LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Financial Statements

Years Ended September 30, 2012 and 2011

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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Independent Auditor's Report

To the Board of Trustees
Lafayette General Health System

We have audited the accompanying consolidated balance sheets of Lafayette General Health System (the Organization) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lafayette General Health System as of September 30, 2012 and 2011, and the consolidated 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.

LaPorte

A Professional Accounting Corporation

February 5, 2013

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and Cash Equivalents	**$ 25,285,300**	$ 28,221,535
Short-Term Investments	**947,574**	765,877
Assets Limited as to Use, Current Portion	**1,852,141**	1,866,349
Patient Accounts Receivable, Less Allowance for Doubtful Accounts $5,767,579 in 2012 and $3,487,143 in 2011	**61,950,338**	41,226,290
Amounts Due from Third-Party Payors	**-**	698,360
Inventories	**8,376,175**	7,558,562
Other Current Assets	**8,259,918**	6,862,579
Total Current Assets	**106,671,446**	87,199,552
Noncurrent Assets		
Assets Limited as to Use		
Under Debt Agreements Held by Third Party	**4,998,834**	4,804,289
Board Designated for Property and Equipment Additions and Replacements	**74,603,649**	65,280,531
	79,602,483	70,084,820
Less: Amount Required to Meet Current Obligations	**(1,852,141)**	(1,866,349)
	77,750,342	68,218,471
Investments in Joint Ventures	**1,405,404**	1,302,083
Property and Equipment, Net	**199,655,457**	188,917,267
Unamortized Debt Issuance Costs	**2,092,643**	1,794,781
Other Assets	**5,987,689**	4,996,003
Total Noncurrent Assets	**286,891,535**	265,228,605
Total Assets	**$ 393,562,981**	$ 352,428,157

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Balance Sheets (Continued)
September 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	**$ 21,755,034**	$ 19,957,079
Salaries and Wages Payable	**7,969,596**	6,723,670
Amounts Due to Third-Party Payors	**3,150,493**	877,092
Line of Credit, Construction and Equipment Loans	**5,000,000**	4,351,178
Current Portion of Self-Insurance Reserves	**2,847,204**	3,970,290
Current Portion of Capital Lease Obligation	**493,231**	518,640
Current Maturities of Long-Term Debt	**5,541,491**	2,281,442
Total Current Liabilities	**46,757,049**	38,679,391
Noncurrent Liabilities		
Self-Insurance Reserves, Less Current Portion	**1,365,081**	980,651
Accrued Postretirement Benefit Costs	**2,821,000**	3,233,800
Capital Lease Obligation, Less Current Portion	**2,896,024**	3,389,229
Long-Term Debt, Less Current Portion, Net of Discount	**140,057,031**	125,378,835
Total Noncurrent Liabilities	**147,139,136**	132,982,515
Total Liabilities	**193,896,185**	171,661,906
Net Assets		
Noncontrolling Interest in Subsidiaries	**4,391,754**	3,282,802
Unrestricted Net Assets	**195,275,042**	177,483,449
Total Net Assets	**199,666,796**	180,766,251
Total Liabilities and Net Assets	**$ 393,562,981**	$ 352,428,157

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Statements of Operations
For the Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted Revenues, Gains and Other Support		
Net Patient Service Revenues	**$ 308,343,240**	$ 268,698,936
Other Operating Revenues	**12,338,303**	8,691,188
Total Revenues, Gains and Other Support	**320,681,543**	277,390,124
Operating Expenses		
Salaries, Wages, and Benefits	**117,448,985**	106,066,214
Medical Supplies and Drugs	**70,255,905**	59,199,455
Contract Services	**30,014,591**	25,418,656
Utilities and Equipment Rentals	**24,854,133**	22,005,072
Depreciation and Amortization	**17,488,067**	14,686,048
Provision for Doubtful Accounts	**31,055,886**	25,392,346
Interest Expense	**6,662,440**	4,724,294
Insurance Expense	**4,152,614**	3,740,456
Other Expenses	**9,939,973**	7,560,305
Total Operating Expenses	**311,872,594**	268,792,846
Operating Income	**8,808,949**	8,597,278
Non-Operating Income (Loss)		
Interest and Dividend Income	**2,018,028**	2,879,291
Realized Gains on Investments	**3,360,117**	1,007,100
Unrealized Gain (Loss) on Investments	**4,722,447**	(2,075,488)
Gain (Loss) on Sale/Disposal of Assets	**183,208**	(6,090,342)
Other Revenue (Expense), Net	**695,044**	1,420,325
Total Non-Operating Income (Loss)	**10,978,844**	(2,859,114)
Change in Net Assets	**19,787,793**	5,738,164
Attributable to Noncontrolling Interest	**1,996,200**	1,411,533
Change in Net Assets Attributable to the Health System	**$ 17,791,593**	$ 4,326,631

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Statements of Change in Net Assets
For the Years Ended September 30, 2012 and 2011

