679**	8,159,572
Total	**$ 290,465,734**	$ 263,810,122

Note 7. Property and Equipment (Continued)

Construction in Progress and Purchase Commitments
At September 30, 2016 the Organization was obligated under purchase commitments of approximately $1,569,300, principally related to ongoing renovation projects, and $539,900 related to other purchase commitments.

Note 8. Short-Term and Long-Term Debt

The following table summarizes the Organization's outstanding debt as of September 30, 2016 and 2015:

Line of Credit		2016	2015
Line of Credit - LGHS: Interest rate of LIBOR plus 1.75% (2.27% at September 30, 2016), due upon demand or maturity on July 13, 2017.	(A)	**$ 18,352,938**	$ 18,875,000
Line of Credit - OCSP: Interest rate of Prime Rate plus 1% (4.25% at September 30, 2015), matured on June 25, 2016.	(A)	**-**	687,671
Total Line of Credit		**$ 18,352,938**	$ 19,562,671

Long-Term Debt - Bonds Payable		2016	2015
Revenue and Refunding Bonds, Series 2010: Interest payable semi-annually at rates ranging from 2.0% to 5.5%. Principal is payable annually through 2041.	(B)	**$ 81,595,000**	$ 81,595,000
Hospital Revenue Bonds, Series 2012A: Variable interest at 60% of LIBOR plus 1.4% (1.51% at September 30, 2015), payable monthly. Principal payable annually through 2042, beginning in 2018.	(C)	**-**	30,000,000
Hospital Revenue Bonds, Series 2012B: Fixed interest at 2.46% through 2019. Principal payable annually through 2042, beginning in 2018.	(C)	**30,000,000**	30,000,000
Revenue and Refunding Bonds, Series 2016A: Interest payable semi-annually at rates ranging from 3.25% to 5.0%. Principal is payable annually through 2045.	(D)	**65,295,000**	-
Total Long-Term Debt - Bonds Payable		**176,890,000**	141,595,000

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

Long-Term Debt - Notes Payable		2016	2015
Bank Note Payable, Series 2016A: Variable interest of LIBOR plus Spread (2.18% at September 30, 2016), payable quarterly. Principal payable quarterly through 2039, beginning in 2019.	(E)	**25,000,000**	-
Bank Note Payable, Series 2016B: Variable interest of LIBOR plus Spread (2.295% at September 30, 2016), payable quarterly. Principal payable quarterly through 2041, beginning in 2019.	(F)	**42,750,000**	-
Bank Note Payable - LIG: Monthly principal and interest payments of $25,730 and over a 10 year term. Interest rate of 4.99%.	(G)	**2,465,855**	2,646,669
Bank Note Payable - LIG: Variable interest at 4.50%, due in serial installments through July 2020.	(H)	**2,270,039**	2,799,494
Bank Note Payable - OCSP: Interest rate of 4.75% payable in monthly principal and interest installments through April 2022.	(I)	**1,471,452**	1,687,920
Equipment Note Payable - LGMC: Principal due in equal installments through the remainder of the vendor contract in 2017.	(J)	**880,078**	1,639,832
New Market Tax Credit Facility A: Variable interest at not less than 4.00%, payable in annual installments through 2023.	(K)	**-**	25,476,000
New Market Tax Credit Facility B: Interest Rate of 1.00%,anticipated maturity of September 30, 2023.	(K)	**-**	9,524,000
Revenue Note Payable - LGMC: Interest rate of 3.61%, payable in monthly installments of $78,760 through February 25, 2016.	(L)	**-**	390,273
Bank Note Payable - LGMC: Monthly principal and interest payments of $5,615. Interest rate of 4.50%. Paid in full in 2016.	(M)	**-**	601,713
Equipment Vendor Installment Payable - LGMC: Balance paid in full during 2016.	(N)	**-**	9,546,796
Bank Note Payable - LGMC: Interest rate of LIBOR plus 2.50% payable in monthly principal and interest installments.	(O)	**-**	1,968,025
Bank Note Payable - LGMC: Interest rate of 4.125% payable in monthly principal and interest installments.	(P)	**-**	4,648,011
Equipment Vendor Installment Payable - LGH: Paid in full during 2016.	(Q)	**-**	2,024,997
Equipment Vendor Installment Payable - LGH: Paid in full during 2016.	(R)	**-**	1,306,230
Total Long-Term Debt - Notes Payable		**74,837,424**	64,259,960
Total Long-Term Debt - Bonds and Notes Payable		**251,727,424**	205,854,960
Less: Original issue discount, less accumulated amortization of $23,243.		**(559,770)**	(583,013)
Plus: Original issue premium, less accumulated amortization of $151,458.		**5,688,020**	-
		256,855,674	205,271,947
Less: Current maturities of long-term debt		**(1,717,325)**	(11,123,202)
Total		**$ 255,138,349**	$ 194,148,745

