10431

GENERAL HEALTH SYSTEM

Consolidated Financial Statements
and
Audit Reports and Schedules Related to
Office of Management and Budget Circular A-133

Years Ended September 30, 2011 and 2010

GENERAL HEALTH SYSTEM

For the Years Ended September 30, 2011 and 2010

Contents

LAPORTE
CPAs & BUSINESS ADVISORS

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
General Health System

We have audited the accompanying consolidated balance sheets of General Health System (the Company) as of September 30, 2011 and September 30, 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended These financial statements are the responsibility of the Company's management Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of General Health System as of September 30, 2011 and September 30, 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of General Health System's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Our audits were conducted for the purposes of forming an opinion on the consolidated financial statements taken as a whole The consolidating balance sheets as of September 30, 2011 and September 30, 2010, and the consolidating statements of operations for the years then ended are presented for the purposes of additional analysis and are not part of the consolidated financial statements

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Such information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements for the years ended September 30, 2011 and 2010, taken as a whole, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements for the years ended

A Professional Accounting Corporation

December 21, 2011

GENERAL HEALTH SYSTEM
Consolidated Balance Sheets
September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Assets		
Current assets		
Cash and cash equivalents	$ 124,845	$ 122,805
Patient accounts receivable, net (Note 1)	31,762	38,662
Assets whose use is limited	4,654	3,483
Inventories	8,042	7,853
Prepaid expenses and other assets	8,263	6,715
Total current assets	177,566	179,518
Assets whose use is limited, less current portion	31,418	34,068
Assets restricted by donors or grantors for specific purposes	3,669	3,130
Other assets	12,239	10,308
Property and equipment, net	194,020	198,144
Total assets	$ 418,912	$ 425,168
Liabilities and net assets		
Current liabilities		
Trade accounts payable	$ 19,188	$ 25,018
Accrued expenses	14,268	17,005
Amounts due to contractual third-party payors	815	657
Current portion of self-insurance reserves	8,945	6,394
Current portion of long-term debt	17,853	24,751
Total current liabilities	61,069	73,825
Self-insurance reserves, less current portion	3,857	3,444
Long-term debt, less curent portion	210,821	213,921
Other noncurrent liabilities	14,459	12,826
Total liabilities	290,206	304,016
Net assets		
Unrestricted	125,037	118,022
Temporarily restricted	3,669	3,130
Total net assets	128,706	121,152
Total liabilities and net assets	$ 418,912	$ 425,168

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

GENERAL HEALTH SYSTEM
Consolidated Statements of Operations
Years Ended September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Unrestricted revenues, gains and other support		
Net patient service revenue	$ 326,008	$ 332,831
Investment income	1,959	2,681
Other revenue	36,362	27,283
Net assets released from restrictions	593	1,463
Total revenues, gains and other support	364,922	364,258
Expenses		
Salaries, wages, and benefits	170,747	166,889
Supplies and other expenses	138,951	132,418
Provision for bad debts	18,217	18,610
Depreciation and amortization	16,547	16,854
Interest expense	11,813	12,279
Total expenses	356,275	347,050
Nonoperating gain	2,163	-
Excess of revenues over expenses	$ 10,810	$ 17,208

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

GENERAL HEALTH SYSTEM
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Unrestricted net assets		
Excess of revenues over expenses	$ **10,810**	$ 17,208
Charge from minimum pension liability	**(3,795)**	(1,750)
Increase in unrestricted net assets	**7,015**	15,458
Temporarily restricted net assets		
Contributions	**1,132**	1,823
Net assets released from restrictions	**(593)**	(1,463)
Increase in temporarily restricted net assets	**539**	360
Increase in net assets	**7,554**	15,818
Net assets, beginning of year	**121,152**	105,334
Net assets, end of year	$ **128,706**	$ 121,152

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

GENERAL HEALTH SYSTEM
Consolidated Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	**$ 7,554**	$ 15,818
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**16,546**	16,854
Gain from disposal of assets	**(394)**	(7)
Charge from minimum pension liability	**3,795**	1,750
Amortization of bond premium	**(400)**	(410)
Provision for bad debts	**18,217**	18,610
Gain from sale of interest in Baton Rouge Home Care LLC	**-**	(1,313)
(Increase) decrease in operating assets		
Patient accounts receivable	**(11,317)**	(19,578)
Inventories, prepaid expenses and other current assets	**(1,737)**	343
Other assets	**(3,008)**	(895)
Increase (decrease) in operating liabilities		
Trade accounts payable and accrued expenses	**(8,567)**	4,439
Accrued self-insurance reserves	**2,964**	(94)
Amounts due to contractual third-party payors	**158**	1,181
Other noncurrent liabilities	**1,631**	986
Change in assets and liabilities of discontinued operations	**-**	(27)
Net cash provided by operating activities	**25,442**	37,657
Cash flows from investing activities		
Purchases of property, plant, and equipment	**(12,056)**	(6,761)
Decrease in assets whose use is limited	**1,479**	366
Increase in assets restricted by donors for specific purposes	**(539)**	-
Proceeds from disposal of assets	**394**	-
Net proceeds from purchases of investments	**(3,082)**	(3,057)
Net cash used in investing activities	**(13,804)**	(9,452)
Cash flows from financing activities		
Proceeds from the debt financing	**3,100**	4,907
Principal payments on outstanding debt	**(12,698)**	(10,347)
Net cash used in financing activities	**(9,598)**	(5,440)
Net increase in cash and cash equivalents	**2,040**	22,765
Cash and cash equivalents at beginning of year	**122,805**	100,040
Cash and cash equivalents at end of year	**$ 124,845**	$ 122,805
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest, net of amount capitalized	**$ 11,813**	$ 12,279

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

Note 1. Significant Accounting Policies

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

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its directly and indirectly wholly owned subsidiaries The Company provides substantially all of its health care services through Baton Rouge General Medical Center (BRGMC) All significant intercompany accounts and transactions have been eliminated in consolidation

Income Tax Status
The Company and substantially all of its operating subsidiaries are not-for-profit organizations as described in Internal Revenue Code Section 501(c)(3) and are exempt from federal income taxation under Internal Revenue Code Section 501(a)

Revenue, Gains, and Losses
The Company's mission is to provide a broad range of innovative health care services delivered in a caring, consumer-oriented, and cost-effective manner through a quality-driven system As such, activities related to this purpose are classified as revenue

Revenue is generated from direct patient care, related support services, and other revenue related to the operation of the Company In addition, earnings on interest-bearing deposits and marketable securities that are used in conjunction with providing health care services are reported as operating revenue Other activities that result in gains or losses unrelated to the Company's primary mission are reported as non-operating gains or losses

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

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers The allowance for uncollectable accounts at September 30, 2011 and 2010 was approximately $19,977,000 and $27,130,000, respectively

Note 1. Significant Accounting Policies (Continued)