	Controlling Interest	Noncontrolling Interests
Balance at September 30, 2010	$ 173,156,818	$ 2,644,630
Change in Net Assets Attributable to the Health System for the Year Ended September 30, 2011	4,326,631	1,411,533
Contributions from Noncontrolling Interests	-	26,639
Distributions Paid to Noncontrolling Interests	-	800,000
Balance at September 30, 2011	177,483,449	3,282,802
Change in Net Assets Attributable to the Health System for the Year Ended September 30, 2012	17,791,593	1,996,200
Contributions from Noncontrolling Interests	-	87,752
Distributions Paid to Noncontrolling Interests	-	975,000
Balance at September 30, 2012	$ 195,275,042	$ 4,391,754

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in Net Assets Attributable to the Health System	**$ 17,791,593**	$ 4,326,631
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	**17,488,067**	14,686,048
Provision for Doubtful Accounts	**31,055,886**	25,392,346
(Gain) Loss on Sale/Disposal of Assets	**(183,208)**	6,090,342
Unrealized (Gains) Losses on Investments	**(4,722,447)**	2,075,488
Equity in Earnings of Joint Ventures	**(103,321)**	10,440
Noncontrolling Interests in Subsidiaries	**1,996,200**	1,411,533
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	**(51,779,934)**	(25,209,577)
Amounts Due from/to Third-Party Payors	**2,971,761**	1,245,561
Inventories	**(817,613)**	(845,420)
Other Assets	**(2,272,869)**	(5,830,952)
Accounts Payable and Accrued Expenses	**3,043,881**	(783,472)
Self-Insurance Reserves	**(738,656)**	428,410
Other Liabilities	**(389,521)**	62,816
Net Cash Provided by Operating Activities	**13,339,819**	23,060,194
Cash Flows from Investing Activities		
Purchase of Property and Equipment	**(28,353,049)**	(54,087,525)
Proceeds from Sale of Assets	**310,000**	-
Net (Increase) Decrease in Assets Whose Use is Limited	**(4,795,216)**	18,788,145
Net Increase in Short-Term Investments	**(181,697)**	(7,671)
Net Cash Used in Investing Activities	**(33,019,962)**	(35,307,051)
Cash Flows from Financing Activities		
Repayment of Long-Term Debt	**(3,574,227)**	(407,736)
Proceeds from Issuance of Long-Term Debt	**21,489,193**	3,853,182
Cash Paid to Issue New Debt	**(414,018)**	(61,485)
Principal Payments under Capital Lease Obligations	**(518,614)**	(1,293,309)
Net Construction and Equipment Loan Activity	**648,822**	4,351,178
Distributions to Minority Interest Partners, Net of Contributions	**(887,248)**	(773,361)
Net Cash Provided by Financing Activities	**16,743,908**	5,668,469
Change in Cash and Cash Equivalents	**(2,936,235)**	(6,578,388)
Cash and Cash Equivalents		
Beginning	**28,221,535**	34,799,923
Ending	**$ 25,285,300**	$ 28,221,535

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. and St. Martin 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. LGMC is located in Lafayette, Louisiana and operates 377 beds which include 15 LDRs, 24 mental health unit beds, 25 neonatal ICU bassinets and 26 nursery bassinets.

Lafayette Health Ventures, Inc. (LHV) 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, and cardiology. Additional operations involve Advanced Medical Supplies, a durable medical equipment provider, and Delta Financial Services which functions as a collection business.

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 that currently negotiates managed care contract arrangements.

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)

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 10, SMH assumed all operations for the Service District as of that date.

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.

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 and estimates of amounts to be received under government healthcare and other provider contracts. Actual results could differ from those estimates.

Financial Statement Presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as permanently restricted, temporarily restricted, or unrestricted. At September 30, 2012 and 2011, and for the years then ended, all of the Organization's net assets were unrestricted.

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

Short-Term Investments: Short-term investments consist of highly liquid investments with a maturity of more than three months, when purchased, and a current maturity of less than 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.

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

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 monthly in the period incurred.

Investments: 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.

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.

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

Property and Equipment: Property and equipment are recorded at acquisition cost, including interest expense capitalized during construction. Interest expense of approximately $88,905 and $1,755,000, was capitalized in 2012 and 2011, 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.

Unamortized 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 interest held by third parties in subsidiaries owned or controlled by the Organization is reported in the consolidated balance sheets. Interest reported in the consolidated statements of operations and changes in net assets reflects the respective interest in the income or loss of subsidiaries attributable to the third parties, the effect of which is removed from the Organization's results of operations.

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.

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.

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

Statement of Operations and Changes in Net Assets: Transactions deemed to be ongoing, major, or central to the provision of health care services are included in changes in net assets from operations. 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.

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

Net Patient Service Revenues: 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 29% and 36% in 2012 and 2011, respectively.

The Organization's SMH subsidiary 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 Medicaid program beneficiaries are paid at prospectively determined rates per day. Most outpatient services rendered to SMH Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to an outpatient adjustment determined by the LA Department of Health and Hospitals.