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

(A) Revolving Credit Line: The Organization has an unsecured revolving line of credit from a bank that permits borrowings up to $20,000,000, at an interest rate of LIBOR plus 1.75% (2.27% at September 30, 2016). The line of credit matures on July 13, 2017. At September 30, 2016 and 2015, the Organization had $18,352,938 and $18,875,000, respectively, of outstanding borrowings under this line of credit.

The Organization has also negotiated a secured revolving line of credit from a lender that permits borrowing up to $20,000,000 at an interest rate of LIBOR plus 1% (1.53% at September 30, 2016). The line of credit is secured by the investment assets of the Organization. The line of credit is due upon demand. At September 30, 2016, the Organization had $-0- of outstanding borrowings under this line of credit.

OCSP has a secured revolving line of credit from a bank that permits borrowing up to $2,250,000, at an interest rate of Index plus 1% (4.25% at maturity). The line of credit is secured by the real property of OCSP. The line of credit matured on June 25, 2016. Outstanding borrowings under this line of credit are $-0- and $687,671, at September 30, 2016 and 2015, respectively.

(B) Revenue and Refunding Bonds, Series 2010 - LGMC: During 2010, the Louisiana Public Facilities Authority (LPFA) issued $84,840,000 of tax-exempt revenue and refunding bonds for which LGMC is obligated. The security for the 2010 series bonds is described later in this Note. These bonds are due serially through November 1, 2041.

(C) Revenue Bonds Series 2012 A and B - LGMC: on July 1 2012, the LPFA authorized the issuance of $30,000,000 Series 2012A and $30,000,000 Series 2012B of hospital revenue bonds for which LGMC is obligated via an executed loan agreement issued as of that date. The purpose of the issue was to finance a portion of the costs of construction, expansion and renovations of operating room suites, the emergency room, and other portions of the main campus and additional construction of a multi-level parking facility. Both the Series A and B Bonds were issued as draw down bonds. The loan agreement requires debt service by LGMC in an amount sufficient to provide for principal and interest under the terms of each bond series. Interest on the outstanding principal balance of each series is payable monthly. Series A bonds bear interest at a variable rate through July 25, 2022. The Series B bonds bear interest at fixed rate of 2.46% per annum through July 25, 2019. Both Series contain provisions for rate resets in subsequent periods. Principal repayment requirements for both Series A and B are serial at scheduled amounts assuming the maximum authorized principal. Principal funding requirements begin November 1, 2018 and continue through 2042. The bonds contain optional redemption provision at the direction of LGMC. The Series A bonds were redeemed in 2016 in conjunction with the issuance of the Series 2016 Bonds. The security for these bonds is described later in this Note.

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

(D) Revenue and Refunding Bonds, Series 2016A - LGMC: On November 1, 2016, the LPFA authorized the issuance of $65,295,000 Series 2016A Hospital Revenue and Refunding Bonds and $31,750,000 Series 2016B Taxable Hospital Revenue and Refunding Bonds for which LGHS is obligated via an executed loan agreement as of that date. The Series 2016 Bonds are being issued for the purpose of providing funds, together with other moneys of LGHS, to finance projects and refund indebtedness for LGHS and certain affiliates defined as the Obligated Group. The Series 2016A Bonds are subject to redemption prior to maturity at the option of LPFA at the request of LGHS on or after November 1, 2025. The Series 2016B Bonds may be redeemed at the option of LPFA, exercised by LGHS if no loan default exists, in whole or in part on any business day at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest. During the year ended September 30, 2016, LGHS redeemed in full the outstanding balance of the Series 2016B Bonds. The Series 2016A Bonds bear interest at rates ranging from 3.25% to 5% with interest payable semi-annually. Principle is payable annually beginning November 1, 2032 with the final payment on November 1, 2045. The Series 2016A Bonds require mandatory sinking fund redemptions beginning November 1, 2037. Security for the Series 2016A Bonds is described below.