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

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

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

The Company 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's experience has determined that RAC and MIC assessments have been insignificant to date

Cash Equivalents and Investments

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

Inventories

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

Note 1. Significant Accounting Policies (Continued)

Property, Plant, and Equipment

All property, plant, and equipment acquisitions are recorded at cost, except for donated assets, which are recorded at fair market value on the date of donation Capital leases are recorded at the present value of future minimum lease payments, and the related amortization is included in depreciation and amortization expense in the consolidated statements of operations Depreciation of plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets Estimated useful lives of the assets range from 3 to 40 years

Assets Whose Use is Limited

Several funds were established concurrent with the issuance of tax-exempt debt Trustees maintain the capital improvement and debt retirement funds, which include cash, investments, and accrued interest receivable, as special trust accounts for the benefit and security of the holders and owners of the debt The limited use assets as of September 30, 2011 and 2010 are as follows

	2011	2010
	(In Thousands)	
Capital improvement funds	$ 4,956	$ 9,070
Debt retirement funds	30,956	28,321
Other restricted assets	160	160
	36,072	37,551
Less current portion	(4,654)	(3,483)
	$ 31,418	$ 34,068

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific purpose Temporarily restricted net assets are held primarily by the General Health System Foundation and were available for the following purposes at September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Restricted for a specific purpose	$ 1,991	$ 1,398
Endowments	1,305	1,334
Medical education	345	378
Employee assistance program	28	20
	$ 3,669	$ 3,130

Note 1. Significant Accounting Policies (Continued)

Debt Issuance Costs and Bond Issue Premium

Deferred debt issuance costs and original issue premium on the Company's revenue bonds are being amortized over the terms of the bonds using the bonds outstanding method

Self-Insurance Liabilities

The Company is self-insured up to certain amounts for employee health, malpractice, general liability, and workers' compensation claims The Company participates in the Louisiana Patients Compensation Fund, which limits the Company's exposure to malpractice losses The Company limits exposure to general liability and workers' compensation claims through indemnity insurance purchased in the commercial market, which includes specific loss and aggregate limit thresholds

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

Use of Estimates

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

The significant estimates affecting the Company's net patient service revenue and provision for bad debts relate to the allowance for uncollectible accounts, provision for contractual discounts, and provision for retroactive adjustments under third-party payer arrangements Differences between original estimates and subsequent revisions are included in the statement of operations in the period in which the differences become known These revisions increased net patient service revenue by $337,000 and $1,030,000 in 2011 and 2010, respectively

Fair Values

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

Cash and cash equivalents The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value

Investments Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities

Note 1. Significant Accounting Policies (Continued)

Fair Values (Continued)

Assets limited as to use These assets consist primarily of cash and short-term investments and interest receivable The carrying amount reported in the balance sheet is fair value

Accounts payable and accrued expenses The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value

Estimated third-party payor settlements The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value

Long-term debt Fair values of the Company's revenue notes are based on current traded value The fair value of the hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements

The carrying amounts and fair values of the Company's financial instruments at September 30, 2011 and 2010 are as follows (in thousands)

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and Cash Equivalents	$ 124,845	$ 124,845	$ 122,805	$ 122,805
Assets limited as to use, current	$ 4,654	$ 4,654	$ 3,483	$ 3,483
Assets limited as to use, less current portion	$ 31,418	$ 31,418	$ 34,068	$ 34,068
Assets restricted by donors or grantors	$ 3,669	$ 3,669	$ 3,130	$ 3,130
Accounts payable and accrued expenses	$ 33,456	$ 33,456	$ 42,023	$ 42,023
Estimated third-party payor settlements	$ 815	$ 815	$ 657	$ 657
Long-term debt	$ 228,674	$ 228,674	$ 238,672	$ 238,672

The Company's policy is to expense advertising costs as the costs are incurred Advertising costs for the years ending September 30, 2011 and 2010, were approximately $886,000 and $747,000, respectively

Note 2. Community Benefits - Unaudited

The Company provides healthcare services to patients who are economically disadvantaged and medically underserved These patients generally cannot afford health care because of either inadequate resources or they are uninsured

Note 2. Community Benefits - Unaudited (Continued)

For patients who meet certain criteria under the Company's charity care policy, care is provided without charge or at amounts that are less than established rates Benefits to the indigent also include charges foregone and costs in excess of government payments for services provided to Medicaid beneficiaries Technological advances offered at Baton Rouge General Medical Center (BRGMC) for many patient care services have increased both the options and the cost of "appropriate" care

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

A summary of charges foregone (representing charges in excess of payments) and estimated costs in excess of payments related to community benefits provided during the years ended September 30, 2011 and 2010, is as follows

	2011		2010	
	Charges Foregone	Estimated Costs In Excess of Payments	Charges Foregone	Estimated Costs In Excess of Payments
	(In Thousands)			
Benefits for the indigent				
Charity care	$ 25,980	$ 10,392	$ 25,438	$ 10,175
Medicaid program services	102,931	-	101,051	-
	128,911	10,392	126,489	10,175
Other community benefits				
Medicare program services	137,630	-	139,710	-
Other community benefits	-	3,972	-	1,077
	137,630	3,972	139,710	1,077
Total quantifiable benefits	$ 266,541	$ 14,364	$ 266,199	$ 11,252

Beginning in the late 1980s BRGMC recognized the need for a proactive and aggressive approach to the problems of crime and decay in the Mid City neighborhoods surrounding its flagship hospital, Baton Rouge General Medical Center – Mid City As a result, the Company moved forward with the bold and visionary creation of a separate not-for-profit 501(c)(3) organization with a sole mission of revitalization and renewal of the heart of Baton Rouge Thus the Mid City Redevelopment Alliance (MCRA) was born MCRA has implemented various programs to improve the quality of life in the central urban core of Baton Rouge

Note 2. Community Benefits - Unaudited (Continued)

The Company also recognizes the critical role of education in creating a more positive future for individuals BRGMC operates the Baton Rouge General Medical Center School of Nursing and Radiology and provides trained healthcare professionals to the Baton Rouge community In response to the community need for registered nurses, BRGMC has increased the class size of its School of Nursing

In addition, BRGMC is a Council of Teaching Hospital accredited community-based teaching hospital and an accredited residency program in family medicine and internal medicine This commitment to graduate medical education (GME) is important to both Baton Rouge and the State of Louisiana BRGMC has been active in GME for many years, working with the Louisiana State University School of Medicine (LSU) and the Earl K Long Memorial Hospital (EKL) to enhance the quality of healthcare through medical education programs BRGMC, LSU, and EKL have created joint residency programs in internal medicine, emergency medicine, pediatrics, and general surgery Mid City recently entered into an affiliation agreement with Tulane University to create a satellite training campus for its medical students In May of 2010, ten selected students began the program during which they will spend their third and fourth year clinical rotations at Mid City The BRGMC General physicians will be serving as the students' teachers and mentors The program officially titled LEAD (Leadership, Education, Advocacy, and Discovery) Academy signifies the first time that Tulane has opened a training facility outside of New Orleans