SMH serves a disproportionate share of low-income patients and qualified for Medicaid Disproportionate Share Reimbursements (DSH). However, during fiscal year 2012 the LA Department of Health and Hospitals eliminated separate Disproportionate Share Hospital (DSH) funding payments to rural hospitals. Total Medicaid Disproportionate Share reimbursements recognized as a component of net patient service revenue were $-0- and $974,449, for the fiscal years ended September 30, 2012 and 2011, respectively.

During 2011, LGMC and SMH formed collaborations with the State of Louisiana (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).

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

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 the State's methodology, LGMC and SMH received funding from the State of Louisiana during the fiscal years ended September 30, 2012 and 2011, collectively totaling $7,800,765 and $8,133,840, respectively, which is included on the statement of operations as a component of net patient service revenue.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports. 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 $602,109 and $1,505,397 in 2012 and 2011, respectively. LGMC's estimated settlements through September 30, 2006, for the Medicare and Medicaid programs have been reviewed by program representatives. SMH's estimated settlements through September 30, 2008, for the Medicare and Medicaid program have been reviewed by program representatives and adjustments have been recorded to reflect any revisions to the recorded estimates required. The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2012, 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.

Charity Care: 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, 2012 and 2011, respectively.

	2012		2011	
	Charges Foregone	**Estimated Costs in Excess of Payments**	Charges Foregone	Estimated Costs in Excess of Payments
Charity Care	**$ 11,768,882**	**$ 2,835,124**	$ 10,720,642	$ 2,607,260

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

Income Taxes: LGMC and SMH 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 and LIG are for-profit Louisiana limited liability corporations. In 2011, LHV filed documents changing its jurisdiction of incorporation from Louisiana to Delaware. In filing its certificate of incorporation with the state of Delaware, LHV presented itself as a not-for-profit, non-stock corporation as defined in the laws of the State of Delaware, however at September 30, 2012, the Internal Revenue Service still recognizes LHV as a corporation subject to income tax.

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

Uncertain Tax Positions: The Organization accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) ACS 740. FASB ACS 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, derecognition, 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, generally for three years after they are filed.

New Accounting Pronouncements adopted: On October 1, 2011, the Organization adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. This ASU eliminates the practice of netting claim liabilities with expected related insurance recoveries for balance sheet presentation. Claim liabilities are determined without regard for recoveries and are presented gross. Expected recoveries are presented separately. The Organization recorded approximately $1,128,626 of additional current professional liability reserves and current excess insurance coverage receivables, which are included in its consolidated balance sheet as of September 30, 2012. There was no material impact to the Hospital's results of operations or cash flows for the year ended September 30, 2012, as a result of the adoption of this guidance.

On October 1, 2011, the Organization adopted the provisions of ASU 2010-23, *Health Care Entities (Topic 954) - Measuring Charity Care for Disclosure*. The amendments in this ASU require that the measurement of charity care for disclosure purposes be based on the direct and indirect costs of providing the charity care. Entities may derive the cost of providing services by obtaining the information directly from a costing system or, in the absence of such a system, through reasonable estimation techniques. Therefore, the ASU requires disclosure of the method used to identify or determine such costs.

Since health care entities do not recognize revenue when charity care is provided, the amendments in the ASU have no effect on the amounts reported on the primary financial statements.

Note 2. Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2012 and 2011, were as follows:

	2012	2011
Gross Patient Service Revenue	**$ 930,178,395**	$ 779,293,354
Provisions for Contractual and Other Adjustments	**(610,066,273)**	(499,873,776)
Charges Forgone for Charity Care	**(11,768,882)**	(10,720,642)
Net Patient Service Revenue	**$ 308,343,240**	$ 268,698,936

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).

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, 2012 and 2011, were as follows:

	2012	2011
Medicare	**17 %**	23 %
Managed Care	**47**	47
Other Third-Party Payors	**6**	5
Medicaid	**6**	4
Self-Pay Patients	**24**	21
	100 %	100 %

Lastly, 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.

Note 3. Business and Credit Concentration (Continued)

As of September 30, 2012, the Organization reported cash and cash equivalents balances of $25,285,300. 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 balances 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 $17,953,113, as of September 30, 2012.

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

At September 30, 2012 and 2011, the Organization had short-term investments consisting of equity interests in a series of commingled private trusts established under the Louisiana Hospital Investment Pool program and other pools. The Organization reports the value of its pro rata share of these trusts at estimated fair market value as determined by the fair value of all underlying securities, held by the trusts. Short-term investments at September 30, 2012 and 2011 were primarily invested in money market funds. The balance in short-term investments consisted of $947,574 and $765,877, for 2012 and 2011, respectively.

Assets limited as to use at September 30, 2012 and 2011, were as follows:

	2012	2011
Under Debt Agreement Held by Third Party		
Cash and Cash Equivalents	**$ 3,088,134**	$ 3,530,489
Loan Participation Interests (Note 9)	**1,910,700**	1,273,800
	4,998,834	4,804,289
By Board for Property and Equipment Additions and Replacements		
Equity Mutual Funds	**37,964,569**	28,696,899
Fixed Income Funds	**32,216,041**	34,138,161
Cash and Cash Equivalents	**3,921,505**	2,322,258
Other	**501,534**	123,213
	74,603,649	65,280,531
Total Assets Whose Use is Limited	**$ 79,602,483**	$ 70,084,820

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 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.