(E) Series 2016A Note Payable - LGHS: On September 29, 2016, LGHS (as Borrower) executed a note with Iberia Bank (as Lender). The loan agreement was issued in the principal amount of $25,000,000 for the purpose of refinancing debt. The note bears interest at the Special Bank Variable Rate, as defined, which shall be reset as defined. Interest is payable quarterly beginning November 1, 2016. Principal is payable quarterly beginning November 1, 2019 with maturity scheduled for November 1, 2039. This Note is subject to optional redemption by LGHS, in whole or in part, at the principal amount thereof plus accrued interest to the Redemption Date. This Note is secured by an Act of Assignment of Receipts and Security Agreement dated September 1, 2016 to which LGHS, as Obligated Group Agent, as defined, has assigned certain Receipts to the Master Trustee. Additionally, security includes the benefits of a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated August 10, 2010 by LGMC in favor of the Master Trustee, granting a mortgage lien on certain of the properties of LGHS.

(F) Series 2016B Note Payable - LGHS: On September 29, 2016, LGHS (as Borrower) executed a note with Whitney Bank (as Lender). The loan agreement was issued in the principal amount of $42,750,000 fro the purpose of refunding the Series 2016B Bonds, raise capital to increase liquidity, refinance other debt and pay certain related expenses incurred in connection with the issuance Note. The note bears interest at the Special Bank Variable Rate, as defined, which shall be rest as defined. Interest is payable quarterly beginning November 1, 2016. Principal is payable quarterly beginning November 1, 2019 with maturity scheduled for November 1, 2041. This Note is subject to optional redemption, in whole or in part, at the principal amount thereof plus accrued interest to the Redemption Date.

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

(F) Series 2016B Note Payable - LGHS (Continued): This Note is secured by an Act of Assignment of Receipts and Security Agreement dated September 1, 2016 to which LGHS as Obligated Group Agent, as defined, has assigned certain Receipts to the Master Trustee. Additionally, security includes the benefits of a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated August 10, 2010 by LGMC in favor of the Master Trustee, granting a mortgage lien on certain of the properties of LGHS.

(G) Bank Note Payable - LIG: A term loan was executed by and among Lafayette Investment Group, LLC (as borrower) and Home Bank (as Lender). The note is payable over a ten year term ending in 2027. Monthly principal and interest installments of $25,730 are due each month, with interest at 4.99%. The loan is secured by a security interest in deposit accounts with the lender, and certain real estate owned by LIG.

(H) Bank Note Payable - LIG: On April 23, 2009, a loan agreement was executed by and among Lafayette Investment Group, LLC (as Borrower) and Home Bank (as Lender). The term loan agreement was issued for up to $5,592,055 of principal to be utilized to pay off construction costs for Lafayette Surgical Hospital. The note has since been refinanced with the lender and bears interest at 4.5%. The remaining balance of the note is due serially in monthly installments through July 2020.

(I) Bank Note Payable - OCSP: At September 30, 2016 the Organization has recorded a bank note payable with OCSP (as Borrower) and Home Bank (as Lender). The loan agreement was issued for up to $1,900,000 of principal to be utilized to pay off construction costs for OCSP. The note bears interest at 4.75% with maturity in April 2022.

(J) Equipment Note Payable - LGMC: At September 30, 2015, the Organization recorded a note payable with the food services facilities management provider for the renovation to and purchase of equipment at the hospital facilities. The note shall be paid off in equal monthly installments over a three year period beginning upon the final installation of the equipment through 2017.

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

During 2016, the Organization refunded the facility Note A and had the Facility Note B forgiven. The forgiveness resulted in a gain of $9,524,000 which is a component of other revenue on the consolidated statement of operations for the year ended September 30, 2016.

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

(L) Revenue Note Payable - LGMC: During 2011, LPFA issued this note to a supplier of medical equipment for which LGMC is obligated. The proceeds were used to purchase medical equipment during the hospital renovation. The balance was due in monthly installments of $78,760 through February 25, 2016. The note bore interest at a rate of 3.61%.