Another unique program to BRGMC is its Burn Center, recognized by the American Burn Association as the only burn center in southern Louisiana and, therefore, BRGMC assumes the healthcare responsibility for patients from an area far exceeding the standard service area The Burn Center's comprehensive range of services includes education and prevention programs for the patient, family, and community, with specific programs for work-related burn prevention and treatment Burn treatment procedures use a team approach to care that involves physicians, nurses, occupational and physical therapists, clinical dietitians, respiratory therapists, and social and pastoral care The "Burn Camp" and the "Recovering Burn Support Group" are two examples of post-acute-care programs developed by the Company to meet the rehabilitative and psychosocial needs of this unique patient population

In addition, the Company, through BRGMC, also provides many free health screenings, health fairs and programs encouraging community wellness, including

- BRGMC offers free resources and support groups for cancer patients, including breast cancer, lymphedema, pancreatic cancer, and prostate cancer support groups

- Each year, BRGMC provides free community screenings for prostate and skin cancer to aid in early detection In 2011, the Company also provided 32 free mammograms for women who were unable to afford a mammogram

- BRGMC is a corporate sponsor of the annual American Cancer Society Relay for Life, Susan G Komen Race for the Cure, and American Heart Association Heart Walk

Note 2. Community Benefits - Unaudited (Continued)

- Through a specialized Healthy Heart Club, a cardiac reconditioning program, BRGMC offers an ongoing maintenance program in which the general public can exercise in our gym under the supervision of certified therapists and nutritionists

- BRGMC provides free screening tests to identify those who are at risk for cardiovascular disease, heart murmurs and peripheral artery disease

- BRGMC provided flu shots for more than 400 senior members of the community at both its Bluebonnet and Mid City campuses and at a local assisted living facility

- BRGMC provides tours of our birth center and birth and baby classes to expectant parents that include childbirth preparation, breastfeeding basics, baby care basics, and CPR for friends and family

- BRGMC provided free screenings, assessments and seminars to more than 2,000 people in the community in 2011

- BRGMC's Womack Heart Center and Pennington Cancer Center offers members of the community a free, seven-week, comprehensive Smoking Cessation Program several times a year to help aid smokers quit and to address real issues surrounding the lifestyle of a smoker

- BRGMC offers free, monthly Surgical Weight Loss Seminars to members of the community interested in learning more about obesity and options for medically managed weight loss, including surgery

- BRGMC hosts free community events to promote breast health and breast cancer awareness and offers free resources and support groups to breast cancer patients and survivors

- BRGMC offers Healthy Heartbeats, an education program for families with children ages 5 to 12 years old, focusing on the importance of living fit and wholesome lives through exercise, nutrition, and self-body image

- Baton Rouge General offers preoperative classes, including classes on joint replacement and spine surgery, to members of the community that are designed to help ease fear and anxiety related to having a surgical procedure and to educate them on what to expect during and after surgery

- BRGMC's Mid City location participated as the chosen hospital for Baton Rouge City Hall Fellows 2010 – 2011 city tour, medical executives and administrators oriented the group of upcoming civic leaders to the hospital's history and quality of services, the responsibilities and challenging facing urban hospitals, and the state of healthcare

- BRGMC hosted an advocacy event for the American Cancer Society Cancer Action Network, which featured cancer survivors and physician advocates calling for the sustained federal funding of cancer research

Note 3. Third-Party Reimbursement

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

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

The Company's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007

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

The Company's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2005

During the years ended September 30, 2011 and 2010, approximately 44% and 46%, respectively, of consolidated net patient service revenue was derived from Medicare and Medicaid program beneficiaries Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term

The Company has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations The basis for payment under these agreements includes prospectively determined rates-per-discharge, discounts from established charges and prospectively determined daily rates

Note 4. Investments

The Company's investments at September 30, 2011 and 2010 were as follows

	2011	2010
	(In Thousands)	
Assets whose use is limited		
Cash and cash equivalents	$ 10,425	$ 12,603
Certificate of deposits	160	160
U S government and government agency obligations and mutual funds	25,487	24,788
	36,072	37,551
	$ 36,072	$ 37,551

See Note 1, Significant Accounting Polices, for the further information about Assets whose use is limited

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

Note 4. Investments (Continued)

Assets measured at fair value on a recurring basis at September 30, 2011 are summarized below (in thousands) and are included on the Consolidated Balance Sheets as Assets Whose Use is Limited and Assets Restricted by Donors or Grantors for Specific Purposes

Assets	Level 1	Level 2	Level 3	Net Balance
Corporate Bonds	$ 15,694	$ -	$ -	$ 15,694
Government Securities	9,793	-	-	9,793
Money Market Deposits	10,425	-	-	10,425
Certificates of Deposit	3,829	-	-	3,829
Total	$ 39,741	$ -	$ -	$ 39,741

Assets measured at fair value on a recurring basis at September 30, 2010 are summarized below (in thousands) and are included on the Consolidated Balance Sheets as Assets Whose Use is Limited and Assets Restricted by Donors or Grantors for Specific Purposes

Assets	Level 1	Level 2	Level 3	Net Balance
Corporate Bonds	$ 15,694	$ -	$ -	$ 15,694
Government Securities	7,499	-	-	7,499
Money Market Deposits	14,191	-	-	14,191
Certificates of Deposit	3,297	-	-	3,297
Total	$ 40,681	$ -	$ -	$ 40,681

Following is a description of the valuation methodologies used for assets measured at fair value There have been no changes in the methodologies used at September 30, 2011 and 2010

- Common stocks, corporate bonds and U S government securities Valued at the closing price reported on the active market on which the individual securities are traded
- Mutual Funds Valued at the net asset value (NAV) of shares held at year end

Note 4. Investments (Continued)

The following schedule summarizes the investment income in the consolidated statements of operations for the years ended September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Dividends and interest	$ 2,175	$ 1,773
Net realized (losses) gains	(21)	45
Net unrealized (losses) gains	(127)	928
Investment management fees	(68)	(65)
Total Investment income	$ 1,959	$ 2,681

Note 5. Investment in Subsidiary

On December 23, 2009, the Company purchased a 45% interest in Baton Rouge Rehabilitation Hospital, L L C (BRRH) and Baton Rouge Rehabilitation Development, L L C (BRRD) for a purchase price of $4,380,000 The Company financed the purchase by entering into a $4,800,000 note payable with a maturity date of March 28, 2011 During 2011, the Company refinanced the note payable to extend the maturity date to March of 2012 The note payable is included in the schedule of maturities within Note 7 The remaining proceeds of the note may be used as additional capital contributions as required by the operating agreement Baton Rouge Rehabilitation Hospital is an 80 bed, Medicare certified inpatient rehabilitation hospital that offers a variety of rehabilitation services to Baton Rouge and the surrounding areas The investments in BRRH and BRRD are reported on the equity method of accounting and are included in the accompanying Consolidated Balance Sheets as Other Assets