Following is a description of the valuation methodologies used for assets measured at fair value:

- 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.
- Pooled Investment accounts are valued at the liquidation value of the underlying instruments.
- Insurance Company Group Annuity Contracts are carried at contract value as reported by the insurance company, which approximates fair value.

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, 2012:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:				
Equity Funds	$38,291,246	$38,291,246	$ -	$ -
Fixed Income Funds	32,216,041	32,216,041		
Total Mutual Funds	70,507,287	70,507,287	-	-
Cash Equivalents, Money Market and Certificates of Deposit	3,921,505	3,921,505	-	-
Pooled Investment Accounts	947,574	-	947,574	-
Marketable Equity Securities	449,750	449,750	-	-
Insurance Company Group Annuity Contract	801,505	-	801,505	-
Other	501,534	-	501,534	-
Total	$77,129,155	$74,878,542	$2,250,613	$ -

These instruments are included on the Organization's September 30, 2012, balance sheet under the following captions:

Short-Term Investments	$ 947,574
Assets Limited as to Use	74,603,649
Items Included as a Component of Other Noncurrent Assets:	
Marketable Equity Securities	449,750
Deferred Compensation Arrangement Assets	1,128,182
Total	$ 77,129,155

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2011:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:				
Equity Funds	$28,868,102	$28,868,102	$ -	$ -
Fixed Income Funds	34,261,374	34,261,374	-	-
Total Mutual Funds	63,129,476	63,129,476	-	-
Money Market and Certificates of Deposit	5,852,747	5,852,747	-	-
Pooled Investment Accounts	765,877	-	765,877	-
Marketable Equity Securities	362,000	362,000	-	-
Insurance Company Group Annuity Contract	450,326	-	450,326	-
Total	$70,560,426	$69,344,223	$1,216,203	$ -

Note 5. Fair Value Measurements (Continued)

These instruments are included on the Organization's September 30, 20101 balance sheet under the following captions:

Short-Term Investments	$ 765,877
Assets Limited as to Use	68,811,020
Items Included as a Component of Other Noncurrent Assets:	
Marketable Equity Securities	362,000
Deferred Compensation Arrangement Assets	621,529
Total	$ 70,560,426

Financial Instrument Fair Value Disclosures

At September 30, 2012 and 2011, 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, 2012 is estimated at $92,200,978 compared to its carrying value of $83,157,258 (net of unamortized original issue discount of $652,742). The fair value of this instrument is based on currently traded values of similar financial instruments.

The September 30, 2012 carrying value of $5,398,775 of the Organization's long-term Equipment Vendor Installment Payable, disclosed in Note 9, is considered to approximate its fair value measured by utilizing a discounted cash flow approach at borrowing rates currently available to the Organization.

It is not practicable to estimate the fair value of the New Market Tax Credit Facility A and B, nor the Series 2012A bonds separate from the value supported by the related credit facilities.

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 $1,405,404 and $1,302,083, as of September 30, 2012 and 2011, 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, 2012 and 2011.

Summarized financial information of GI-ASC as of September 30, 2012 includes total assets of $272,536 and total liabilities of $257,731. GI-ASC operates on a calendar year basis and reported $1,518,448 of net income for the nine months ended September 30, 2012. As of September 30, 2011, GI-ASC had assets of $206,716 and liabilities of $383,701. Income for the nine months ended September 30, 2011 was $1,253,261. 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. Included in Other Noncurrent Assets are $334,278 of investments accounted for under the cost method.

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, such recovery is not recorded.

Note 7. Goodwill

Goodwill reported on the Organization's consolidated statement of position represented the excess of the acquisition cost of other business entities, and non controlling interests in other business entities, over the fair value of the net assets acquired at dates of acquisition. During the fiscal year ended September 30, 2011, as a result of the sale and restructuring of previously acquired medical practices, the Organization determined that the implied fair value of the recorded goodwill was no longer present and derecognized, through loss on sale/disposal of assets, the net carrying amount of goodwill outstanding as of September 30, 2010. The Organization reported no remaining goodwill as of September 30, 2011.

Note 8. Property and Equipment

Property and equipment consists of the following:

	2012	2011
Land and Land Improvements	**$ 9,936,068**	$ 9,299,091
Buildings and Fixed Equipment	**255,358,809**	242,279,903
Major Movable Equipment	**98,994,394**	76,888,642
	364,289,271	328,467,636
Less: Accumulated Depreciation	**170,243,527**	154,394,792
	194,045,744	174,072,844
Construction in Progress	**5,609,713**	14,844,423
Total	**$ 199,655,457**	$ 188,917,267

Construction in Progress and Purchase Commitments

During 2012, the Organization began its next phase of expansion and renovation of is LGMC campus. This $52.5 million development will enlarge and upgrade its emergency department and surgical platform, and add a new parking garage.

At September 30, 2012, the Organization was obligated under purchase commitments of approximately $43,243,792, principally related to its operating and emergency room expansion and other various property improvement projects, and $377,248 related to other purchase commitments.