(M) Bank Note Payable - LGMC: On March 2, 2012, a loan agreement was executed by and among LGMC (as Borrower) and Home Bank (as Lender). The term loan agreement was issued for $730,000 of principal to be utilized for the cost of constructing leasehold improvements. The note was refinanced with the lender during 2013 with interest at 4.5%. The term loan was secured by an interest in the leasehold improvements and in furniture, fixtures, and equipment purchased. The term loan was payable in monthly installments of $5,615 and a final balloon payment. The balance was paid in full during 2016.

(N) Equipment Vendor Installment Payable - LGMC: At September 30, 2015 the Organization recorded a long-term installment payable to an equipment vendor for the capitalized cost of certain software and related equipment. The balance was paid in full during 2016 in conjunction with the issuance of new debt.

(O) Bank Note Payable - LGMC: In 2012, a term loan was executed by and among LGMC (as Borrower) and Capital One Bank (as Lender). The note was payable in monthly principal and interest installments through March 4, 2017. The term loan bore interest at LIBOR plus 2.50%. During 2016, the note was paid in full.

(P) Bank Note Payable - LGMC: At September 30, 2016 the Organization has recorded a bank note payable with LGMC (as Borrower) and Home Bank (as Lender). The loan agreement was issued for up to $5,100,000 of principal to be utilized to pay off construction costs for OCSP. The note bore interest at 4.125%. The note was paid in full during 2016.

(Q) Equipment Vendor Installment Payable - LGH: At September 30, 2015 the Organization recorded a long-term installment payable to an equipment vendor for the capitalized cost of certain network related equipment. During 2016, the payable was paid in full.

(R) Equipment Vendor Installment Payable - LGH: At September 30, 2015 the Organization recorded a long-term installment payable to an equipment vendor for the capitalized cost of certain software and related equipment. During 2016, the payable was paid in full.

LGHS and Whitney Bank, as master trustee (the Master Trustee) for the outstanding bonds have entered into, amended, restated and added supplements to the Master Trust Indenture, with the latest supplement dated January 1, 2016. LGHS and the LPFA have entered into a Loan Agreement documenting that LGMC, as Obligated Group Agent, has delivered a promissory note to the LPFA to evidence and secure its obligations to the LPFA.

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

As security for the Bonds, the LPFA has assigned and pledged to the Trustee, for the benefit of the owners of the Bonds, substantially all of LPFA's interest in the Series 2016, 2012, and 2010 loan agreements. Pursuant to the terms of the Amended and Restated Master Trust Indenture, LGHS, as Obligated Group Agent, may from time to time issue other notes or series of notes such that the holders of the Series 2016, 2012, and 2010 obligations are on a parity with respect to the holders of such other notes or series of notes entitled to the benefit of the Amended and Restated Master Trust Indenture.

Under the Series 2016, 2012, and 2010 bond obligations, LGHS is also subject to an Act of Assignment of Receipts and Security Agreement, which has been supplemented and amended and restated, with the latest change made effective January 1, 2016 (collectively, the Assignment), pursuant to which LGHS, as Obligated Group Agent, has assigned certain Receipts (as therein defined), to the Master Trustee, as assignee, for the benefit of the owners of the bonds and for the benefit of certain of the existing and future creditors of the Obligated Group Members. The provisions of the Series 2016, 2012, and 2010 bond obligations also contain a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated January 1,2016 (the Mortgage) by LGMC in favor of the Master Trustee, as mortgagee, granting a mortgage lien on certain of the properties of LGMC.

The Organization is required to comply with covenants contained in the Amended Master Trust Indenture, dated January 1, 2016. These covenants include, among other requirements, maintenance of proper debt service coverage ratio. For the years ended September 30, 2016 and 2015, the Organization was in compliance with these covenants.

At September 30, 2016, scheduled maturities of long-term debt for the years ending September 30, are as follows:

2017	$ 1,717,325
2018	1,147,857
2019	1,066,545
2020	5,401,994
2021	5,571,281
Thereafter	236,822,422
Total	$ 251,727,424

The Organization paid interest on its long-term debt totaling $8,553,181 and $7,959,584, during the years ended September 30, 2016 and 2015, respectively. See Note 1 for details of interest cost capitalized as a component of property and equipment.