Effective September 30, 2011, the Company entered into a joint venture with Baton Rouge Radiology and Imaging Clinic (BRRIC) The Company entered into a contribution agreement whereby it contributed approximately $3,100,000 to BRRIC for a 50% membership interest The Company financed the contribution by entering into a $3,100,000 note payable with a maturity date of September 29, 2012, which is included in the schedule of maturities within Note 7 BRRIC will focus in the area of radiology and supporting imaging services The investment in BRRIC is reported on the equity method of accounting and is included in the accompanying Consolidated Balance Sheets as Other Assets

Note 5 Investment in Subsidiary (Continued)

The investment is accounted for under the equity method of accounting and is summarized as follows

	2011	2010
	(In Thousands)	
Rehabilitation Hospital		
Beginning Balance	$ 1,577	$ 1,579
Additional Costs	7	-
Contributions	-	242
Distributions	(1,125)	-
Net Income (Loss) (45%)	938	(244)
	$ 1,397	$ 1,577

	2011	2010
	(In Thousands)	
Rehabilitation Development		
Beginning Balance	$ 2,793	$ 2,801
Contributions	-	-
Distributions	(473)	(302)
Net Income (45%)	507	294
	$ 2,827	$ 2,793

	2011	2010
	(In Thousands)	
BR Radiology & Imaging Clinic		
Original Cost	$ 3,082	$ -
Total Equity Investments	$ 7,306	$ 4,370

At September 30, 2011 and 2010, the Company had a receivable of $715,000 and $533,000, respectively due from Baton Rouge Rehabilitation Hospital for various operating and payroll expenses, which is reported in the accompanying Consolidated Balance Sheets as Prepaid Expenses and Other Assets

Note 6. Property, Plant and Equipment

Property and equipment and accumulated depreciation at September 30, 2011 and 2010, are as follows

	2011	2010
	(In Thousands)	
Land and land improvements	$ 32,735	$ 32,721
Buildings and fixed equipment	239,945	233,847
Equipment	129,927	124,560
Construction in progress	1,392	1,448
	403,999	392,576
Accumulated depreciation	(209,979)	(194,432)
	$ 194,020	$ 198,144

Depreciation expense was $16,181,000 and $16,471,000, for the years ended September 30, 2011 and 2010, respectively

Note 7. Long-Term Debt

On December 8, 2004, the Louisiana Public Facilities Authority issued the Series 2004 Bonds, for which BRGMC is obligated The proceeds of the Series 2004 Bonds were used in refunding previously issued bond series, together with providing funds for (a) funding a $98 1 million capital expansion of the Bluebonnet campus, including capitalized interest during the construction period, (b) funding a debt service reserve fund, and (c) paying certain costs incurred in connection with the issuance of the bonds

Note 7. Long-Term Debt (Continued)

Long-term debt at September 30, 2011 is summarized as follows (in thousands)

Mortgage Revenue Bonds, FHA Insured Series 2004, plus unamortized premium of $4,961 and $5,361, at September 30, 2011 and 2010, respectively, $35,185 of serial bonds bearing interest rates of 4% to 5%, and maturing through 2018, $42,345 of 5 25% and $107,735 of 5 25% term bonds maturing in 2024 and 2033, respectively, with optional or mandatory redemption requirements beginning in 2014, collateralized by a pledge of future revenue of BRGMC and secured by (a) mortgage granting to the Bank of New York, as mortgagee, a first lien on certain of BRGMC's real property and (b) a security agreement granting a security interest on certain of BRGMC's personal property (fair value of $193,365 and $156,489, at September 30, 2011 and 2010), respectively	$ 190,192
Bonds and other debt payable to others	38,482
Less principal payments due within one year	(17,853)
	$ 210,821

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

2012	$ 17,853
2013	17,954
2014	6,450
2015	6,190
2016	6,447
Thereafter	168,819
Total	$ 223,713

The schedule of maturities does not include $4,961,000 of unamortized bond premium which is included in long-term debt, less current portion on the Consolidated Balance Sheet at September 30, 2011

Note 8. Employee Benefit Plans

Substantially all employees of the Company are eligible to participate in the General Health System Retirement Plus Plan (the GHSRP Plan) provided they meet certain service and eligibility requirements The GHSRP Plan allows for voluntary contributions by employees up to 30% of their annual compensation, subject to certain limits The Company matches 50% of the employee's deferral up to 3% of annual compensation In addition, the employer will make a contribution in the amount of 1% of pay for all eligible, active employees Company matching contributions to the GHSRP Plan totaled $1,671,000 and $1,864,000 for the years ended September 30, 2011 and 2010, respectively Company-fixed 1% contributions to the GHSRP Plan totaled $8,000 and $13,000 for the years ended September 30, 2011 and 2010, respectively

The Company maintains sponsorship of a noncontributory, defined benefit plan covering employees who were eligible at the curtailment date of January 1, 2000 Only participants who either attained age 55 and have 5 years of credited service as of December 31, 1999, or met the "Rule of 70" as of that date continue to earn credited service A participant is considered to have met the "Rule of 70" on the date which the sum of their age and years of vesting service is equal to or greater than 70

A summary of the defined benefit plan funding status and assumptions is as follows for the years ended September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Projected benefit obligation at year-end	**$ 55,404**	$ 52,411
Fair value of plan assets at year-end	**41,057**	39,715
Underfunded status	**$ (14,347)**	$ (12,696)

The Company has reflected its under-funded status at September 30, 2011 and 2010 as a component of other non-current liabilities on the Consolidated Balance Sheet

Note 8. Employee Benefit Plans (Continued)

The summary of the defined benefit plan expected and actual expenses, benefits paid and Company contributions for fiscal years 2012 and 2011 are as follows

	Expected 2012	Actual 2011
	(In Thousands)	
Service cost	$ 100	$ 126
Interest cost	2,693	2,662
Expected return on assets	(2,872)	(3,261)
Net cost	(79)	(473)
Net prior service cost amortization	26	23
Net loss amortization	968	935
Net amortization	994	958
Net periodic benefit cost	$ 915	$ 485
Employer contributions	$ 2,700	$ 2,700
Benefits paid from plan assets	$ 3,098	$ 2,802

The plan had prior service cost of $279,000 and $74,000 and net accumulated losses of $30,744,000 and $27,154,000 at September 30, 2011 and 2010, respectively, with accumulated other comprehensive income adjustment of $31,023,000 and $27,228,000, at September 30, 2011 and 2010, respectively