Note 9. Short-Term and Long-Term Debt

The following table summarizes the Organization's outstanding debt as of September 30, 2012 and 2011:

Line of Credit, Construction, and Equipment Loans		**2012**	2011
Line of Credit - LGMC: Interest rate of LIBOR plus 2.25% (2.47% at September 30, 2012), due upon demand or maturity on August 1, 2013.	(A)	**$ 5,000,000**	$ -
Construction Loan - LIG: Interest rate of 5.625%, converted to a term loan on January 27, 2012. See long-term debt.	(B)	**-**	2,174,992
Equipment Loan - LGMC: Variable interest at LIBOR plus 2.25% (2.73% at September 30, 2012), converted to term loan. See long-term debt.	(C)	**-**	2,176,186
Total		**$ 5,000,000**	$ 4,351,178

Note 9. Short-Term and Long-Term Debt (Continued)

Long-Term Debt		2012	2011
New Market Tax Credit Facility A: Variable interest at not less than 4.00%, payable in annual installments through 2023.	(D)	$ **25,476,000**	$ 25,476,000
New Market Tax Credit Facility B: Interest Rate of 1.00%,anticipated maturity of September 30, 2023.	(D)	**9,524,000**	9,524,000
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.	(E)	**83,810,000**	84,840,000
Hospital Revenue Bonds, Series 2012A: Variable interest at 60% of LIBOR plus 1.4% (1.54% at September 30, 2012), payable monthly. Principal payable annually through 2042, beginning in 2018.	(F)	**5,000,000**	-
Hospital Revenue Bonds, Series 2012B: Fixed interest at 2.46% through 2019. Principal payable annually through 2042, beginning in 2018.	(F)	**-**	-
Revenue Note Payable - LGMC: Interest rate of 3.61%,payable in monthly installments of $78,760 through February 25, 2016.	(G)	**2,995,881**	3,853,182
Bank Note Payable - LGMC: Monthly principal and interest payments of $6,046 and a final balloon payment due March 2, 2017. Interest rate of 5.625%.	(H)	**720,675**	-
Bank Note Payable - LGMC: Interest rate of LIBOR plus 2.50% (2.73% at September 30, 2012), payable in monthly principal and interest installments through March 4, 2017.	(C)	**6,000,000**	-
Equipment Vendor Installment Payable - LGMC: Principal due in 14 remaining installments as of September 30, 2012. Final payment due January 1, 2016.	(I)	**5,398,775**	-
Bank Note Payable - LIG: Variable interest at 5.5% - 5.875%, due in serial installments through April 23, 2014.	(J)	**4,211,132**	4,643,080
Bank Note Payable - LIG: Monthly principal and interest payments of $26,552 and a final balloon payment due January 20, 2017. Interest rate of 5.625%.	(B)	**3,114,801**	-
		146,251,264	128,336,262
Less: Unamortized Original Issue Discount		**(652,742)**	(675,985)
		145,598,522	127,660,277
Less: Current Maturities of Long-Term Debt		**(5,541,491)**	(2,281,442)
Total		**$ 140,057,031**	$ 125,378,835

(A) Revolving Credit Line - LGMC: The Organization has an unsecured revolving line of credit from a bank that permits borrowings up to $10,000,000, at an interest rate of LIBOR plus 2.25% (2.47% at September 30, 2012). The line of credit matures on August 1, 2013. At September 30, 2012 and 2011, the Organization had $5,000,000 and $0 of outstanding borrowings under this line of credit.

(B) Construction Loan - LIG: On December 15, 2010, a promissory note was executed by and among Lafayette Investment Group, LLC (as borrower) and Home Bank (as Lender). The terms of the note provided for multiple advances for up to $3,210,000 of principal to be utilized to pay off construction costs. The note bears interest at a rate of 5.625%. The note was due upon demand, or if no demand upon maturity - February 15, 2012. On January 27, 2012, the loan was converted to a term loan payable in 59 monthly installments of $26,552 and a final balloon payment due on January 20, 2017. The term loan bears interest at 5.625%. The term loan is secured by a security interest in deposit accounts with the lender, and certain real estate owned by LIG.

Note 9. Short-Term and Long-Term Debt (Continued)

(C) Equipment Loan - LGMC: On May 4, 2011, a promissory note was executed by and among LGMC (as Borrower) and Capital One Bank (as Lender). The note evidences a non-revolving multiple advance line of credit master note. The terms of the note provide for advances up to a maximum annual principal amount of $6,000,000 for the purchase of medical and technological equipment. The note required monthly interest payments at a rate of LIBOR plus 2.50%. The line of credit matured on May 4, 2012. Prior to maturity, the note was converted to a term loan payable in monthly principal and interest installments through March 4, 2017. The term loan bears interest at LIBOR plus 2.50% (2.73% at September 31, 2012).

(D) 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 (Lender).