Note 9. Capital Leases

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

Note 9. Capital Leases (Continued)

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

During 2013, the lease was amended to include an additional 5,477 square feet of hospital space. The monthly lease obligation of $28,833 was increased to $29,365, effective May 1, 2013, and is due in monthly installments over the remainder of the original 25 year lease term and the original renewal term of an additional 24 year period, if exercised. The recorded cost of land, building, leasehold improvements, and equipment associated with this lease is $4,844,279 and $4,671,163, and the recorded cost of construction in progress associated with this lease is $21,081 and $7,176, as of September 30, 2016 and 2015, respectively. Accumulated amortization of the leased assets acquired was $1,542,977 and $1,236,897, as of September 30, 2016 and 2015, respectively.

Future minimum lease payments and the present value of the minimum lease payments under all of the capital lease obligations discussed above are as follows as of September 30, 2016:

Year Ending September 30:	Amount
2017	$ 649,143
2018	598,810
2019	446,659
2020	352,381
2021	352,381
2022-2026	1,761,906
2027-2031	1,761,906
2032-2034	998,413
Total Minimum Lease Payments	6,921,599
Less: Amount Representing Interest	(2,976,225)
Present Value of Minimum Lease Payments	3,945,374
Less: Current Maturities of Capital Lease Obligations	(362,716)
Long-Term Capital Lease Obligations	$ 3,582,658

Note 10. Retirement Benefits

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

Note 10. Retirement Benefits (Continued)

The active plan contains both a contributory and a noncontributory component. For the contributory component, the Organization matches two-thirds of a participating employee's elective deferrals, up to a maximum of two-thirds of 3% of the employee's annual salary. In addition, during each plan year, participants may elect to defer up to 20% of their compensation to be contributed by the employee plan. For the noncontributory component, the Organization may contribute 1% to 5% (based on years of participation) of a participating employee's salary, but such contribution is not required. For the fiscal year end September 30, 2016 and 2015, management elected to suspend this contribution.

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

The Organization's policy is to fund all pension costs of the contributory component in the period earned by the employee and all pension costs of the noncontributory component annually at the end of the plan year. Defined contribution plan costs charged to operations for the years ended September 30, 2016 and 2015, were $4,538,370 and $3,316,250, respectively.

The Organization has a deferred compensation arrangement with a group of its key employees. The purpose is to provide supplemental retirement benefits which, when integrated with the Organization's retirement income sources, provides a specified target level of retirement benefits for those employees. As of September 30, 2016 and 2015, the Organization had set aside $4,849,212 and $2,795,449, respectively, in a Rabbi Trust, which is included as a component of Other Noncurrent Assets on its consolidated balance sheets, in accordance with terms of the arrangement. As of September 30, 2016 and 2015, the Organization had recorded accrued liabilities of $4,563,673 and $3,337,830, respectively, which represents the estimated present value of the benefits earned under this agreement.

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

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than 1.5%. Such interest rates are reviewed on a semi-annual basis for resetting. For the years ended September 30, 2016 and 2015, the effective yields and crediting interest rates ranged between 1.5% and 2.0%.

Note 11. Accrued Other Postretirement Benefits

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

Note 11. Accrued Other Postretirement Benefits (Continued)

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

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

The plan's funded status, along with assumptions used to calculate that status at September 30, 2016 and 2015, were as follows:

	Fiscal Year Ending September 30,	
	2016	2015
Benefit Obligation Information:		
Accumulated Postretirement Benefit Obligation	**$ 1,404,500**	$ 1,700,800
Asset Information:		
Employer Contributions	**$ 152,800**	$ 153,100
Plan Participants' Contributions	**-**	-
Benefits Paid	**$ 152,800**	$ 153,100
Fair Value of Assets at End of Year	**$ -**	$ -
Funded Status at End of Year	**$ (1,404,500)**	$ (1,700,800)
Amounts Recognized in the Statement of Financial Position:		
Noncurrent Assets	**$ -**	$ -
Current Liabilities	**(138,800)**	(152,800)
Noncurrent Liabilities	**(1,265,700)**	(1,548,000)
Total	**$ (1,404,500)**	$ (1,700,800)
Amounts Recognized in Unrestricted Net Assets:		
Amount Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	**$ -**	$ -
Prior Service Cost/(Credit)	**-**	-
Net Actuarial (Gain)/Loss	**(953,300)**	(829,600)
Total	**$ (953,300)**	$ (829,600)
Total Amount Recognized in Unrestricted Net Assets	**$ (953,300)**	$ (829,600)
Assumptions for End of Year Disclosure:		
Discount Rate	**2.53%**	3.35%
Initial Medical Trend Rate	**7.00%**	7.25%
Ultimate Medical Trend Rate	**5.00%**	5.00%
Years from Initial to Ultimate Trend	**8**	9
Measurement Date	**9/30/2016**	9/30/2015
Census Date	**9/30/2016**	9/30/2014