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

	2011	2010
Weighted-average assumptions		
Discount rate	**5.00%**	5 20%
Expected return on plan assets	**7.00%**	8 00%
Expected compensation increase	**N/A**	3 50%

Note 8. Employee Benefit Plans (Continued)

The composition of plan assets at September 30, 2011 and 2010 is as follows

	2011	2010
Asset category		
Equity securities	**22.30%**	59 88%
Debt securities	**76.10%**	37 09%
Other	**1.60%**	3 03%
	100.00%	100 00%

A summary of the defined benefit plan asset allocation strategy is as follows for the year ended September 30, 2011

	Minimum	Target Average	Maximum
Asset Class.			
Domestic large capitalization stocks	10%	30%	45%
Small/Mid capitalization stocks	0%	5%	10%
International equity manager(s)	5%	15%	40%
Convertible securities	0%	0%	15%
Total equity	15%	50%	65%
Investment grade fixed income	28%	40%	85%
High yield fixed income	0%	5%	15%
Total fixed income	28%	45%	85%
Cash and cash equivalents	0%	–	50%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid

Fiscal year ending September 30, 2012	$ 3,080,613
Fiscal year ending September 30, 2013	$ 2,955,994
Fiscal year ending September 30, 2014	$ 3,010,425
Fiscal year ending September 30, 2015	$ 3,082,275
Fiscal year ending September 30, 2016	$ 3,141,840
Fiscal year ending September 30, 2017 through September 30, 2021	$ 17,381,106

Note 9. Contingencies and Risk Management

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

The accrual for malpractice and general liability self-insurance reserves totaled $4,607,000 and $4,193,000, at September 30, 2011 and 2010, respectively, of which $750,000 is included in current liabilities at each of those dates Based on management's best knowledge and belief, it is the opinion of management that the ultimate resolution of malpractice claims and incidents will not have a material effect on the Company's consolidated financial statements During 2011 and 2010, the Company recognized a net gain from resolved litigation of $509,000 and $200,000, respectively

Note 10. Insurance Programs

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

The Hospital is also self-insured for medical claims up to predetermined stop-loss amounts Claims in excess of the stop-loss amounts are insured through commercial insurance carriers The Hospital has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying financial statements

The claims liabilities at September 30, 2011 and 2010 are reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated Changes in the Hospital's claims liability amount during the past two years is reflected below (in thousands)

	2011	2010
Claims Liability, Beginning of Year	**$ 1,560**	$ 1,812
Current Year Claims and Changes in Estimates	**12,137**	11,454
Current Year Claims Payments	**(10,897)**	(11,707)
Claims Liability, End of Year	**$ 2,800**	$ 1,559

Note 11. Leases and Other Commitments

The Company is required by the State of Louisiana Department of Employment and Training, Office of Workers' Compensation, to maintain a cash reserve for the self-insured workers' compensation plan The Company acquired a standby letter of credit to satisfy this requirement with an available balance of $1,400,000 at both September 30, 2011 and 2010

The Company also leases medical and office equipment and office buildings under several operating leases, which expire in various years through 2018 Rental expense under operating leases totaled approximately $3,417,000 and $4,217,000, for the years ended September 30, 2011 and 2010, respectively

Future minimum payments under all non-cancelable operating leases with original or remaining terms of one year or more at September 30, 2011, are as follows (in thousands)

2012	$	647
2013		421
2014		299
2015		209
2016		182
Thereafter		491
Total Minimum Rental Commitments	$	2,249

Note 12. Business and Credit Concentrations

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of unsecured accounts receivable and depository accounts in excess of federally insured limits

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

Note 12. Business and Credit Concentrations (Continued)

The mix of receivables due from patients and third-party payors at September 30, 2011 and 2010 is as follows

	2011	2010
Medicare	**25 %**	25 %
Medicaid	**17**	15
Commercial	**56**	58
Private Pay	**2**	2
	100 %	100 %

Note 13. Other Operating Revenue

Other operating revenue recognized during the years ended September 30, 2011 and 2010 consists of the following (in thousands)

	2011	2010
Management fees	**$ 6,011**	$ 3,621
Cafateria revenues	**2,665**	2,669
Contributions	**2,570**	2,850
Rent revenues	**6,648**	6,195
UPL revenues	**7,910**	-
Other	**10,558**	11,948
	$ 36,362	$ 27,283

Note 14. Functional Expenses

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

	2011	2010
	(In Thousands)	
Health care services	**$ 247,099**	$ 248,247
General and administrative	**109,176**	98,803
	$ 356,275	$ 347,050

Note 15. Net Assets Released from Restrictions

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

	2011	2010
Education	$ 26	$ 29
Employee Assistance	11	12
Endowments	3	6
Equipment	841	1,322
Nursing	4	4
Patient Care	69	102
Scholarships	3	3
Total Program Expenses	$ 957	$ 1,478
(Less) Program Expenses Unrestricted	(364)	(15)
Total Restricted Assets Released	$ 593	$ 1,463

Note 16. Sale of Membership Interest in Baton Rouge Home Care L.L.C.

During 2010, the Company entered into a Membership Interest Purchase Agreement with Louisiana Health Care Group, L L C The Membership Interest Purchase Agreement transferred Behavioral Health Inc 's twenty one percent interest to Louisiana Health Care Group, L L C , in exchange for a cash payment of $1,313,000 The net book value of the membership interest transferred in the sale was $-0-, therefore, the sale resulted in a gain of $1,313,000, which is reflected as other revenue in the Consolidated Statement of Operations as of September 30, 2010

Note 17. Sale of PHNS Stock

On October 29, 2010, the Company sold its ownership of 317,819 shares of Class B common stock investment in PHNS, Inc at $5 637 per share for a total sales price of $1,786,686 The carrying value of the investment at the time of sale was $602,357, resulting in a total gain on sale of $1,184,328 This gain is reflected as other revenue in the Consolidated Statement of Operations for the year ended September 30, 2011

Note 18. Accounting for Uncertainty in Taxes

The Company follows the provisions of the Accounting for Uncertainty in Income Taxes Topic of the FASB ASC The Company recognizes a 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, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition The Company's tax filings are subject to audit by various taxing authorities The Company's open audit periods are 2007 through 2010 There are currently no returns under examination Management evaluated the Company's tax positions and considered that the Company had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance

Note 19. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 21, 2011, and determined that following events occurred that require disclosure

The Company has submitted an application to Louisiana Local Government Environmental Facilities and The Community Development Authority and the Louisiana State Bond Commissions for $30,000,000 in Gulf Opportunity Zone Revenue Bonds The Bonds will be used to construct a 106,000 square foot medical office building at the campus located off Bluebonnet Blvd in Baton Rouge, LA As of the date of these financial statements the Company has entered in to contract with an architecture firm to design the medical office building No construction has begun on the project