The Facility A Note (senior note), issued for $25,476,000, is secured under the aforementioned credit and loan agreements. The Facility A note matures on September 30, 2023. There are, however, mandatory payments under a loan participation agreement which are due serially from September 30, 2010 to September 30, 2023. LGMC may not prepay the note in full or in part prior to September 2016. Interest on this obligation is at a rate equal to the LIBOR base rate plus 2.5%, however that interest rate shall never be lower than 4%.

The Facility B Note (subordinate note) issued for $9,524,000, is also secured by the credit and loan agreements referred to above. The Facility B Note includes a provision prohibiting any early payment prior to September 2016. This note bears interest at a rate of 1% per annum. Interest is payable on this note quarterly in arrears beginning December 31, 2009. The balance of all outstanding principal and accrued unpaid interest is due upon maturity.

Both Facility A and Facility B are secured on a parity with LGMC's other outstanding indebtedness under its existing master trust indenture and related supplemental master trust indenture.

Note 9. Short-Term and Long-Term Debt (Continued)

The notes are intended to qualify as a "quality low-income community investment" for purposes of generating certain tax credits called New Market Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, LGMC must comply with certain representations, warranties and covenants. These include, but are not limited to, LGMC's non-profit status, and that the "portion of the business" (as defined) will operate to qualify as a qualified low-income community business. If, as a result of the breach of the agreement or loan documents by LGMC, the Lender is required to recapture all or any part of the New Market Tax Credits previously claimed by the Lender, LGMC agrees to pay to the Lender an amount equal to the sum of the credits recaptured. The effect of which could accelerate the maturity of these notes. Commencing on the first day after the expiration of the NMTC compliance period, in September 2016, and continuing for a period of twenty days thereafter, the Lender shall have the right to acquire, by purchase, the notes and all of the Lenders' rights and interest, known as the "put right". Lenders shall provide the Organization with notice of exercise of this right during the twenty day period specifying exercise of its right. Within thirty days of delivery of such notice, the Organization will pay to the Lender an amount equal to the full amount of unpaid principal and unpaid interest on the Facility A loan plus $1,000.

(E) 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 2010 series bonds are secured by a multiple indebtedness mortgage, assignment of leases and rents, and a security agreement on certain land and the improvements located and to be located thereon and certain personal property of the LGMC. See additional discussion that follows later in this Note. These bonds are due serially through November 1, 2041.

(F) 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 is 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 are being issued as draw down bonds. As of September 30, 2012, the total amount drawn by LGMC against the loan agreement was $5,000,000. The remaining $55,000,000 is to be drawn on or before July 26, 2014. 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.

Note 9. Short-Term and Long-Term Debt (Continued)

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.

(G) 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 is due in monthly installments of $78,760 through February 25, 2016. The note bears interest at a rate of 3.61%.

(H) Bank Note Payable - LGMC: On March 2, 2012, a long agreement was executed by and among LGMC (as the borrower) and Home Bank (as the lender). The term loan agreement was issued for $730,000 of principal to be utilized for construction cost for leasehold improvements. The term loan is payable in 59 monthly installments of $6,046 and a final balloon payment due on March 2, 2017. The term loan bears interest at 5.625%. The term loan is secured by a security interest in the leasehold improvements and in furniture, fixtures, and equipment purchased.

(I) Equipment Vendor Installment Payable - LGMC: At September 30, 2012 the Organization has recorded a long-term installment payable to an equipment vendor for the capitalized cost of certain software and related equipment. As of September 30, 2012, 14 payments remain. These payments are reflected at their present value of $5,398,775 using a discount rate of 3%. Of the discounted amount due, $1,460,703 is due in fiscal year 2013 with the balance due in quarterly installments through 2016.

(J) 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 bears interest at rates between 5.5% - 5.875%. The note is due serially from May 23, 2009 to April 23, 2014.

Note 9. Short-Term and Long-Term Debt (Continued)

LGMC and Whitney Bank, as master trustee (the "Master Trustee") for the Series 2010 and 2012 bond issues have entered into, amended, restated and added supplements to the Master Trust Indenture, with the latest supplement dated July 1, 2012 that was specific to the Series 2012 Bonds. LGMC 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. 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 2012 and 2010 loan agreements. Pursuant to the terms of the Amended and Restated Master Trust Indenture, LGMC, as Obligated Group Agent, may from time to time issue other notes or series of notes such that the holders of the Series 2010 and 2012 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 2010 and 2012 bond obligations, LGMC 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 July 1, 2012 (collectively, the "Assignment"), pursuant to which LGMC, 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 2012 and 2010 bond obligations also contain a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated August 12, 2010 (the "Mortgage") by LGMC in favor of the Master Trustee, as mortgagee, granting a mortgage lien on certain of the properties of the LGMC.

The Organization is required to comply with covenants contained in the Amended Master Trust Indenture, dated August 1, 2010. These covenants include, among other requirements, maintenance of proper debt service coverage ratio. For the years ended September 30, 2012 and 2011, the Organization was in compliance with these covenants.

Debt service payments sufficient to meet annual principal and interest requirements under the bond indenture are required to be made by the Organization.