Note 11. Accrued Other Postretirement Benefits (Continued)

The following table presents expected future benefit payments to beneficiaries:

	Fiscal Year Ending September 30,	
	2016	2015
Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets:		
Net Periodic Benefit Cost		
Net Periodic Benefit (Income)/Expense	**$ 19,800**	$ (26,600)
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	**$ -**	$ -
Prior Service Cost (Credit)	**-**	-
Net Loss (Gain)	**(197,900)**	17,600
Amortization of Transition Obligation/(Asset)	**-**	-
Amortization of Prior Service Cost	**-**	200
Amortization of Net Loss (Gain)	**74,200**	85,300
Total Change in Unrestricted Net Assets	**$ (123,700)**	$ 103,100
Total Recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	**$ (143,500)**	$ 76,500
Assumptions for Net Periodic Benefit Cost:		
Discount Rate	**3.35%**	3.46%
Initial Medical Trend Rate	**7.25%**	7.50%
Ultimate Medical Trend Rate	**5.00%**	5.00%
Years from Initial to Ultimate Trend	**9**	10
Measurement Date	**9/30/2015**	9/30/2014
Expected Benefit Payments:		
2017 Fiscal Year	**$ 138,800**	
2018 Fiscal Year	**$ 136,600**	
2019 Fiscal Year	**$ 133,500**	
2020 Fiscal Year	**$ 129,500**	
2021 Fiscal Year	**$ 124,600**	
2022 - 2026 Fiscal Year	**$ 518,000**	
Expected Employer Contributions Recognized for the 2017 Fiscal Year:	**$ 138,800**	
Expected Amortization Amounts Included in Expense for the 2017 Fiscal Year:		
Transition Obligation/(Asset)	**$ -**	
Prior Service Cost	**$ -**	
Actuarial (Gain)/Loss	**$ (103,200)**	

Note 12. Functional Expenses

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

Expenses related to providing these services for the years ended September 30, 2016 and 2015, were as follows:

	2016	2015
Health Care Services	$ 560,088,914	$ 453,106,395
General and Administrative	139,927,544	113,199,999
Total	$ 700,016,458	$ 566,306,394

Note 13. Income Taxes

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

Note 14. Commitments and Contingencies

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

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

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

Note 14. Commitments and Contingencies (Continued)

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

Operating Lease Commitments: Rental expense for all operating leases totaled $37,076,650 and $29,925,480 for the years ended September 30, 2016 and 2015, respectively.

As initially detailed in Note 1, UHC entered into a lease agreement with LSU and the State to lease the facilities and equipment of University Medical Center. The initial lease term is for 10 years. Beginning on the expiration of the fifth year of the initial term and continuing on each annual anniversary date thereafter, the remaining portion of the initial term will automatically be extended for an additional one year period. Annual rent is $15,790,500, payable in four quarterly installments. UHC was required to prepay one full year of rent which shall be considered payment of all quarterly rent due for the last year of the term. This prepayment is classified as a noncurrent asset and is included in Other Assets on the September 30, 2016 Balance Sheet.

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

2017	$ 25,499,349
2018	24,474,728
2019	21,844,827
2020	20,391,476
2021	19,174,773
Thereafter	35,954,627
Total	$ 147,339,780

The Organization and its affiliates lease office space and clinical facilities, generally to members of the medical staff, under operating leases whose terms range from monthly up to five years. Assets held for lease, at September 30, 2016 and 2015, consist of buildings and improvements with an original cost of $78,992,288 and $77,957,833, respectively. Accumulated depreciation of the leased assets totaled $43,982,238 and $41,595,085, at September 30, 2016 and 2015, respectively.