Effective October 1, 2011, the Company has discontinued its involvement with Mid City Redevelopment Alliance, Inc (MCRA) and carrying forward will cease to include MCRA's assets, liabilities, and statement of activities in the Company's consolidated financial statements

Supplemental Information

GENERAL HEALTH SYSTEM
Consolidating Balance Sheet
September 30 2011
(in thousands)

	General Health System	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc	Mid City Redevelopment Alliance, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc	Baton Rouge General Physicians, Inc	Gulf South Health Plans, Inc	Behavioral Health, Inc., HMS, Inc & GLC, Inc	Eliminations	General Health System Consolidated
ASSETS											
Current assets											
Cash and cash equivalents	$ 68 681	$ 55 239	$ -	$ 354	$ 472	$ -	$ 55	$ 44	$ -	$ -	$ 124 845
Patient accounts receivable net	-	29 228	-			-	2,606	-	(70)		31 762
Assets whose use is limited	-	4 654	-			-			-		4 654
Inventories	-	7 999			-	-	43	-	-		8 042
Prepaid expenses and other assets	4,202	3 335		138	2	-	586	-		-	8 263
Total current assets	72 883	100 453	-	492	474		3,290	44	(70)	-	177 566
Assets whose use is limited less current portion	25	31 393		-		-					31 418
Assets restricted by donors or grantors for specific purposes	-	-	-	-	3 669	-			-	-	3 669
Other assets	4 563	4 230	-	-		10		-	7 306	(3 670)	12 239
Property and equipment net	46,622	146 622	88	477	1	-	210		-	-	194,020
Total assets	$ 124 093	$ 282,698	$ 88	$ 969	$ 4,144	$ 10	$ 3 500	$ 44	$ 7,236	$ (3,870)	$ 418,912
LIABILITIES AND NET ASSETS											
Current liabilities											
Trade accounts payable	$ 6 178	$ 11 966	$ 10	$ 5	$ (4)	$	$ 994	$ 39	$ -	$	$ 19 188
Accrued expenses	3 142	9 481		12	170		1 072	67	324		14 268
Amounts due to contractual third-party payors		815		-		-	-	-	-	-	815
Current portion of self-insurance reserves	8 945	-		-	-	-	-	-		-	8 945
Current portion of long-term debt	9 368	8 378		107		-			-		17 853
Total current liabilities	27,633	30,640	10	124	166	-	2,066	106	324	-	61,069
Self-insurance reserves less current portion	3 857	-	-	-	-				-		3 857
Long-term debt less current portion	22 162	188 659		-							210 821
Other non-current liabilities	14 348		-	-	111		-		-		14 459
Intercompany accounts	(17 817)	6,224	8,803	-	(3)	958	7 876	38	(6 079)	-	
Total liabilities	50,183	225,523	8,813	124	274	958	9,942	144	(5,755)		290,206
Net Assets											
Unrestricted	73 910	57 175	(8 725)	845	201	(948)	(6 442)	(100)	12 991	(3 870)	125 037
Temporarily restricted	-	-			3,669	-			-	-	3,669
Total net assets	73,910	57 175	(8,725)	845	3,870	(948)	(6,442)	(100)	12,991	(3,870)	128,706
Total liabilities and net assets	$ 124,093	$ 282,698	$ 88	$ 969	$ 4,144	$ 10	$ 3,500	$ 44	$ 7,236	$ (3,870)	$ 418,912

See Independent Auditor's Report

GENERAL HEALTH SYSTEM
Consolidating Balance Sheet
September 30, 2010
(in thousands)

	General Health System	Baton Rouge General Medical Center	Medical Diagnostic Services, Inc.	Mid City Redevelopment Alliance, Inc.	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc	Baton Rouge General Physicians, Inc.	Gulf South Health Plans, Inc.	Behavioral Health, Inc., HMS, Inc & GLC, Inc	Eliminations	General Health System Consolidated
ASSETS											
Current assets											
Cash and cash equivalents	$ 74 039	$ 47 970	$ -	$ 329	$ 420	$ -	$ 3	$ 44	$ -	$ -	$ 122 805
Patient accounts receivable net	-	35 030	-		-		3 703		(71)		38 662
Assets whose use is limited	-	3 483	-	-	-	-	-		-	-	3 483
Inventories	-	7 810		-		-	43		-		7 853
Prepaid expenses and other assets	3 368	2,952	-	236	10	-	149	-	-	-	6 715
Total current assets	77,407	97,246	-	565	430	-	3 898	44	(71)	-	179,518
Assets whose use is limited less current portion	25	34 043	-	-	-	-	-	-	-	-	34 068
Assets restricted by donors or grantors for specific purpose	-				3 130	-	-	-	-		3 130
Other assets	4 605	4 585	-	-		-		-	4 370	(3 252)	10 308
Property and equipment net	48 447	149 427	89	-	1	-	180	-	-	-	198,144
Total assets	$ 130,484	$ 285,300	$ 89	$ 565	$ 3,561	$ -	$ 4,078	$ 44	$ 4,299	$ (3 252)	$ 425,168
LIABILITIES AND NET ASSETS											
Current liabilities											
Trade accounts payable	$ 8 442	$ 16 102	$ 10	$ 3	$ 9	$ -	$ 400	$ 43	$ 9	$ -	$ 25 018
Accrued expenses	6,635	8 955	-	14	170	-	882	85	284	-	17 005
Amounts due to contractual third-party payors		657	-	-	-	-	-	-	-	-	657
Current portion of self-insurance reserves	6 394	-	-	-	-	-	-		-	-	6 394
Current portion of long-term debt	16,138	8 506	-	107	-		-	-			24 751
Total current liabilities	37 609	34,220	10	124	179	-	1,282	108	293	-	73,825
Self-insurance reserves less current portion	3 444	-	-		-	-			-	-	3 444
Long-term debt less current portion	14 904	199,017		-	-	-		-			213 921
Other non-current liabilities	12 696			-	130	-	-	-			12 826
Intercompany accounts	(4 899)	(4 133)	8 803	-	-	1 333	6,502	36	(7,642)	-	-
Total liabilities	63 754	229 104	8,813	124	309	1,333	7,784	144	(7 349)	-	304,016
Net Assets											
Unrestricted	66 730	56 196	(8 724)	441	122	(1 333)	(3 706)	(100)	11 648	(3,252)	118 022
Temporarily restricted	-	-		-	3 130	-			-	-	3 130
Total net assets	66,730	56 196	(8,724)	441	3,252	(1,333)	(3 706)	(100)	11,648	(3,252)	121,152
Total liabilities and net assets	$ 130,484	$ 285,300	$ 89	$ 565	$ 3,561	$ -	$ 4 078	$ 44	$ 4,299	$ (3,252)	$ 425,168

See Independent Auditor's Report

GENERAL HEALTH SYSTEM
Consolidating Statement of Operations
Year Ended September 30, 2011
(in thousands)