Note 14. Commitments and Contingencies (Continued)

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

2017	$ 3,436,308
2018	2,462,468
2019	2,068,889
2020	1,353,356
2021	1,829,695
Thereafter	-
Total	$ 11,150,716

Community Benefits - The Organization has committed, under Low Income and Needy Collaborative Care Agreements (LINCCA), to funding quality healthcare services to low income and needy residents in its community. During the years ended September 30, 2016 and 2015, the Organization recorded, within operating expenses on its consolidated statements of operations, payments of $3,396,494 ($3,070,813 of which is attributed payments to LCM as part of the community benefit agreement) and $10,426,116 ($9,324,016 of which is attributed payments to LCM as part of the community benefit agreement), respectively, in accordance with the terms of its LINCCAs.

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

Note 15. Electronic Health Record (EHR) Incentives

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

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

The Organization recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling $3,833,493 and $3,690,063, for the years ended September 30, 2016 and 2015, respectively, are included in other operating revenue. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. The Organization's compliance with the meaningful use criteria is subject to audit by the federal government.

Note 16. Acadiana Radiation Therapy

During November 2014, LGMC entered into an agreement with Acadiana Radiation Therapy, LLC, (ART) where LGMC acquired a 50% ownership interest in ART. In addition, LGMC entered into an agreement whereby ART will provide certain administrative and support services to the outpatient radiation therapy center (Radiation Therapy Center) operated by LGMC. The agreement is effective December 1, 2014, with an initial term of 10 years.

Note 17. Collaboration Agreement - Opelousas General Hospital Authority

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

Note 18. Strategic Agreement

LGHS and Ochsner Health System (Ochsner) have entered into a strategic agreement focused on increasing local access to care, improving quality and reducing the cost of healthcare for patients across southwest Louisiana, which has the purpose of improving the health of the Louisiana communities they both serve today and to meet the needs of new communities across the State. This agreement will create greater opportunity for alignment through a comprehensive clinically integrated physician network, joint investments in the resources needed to start new programs and the expansion of patient services and resources in the region. The key areas of initial focus for the strategic agreement include expanding pediatric subspecialty care, comprehensive stroke care and a telemedicine program.

Note 19. Acquisition of Regional Medical Center of Louisiana

On August 19, 2015, LGHS signed an agreement to acquire Regional Medical Center of Acadiana (RMCA), located at 2810 Ambassador Caffery Parkway on the corner of W. Congress Street and Ambassador Caffery, from HCA MidAmerica, a division of Hospital Corporation of America (HCA), based in Nashville, TN. On November 6, 2015, LGHS completed the acquisition of RMCA and reopened the hospital as Lafayette General Southwest (LGSW).

To facilitate the acquisition, the Organization issued Series 2015 Note Payable for $50,000,000. The note payable was refunded after the acquisition when the Organization issued the Series 2016A Bonds. See Note 8.

LGSW is licensed for 128 beds and operates as an extension of LGMC serving as a second campus.

Note 20. New and Pending Financial Accounting Standards Board (FASB) Pronouncements Not Yet Adopted

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

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606).*" This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance is effective for the Organization beginning October 1, 2019. The Organization has not yet evaluated the impact this guidance may have on its consolidated financial statements.

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

In April 2015, the FASB issued ASU 2015-03, "*Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*". This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Organization's consolidated financial statements.

Note 20. New and Pending Financial Accounting Standards Board (FASB) Pronouncements Not Yet Adopted (Continued)

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The ASU requires lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The AUS is effective for fiscal years beginning after December 15, 2018, for a not-for-profit entity that has issued, or is a conduit bond obligor. The Organization has not yet evaluated the impact this guidance may 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*". The ASU 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. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

Note 21. Subsequent Events

Management evaluated subsequent events through the date the consolidated financial statements were available to be issued, January 25, 2017, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

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
Lafayette General Health System, Inc. and Subsidiaries
Lafayette, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Organization's consolidated financial statements, and have issued our report thereon dated January 25, 2017.

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

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

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

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 25, 2017

LAPORTE
CPAs & BUSINESS ADVISORS

LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

Independent Auditor's Report on Supplementary Information

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

We have audited the consolidated financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization), which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to January 25, 2017.

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

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 25, 2017

LAFAYETTE GENERAL HEALTH

Schedule of Compensation, Benefits and Other Payments to Agency Head
For the Year Ended September 30, 2016

Agency Head
David Callecod, FACHE
President/CEO

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