	General Health System	Baton Rouge General Medical Center: Baton Rouge General Medical Center Mid City	Baton Rouge General Medical Center: Baton Rouge General Medical Center Bluebonnet	Baton Rouge General Medical Center: Baton Rouge General Medical Center Total	Medical Diagnostic Services, Inc	Mid City Redevelopment Alliance, Inc	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc	Baton Rouge General Physicians, Inc	Behavioral Health, Inc, HMS, Inc & GLC, Inc	Eliminations	General Health System Consolidated
Unrestricted revenues, gains and other support												
Net patient service revenue	$ -	$ 118,908	$ 178,547	$ 297,455	$ -	$ -	$ -	$ -	$ 28,553	$ -	$ -	$ 326 008
Investment income (loss)	405	986	649	1,635	-	-	(82)	-	-	1	-	1 959
Other revenue	65,195	5,996	5,237	11,233	55	784	1,087	384	2 566	6,750	(51,692)	36,362
Net assets released from restrictions	-	-	-	-	-	-	593	-	-	-	-	593
Total revenues, gains and other support	65,600	125,890	184,433	310,323	55	784	1,598	384	31,119	6,751	(51,692)	364,922
Expenses												
Salaries, wages and benefits	24,995	56,291	59,814	116,105	-	245	384	-	23,759	5,259	-	170,747
Supplies and other expenses	26,957	64,698	88,647	153 345	55	130	1,122	-	8,987	47	(51,692)	138,951
Provision for bad debts	-	5,470	11,673	17,143	-	-	-	-	1,074	-	-	18,217
Depreciation and amortization	3,672	4,832	8,002	12,834	-	6	-	-	35	-	-	16,547
Interest expense	941	2,822	7 935	10,757	-	-	12	-	-	103	-	11,813
Total expenses	56,565	134,113	176,071	310,184	55	381	1,518	-	33,855	5,409	(51,692)	356,275
Change in interest in Foundation	619	-	-	-	-	-	-	-	-	-	(619)	-
Nonoperating gain (loss)	1,323	561	279	840	-	-	-	-	-	-	-	2,163
Excess of revenues over expenses	$ 10,977	$ (7,662)	$ 8,641	$ 979	$ -	$ 403	$ 80	$ 384	$ (2,736)	$ 1,342	$ (619)	$ 10,810

See Independent Auditor's Report

GENERAL HEALTH SYSTEM
Consolidating Statement of Operations
Year Ended September 30, 2010
(in thousands)

	General Health System	Baton Rouge General Medical Center: Baton Rouge General Medical Center Mid City	Baton Rouge General Medical Center: Baton Rouge General Medical Center Bluebonnet	Baton Rouge General Medical Center: Baton Rouge General Medical Center Total	Medical Diagnostic Services, Inc	Mid City Redevelopment Alliance, Inc	General Health System Foundation	Verity Healthnet Accounts Management Services, Inc	Baton Rouge General Physicians, Inc	Behavioral Health, Inc, HMS, Inc & GLC, Inc	Eliminations	General Health System Consolidated
Unrestricted revenues, gains and other support												
Net patient service revenue	$ -	$ 125 445	$ 179,397	$ 304,842	$ -	$ -	$ -	$ -	$ 27,989	$ -	$ -	$ 332,831
Investment income	873	1 134	520	1,654	-	-	154	-	-	-	-	2 681
Other revenue	50,051	7,013	5 641	12,654	52	611	555	402	3,318	5 004	(45,364)	27 283
Net assets released from restrictions	-	-	-	-	-	-	1,463	-	-	-	-	1,463
Total revenues, gains and other support	50,924	133,592	185,558	319,150	52	611	2,172	402	31,307	5,004	(45,364)	364,258
Expenses												
Salaries wages and benefits	23,967	59 939	56,741	116,680	-	366	366	-	21 931	3,579	-	166,889
Supplies and other expenses	18,855	65,675	82 397	148,072	52	187	1 595	-	8,956	65	(45,364)	132,418
Provision for bad debts	-	6 885	9,604	16,489	-	-	-	-	2 121	-	-	18,610
Depreciation and amortization	3,655	5 428	7 735	13,163	-	-	-	-	36	-	-	16 854
Interest expense	1 010	2,958	8 222	11,180	-	-	14	-	-	75	-	12,279
Total expenses	47,487	140,885	164,699	305,584	52	553	1,975	-	33,044	3,719	(45,364)	347,050
Change in interest in Foundation	558	-	-	-	-	-	-	-	-	-	(558)	-
Nonoperating gain (loss)	-	-	-	-	-	-	-	-	-	-	-	-
Excess of revenues over expenses	$ 3,995	$ (7,293)	$ 20,859	$ 13,566	$ -	$ 58	$ 197	$ 402	$ (1,737)	$ 1,286	$ (558)	$ 17,208

See Independent Auditor's Report

LAPORTE
CPAs & BUSINESS ADVISORS

111 Veterans Blvd | Suite 600
Metairie, LA 70005
504 835 5522 | Fax 504 835 5535
LaPorte.com

Independent Auditor's 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*

To the Board of Trustees
General Health System

We have audited the consolidated financial statements of General Health System as of and for the year ended September 30, 2011, and have issued our report thereon dated December 21, 2011 We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

We have issued a separate management letter which contains identified control deficiencies that we determined do not constitute significant deficiencies or material weaknesses

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, management, Louisiana Department of Health and Human Services, the Legislative Auditor of the State of Louisiana and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties Under Louisiana Revised Statute 24 513, this report is distributed by the Legislative Auditor as a public document

A Professional Accounting Corporation

December 21, 2011

LAPORTE
CPAs & BUSINESS ADVISORS

111 Veterans Blvd | Suite 600
Metairie LA 70005
504 835 5522 | Fax 504 835 5535
LaPorte com

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Consolidated Audit Guide for Audits of HUD Programs

To the Board of Trustees
General Health System

Compliance

We have audited the compliance of General Health System with the types of compliance requirements described in the U S Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement and the Consolidated Audit Guide for Audits of HUD Programs* that are applicable to each of the Company's major federal programs for the year ended September 30, 2011 The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Company's management Our responsibility is to express an opinion on the Company's compliance based on our audit

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide), issued by the U S Department of Housing and Urban Development Office of the Inspector General Those standards and OMB Circular A-133 and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances We believe that our audit provides a reasonable basis for our opinion Our audit does not provide a legal determination of the Company's compliance with those requirements

As described in 2011-1 and 2011-2 in the accompanying *Schedule of Findings and Questioned Costs*, the Company did not comply with requirements regarding Special Tests and Provisions that are applicable to its Student Financial Aid Cluster as well as the Reporting requirements that are applicable to Mortgage Insurance Program

In our opinion, except for the noncompliance described in the preceding paragraph, the Company complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011

Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs In planning and performing our audit, we considered the Company's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report in internal control over compliance in accordance with OMB Circular A-133 and the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis We consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as item 2011-1 and 2011-2 to be material weaknesses

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

The Company's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs* We did not audit the Company's responses, and accordingly, we express no opinion on the responses

Schedule of Expenditures of Federal Awards

We have audited the basic financials statements of General Health System as of and for the year ended September 30, 2011, and have issued our report thereon dated December 21, 2011 Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

This report is intended solely for the information and use of the Board of Trustees, management, Louisiana Department of Health and Human Services, the Legislative Auditor of the State of Louisiana and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties Under Louisiana Revised Statute 24 513, this report is distributed by the Legislative Auditor as a public document

A Professional Accounting Corporation

December 21, 2011

GENERAL HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Grantor/Program Title/ Pass-Through Grantor's Number	Federal CFDA Number	Contract Period	Federal Expenditures
U.S Department of Housing and Urban Development			
Mortgage Insurance-Hospitals	14 128	10/01/10-09/30/11	$ 185,231,444
U S Department of Education			
Student Financial Aid Cluster			
Federal Pell Grant Program/E-P063P42691-92	84 063	07/01/10-06/30/11	37,313
		07/01/11-06/30/12	132,253
William D Ford Federal Direct Loan Program	84 268	07/01/10-06/30/11	210,461
William D Ford Federal Direct Loan Program		07/01/11-06/30/12	341,180
			721,207
U S. Department of Health and Human Services			
National Bioterrorism Hospital Preparedness Program	93 889	10/1/10-09/30/11	67,801
U.S. Department of Homeland Security.			
Louisiana Governor's Office of Homeland Security			
Disaster Grants-Public Assistance	97 036	10/01/10-09/30/11	7,611
Total Expenditures of Federal Awards			$ 186,028,063

Note 1. Basis of Accounting

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

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

Note 2. Disbursements Outstanding

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

All disbursements outstanding (approved but not paid) during the audit period have been included in expenditures on the Schedule of Expenditures of Federal Awards Disbursements outstanding for the Federal Pell Grant Program were $46,125 and for the William D Ford Federal Direct Loan Program were $121,636 at September 30, 2011

Note 3. Mortgage Insurance

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

Note 4. Insured Mortgage

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

Note 4. Insured Mortgage (Continued)

Concurrently with the issuance of the Bonds, the Authority entered into a Loan Agreement related to the Bonds dated as of November 1, 2004, with Baton Rouge General Medical Center Pursuant to this Loan Agreement, the Authority lent the proceeds of the Bonds to the mortgaged entity for the purpose of providing funds, together with other available funds for (a) refunding a $98 1 million capital expansion of the Bluebonnet Campus including capitalized interest during the construction period, (b) funding a debt service reserve fund, (c) retiring previously issued bonds, and (d) pay certain costs incurred in connection with the issuance of the Bonds To provide a source of repayment of such loan, the mortgage entity executed a Mortgage Note and Mortgage Payments on the Series 2004 Note and the Mortgage, together with other available funds, will be required to be sufficient to pay the principal of, premium, if any, and interest on the Bonds as they become due HUD, acting by and through FHA, insures the advances of funds secured by the Mortgage pursuant to Section 242 of Title II of the National Housing Act The related bonds as of September 30, 2011 are summarized as follows (in thousands)

Mortgage Revenue Bonds, FHA Insured Series 2004, plus unamortized premium of $4,961 and $5,361 at September 30, 2011 and 2010, respectively, $35,185 of serial bonds bearing interest rates of 4% to 5%, and maturing through 2018, $42,345 of 5 25% and $107,735 of 5 25% term bonds maturing in 2024 and 2033, respectively, with optional or mandatory redemption requirements beginning in 2014, collateralized by a pledge of future revenue of BRGMC and secured by (a) mortgage granting to the Bank of New York, as mortgagee, a first lien on certain of BRGMC's real property and (b) a security agreement granting a security interest on certain of BRGMC's personal property (fair value of $193,365 and $156,489, at September 30, 2011 and 2010), respectively	$ 190,192
Unamortized Premium	(4,961)
	$ 185,231

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

Note 4. Insured Mortgage (Continued)

A Mortgage Reserve Fund was established as a trust fund with a trustee As of September 30, 2011, the fund had a balance of $10,609,313, which is presented as a component of Assets Whose Use is Limited on the Consolidated Balance Sheet

GENERAL HEALTH SYSTEM
Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

Part I - Summary of Auditor's Results

Financial Statement Section

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

Federal Awards Section

Internal control over major programs	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with *Circular A-133* (section 510(a))?	Yes

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
14 128	Mortgage Insurance - Hospital
84 063	Federal Pell Grant Program/E-P063P42691-92
84 268	William D Ford Federal Direct Loan Program

Dollar threshold used to determine Type A programs	$300,000
Auditee qualified as low-risk auditee?	No

Part II - Financial Statement Findings Section

None

Part III - Federal Award Findings and Questioned Costs Section

2011-1. Borrower Data Transmission and Reconciliation (Direct Loan)

Issue The Company is not performing the Direct Loan Borrower Reconciliation in accordance with the specified federal requirements

Criteria Federal requirements specify that the Company must perform the Direct Loan Borrower Reconciliation on a monthly basis In doing so, the Company is required to reconcile the School Account Statement provided by the Common Origination Disbursement System with the College's financial records

Effect The Company is not in compliance with federal requirements

Cause The Company did not perform the proper reconciliation on a monthly basis

Recommendation A review of the monthly reconciliations must be performed by the Controller to ensure that they are completed accurately and within a timely manner

Corrective Action Plan Documented monthly reconciliations have been put in place subsequent to year end

2011-2: U.S Department of Housing and Urban Development Mortgage Insurance Reporting

Issue The Company did not submit required financial reporting for the first and fourth quarters of the fiscal year ended September 30, 2011 to the U S Department of Housing and Urban Development (HUD) within the required timeframe

Criteria The Company's Regulatory Agreement with HUD dated December 7, 2004 requires quarterly unaudited financial reports be submitted to HUD within forty days following the end of each quarter

Effect The Company is not in compliance with HUD requirements

Cause The Company did not submit required financial reporting on a timely basis for the first and fourth quarters of the fiscal year ended September 30, 2011

2011-2: U.S. Department of Housing and Urban Development Mortgage Insurance Reporting (Continued)

Recommendation The Company should develop a system that incorporates the submission of the required HUD reporting into its monthly close process It addition, this system should be monitored by someone independent of the actual submission process to ensure all reports are submitted in the required timeframe

Corrective Action Plan Required periodic submissions to HUD will be reviewed by the Director of Finance to ensure the requirements are met Due dates have been scheduled for notification to the Senior Accountant, Manager and Director of Finance

GENERAL HEALTH SYSTEM
Management's Summary Schedule of Prior Audit Findings
Year Ended September 30, 2011

None