Note 9. Short-Term and Long-Term Debt (Continued)

At September 30, 2012, scheduled maturities of long-term debt for the years ending September 30th, were as follows*:

2013	$ 5,541,644
2014	8,966,443
2015	4,159,132
2016	2,224,242
2017	3,764,803
Thereafter	121,595,000
Total	$ 146,251,264

* The schedule above is prepared assuming the Lender associated with Item (D) above does not exercise its put right associated with Facility A and Facility B. If this right were to be exercised it would accelerate maturity of those debt instruments to 2016.

As noted above, the new market tax credit financing requires the Organization to make mandatory payments under a loan participation agreement with the leveraged lender during the period the note is outstanding. Remaining required mandated payments as of September 30, 2012, are as follows assuming no exercise of the Lender's put right:

2013	$ 636,900
2014	636,900
2015	2,547,600
2016	2,467,988
2017	2,467,988
Thereafter	24,331,924
Total	$ 33,089,300

Upon making each of the mandatory payments, the Organization receives junior participation interests in the distributable proceeds (as defined in the agreement) in an amount equal to the amount of each mandatory payment. The participation interests ultimately function in a similar manner as a sinking fund and are utilized to retire the principal of the note upon maturity. The Organization's participation interests totaled $1,910,700 as of September 30, 2012, and are included in Assets Limited as Use on the consolidated balance sheets. See Note 4.

The Organization paid interest related to long-term debt of $6,639,177 and $6,293,533, during the years ended September 30, 2012 and 2011, respectively. See Note 1 for details of interest cost capitalized as a component of property and equipment.

Note 10. 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.

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.

The lease obligation is due in monthly installments of $23,833 over the 25 year lease term and contains a 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 $2,377,141 and $1,928,696, and the recorded cost of construction in progress associated with this lease is $318,961 and $39,835 as of September 30, 2012 and 2011. Accumulated amortization of the leased assets acquired was $346,440 and $187,499, as of September 30, 2012 and 2011.

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, 2012:

Year Ending September 30:	Amount
2013	$ 731,935
2014	286,000
2015	286,000
2016	286,000
2017	286,000
2018-2022	1,430,000
2023-2027	1,430,000
2028-2032	1,430,000
2033-2034	524,332
Total Minimum Lease Payments	6,690,267
Less: Amount Representing Interest	(3,301,012)
Present Value of Minimum Lease Payments	3,389,255
Less: Current Maturities of Capital Lease Obligations	(493,231)
Long-Term Capital Lease Obligations	$ 2,896,024

Note 11. 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.

The active plan contains both a noncontributory and a contributory component. 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, 2012 and 2011, management elected to suspend this contribution. 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.

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, 2012 and 2011, were $1,154,239 and $850,470, respectively.

The Organization has a deferred compensation arrangement with a group of its key executives. 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 executives. As of September 30, 2012 and 2011, the Organization had set aside $1,128,182 and $621,529, 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, 2012 and 2011, the Organization had recorded accrued liabilities of $449,650 and $280,782, respectively, which represents the estimated present value of the benefits earned under this agreement.

Note 12. 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.

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

Note 12. Accrued Other Postretirement Benefits (Continued)

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, 2012 and 2011, were as follows:

	Fiscal Year Ending September 30,	
	2012	2011
Benefit Obligation Information:		
Accumulated Postretirement Benefit Obligation	**$ 2,821,000**	$ 3,233,800
Asset Information:		
Employer Contributions	**$ 224,400**	$ 269,600
Plan Participants' Contributions	**6,600**	8,400
Benefits Paid	**$ 231,000**	$ 278,000
Fair Value of Assets at End of Year	**$ -**	$ -
Funded Status at End of Year	**$ (2,821,000)**	$ (3,233,800)
Amounts Recognized in the Statement of Financial Position:		
Noncurrent Assets	**$ -**	$ -
Current Liabilities	**(222,800)**	(258,800)
Noncurrent Liabilities	**(2,598,200)**	(2,975,000)
Total	**$ (2,821,000)**	$ (3,233,800)
Amounts Recognized in Unrestricted Net Assets:		
Amount Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	**$ -**	$ -
Prior Service Cost/(Credit)	**(47,600)**	(86,900)
Net Actuarial (Gain)/Loss	**(164,400)**	147,200
Total	**$ (212,000)**	$ 60,300
Total Amount Recognized in Unrestricted Net Assets	**$ (212,000)**	$ 60,300
Assumptions for End of Year Disclosure:		
Discount Rate	**2.94%**	3.97%
Initial Medical Trend Rate	**9.00%**	9.50%
Ultimate Medical Trend Rate	**5.00%**	5.00%
Years from Initial to Ultimate Trend	**8**	9
Measurement Date	**9/30/2012**	9/30/2011

Note 12. Accrued Other Postretirement Benefits (Continued)

The following table presents expected future benefit payments to beneficiaries:

	Fiscal Year Ending September 30,	
	2012	2011
Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets:		
Net Periodic Benefit Cost		
Net Periodic Benefit (Income)/Expense	**$ 83,900**	$ 90,500
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	**$ -**	$ -
Prior Service Cost (Credit)	**-**	-
Net Loss (Gain)	**(311,600)**	174,600
Amortization of Transition Obligation/(Asset)	**-**	-
Amortization of Prior Service Cost	**39,300**	39,300
Amortization of Net Loss (Gain)	**-**	-
Total Change in Unrestricted Net Assets	**$ (272,300)**	$ 213,900
Total Recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	**$ (188,400)**	$ 304,400
Assumptions for Net Periodic Benefit Cost:		
Discount Rate	**3.97%**	4.24%
Initial Medical Trend Rate	**9.50%**	10.00%
Ultimate Medical Trend Rate	**5.00%**	5.00%
Years from Initial to Ultimate Trend	**9**	10
Measurement Date	**9/30/2011**	9/30/2010
Expected Benefit Payments:		
2013 Fiscal Year	**$ 226,100**	
2014 Fiscal Year	**$ 228,600**	
2015 Fiscal Year	**$ 229,300**	
2016 Fiscal Year	**$ 228,100**	
2017 Fiscal Year	**$ 224,900**	
2018 - 2022 Fiscal Year	**$ 999,500**	
Expected Employer Contributions Recognized for the 2013 Fiscal Year:	**$ 226,100**	
Expected Amortization Amounts Included in Expense for the 2013 Fiscal Year:		
Transition Obligation/(Asset)	**$ -**	
Prior Service Cost	**$ (39,300)**	
Actuarial (Gain)/Loss	**$ -**	

Note 13. 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 September 30, 2012 and 2011, were as follows:

	2012	2011
Health Care Services	$ 258,271,183	$ 221,197,128
General and Administrative	53,601,411	47,595,718
Total	$ 311,872,594	$ 268,792,846

Note 14. Income Taxes

The past operations of LHV 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 LHV'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. As mentioned in Note 1, LHV has applied for recognition as a 501(c)(3) organization.

Note 15. 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 15. 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 $7,387,213 and $6,085,218 for the years ended September 30, 2012 and 2011, respectively.

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

2013	$ 3,710,951
2014	2,535,425
2015	2,171,072
2016	1,457,632
2017	812,053
Thereafter	2,187,021
Total	$ 12,874,154

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, 2012 and 2011, consist of buildings and improvements with an original cost of $73,535,302 and $64,933,491, respectively. Accumulated depreciation of the leased assets totaled $32,965,895 and $29,855,413, at September 30, 2012 and 2011, respectively.

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

2013	$ 4,314,990
2014	3,557,717
2015	2,738,048
2016	2,099,737
2017	585,249
Thereafter	763,528
Total	$ 14,059,269

Note 15. Commitments and Contingencies (Continued)

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, 2012 and 2011, the Organization recorded, within operating expenses on its consolidated statements of operations, payments of $6,461,661 and $1,652,286, respectively, in accordance with the terms of its LINCCAs.

Note 16. 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. The Organization recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling $3,320,645 and $1,456,357 for the years ended September 30, 2012 and 2011, respectively, are included in other operating revenue in the accompanying consolidated statements of operations. 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 17. Subsequent Events

Additional Draw Down of Funds under Hospital Revenue Bonds Series 2012 A

On January 2, 2013, a draw down of $5,000,000 as authorized by the Series 2012 A bond issue, discussed in Note 9, was deposited to the Organization's Project Account established under the related indenture. During the period October 1, 2012 through the date of these financial statements, the Organization issued four requisitions for withdrawal from the Project Account to fund construction expenditures incurred, collectively totaling $4,840,358.

Note 17. Subsequent Events (Continued)

University Medical Center Cooperative Endeavor Negotiations

During 2012, the Louisiana Department of Health and Hospitals (DHH) and Louisiana State University (LSU) began a process of restructuring the operation of state run medical facilities in Louisiana. As part of this restructuring, DHH and LSU began seeking sustainable partnerships with other healthcare providers to optimize the medical training resources available in the state and to ensure that sufficient numbers of qualified healthcare professionals exist to address the current and future healthcare needs of Louisiana. This healthcare reform effort has focused on ways to remodel the delivery of care through partnerships and cooperative efforts between the public and private sectors.

LGHS is conducting discussions with DHH and LSU to finalize a cooperative endeavor agreement to maintain the viability of University Medical Center (UMC), a financially challenged state owned, and LSU operated, medical center located in Lafayette Louisiana, which also includes a graduate medical education program. The cooperative endeavor when finalized will allow LGHS or an affiliate formed by it to lease or otherwise occupy UMC and facilitate the assumption of responsibility by LGHS for the management and operations of UMC. UMC currently provides medical, obstetrical, pediatric and surgical services to the poor and others of that city and the surrounding area. The six story UMC facility accommodates inpatients in private rooms and houses an intensive care unit, emergency department, general and specialty clinics, blood bank, operating rooms, clinical laboratory radiology and imaging as well as faculty offices.

Under the anticipated terms of the agreement, which is currently scheduled to be finalized by March 15, 2013, LGHS will provide certain financial resources and support, operational expertise, and other resources and to take steps to allow UMC to continue to: (i) serve as a safety-net hospital in accordance with applicable law (La. R.S. 17:1519 et seq.), and play a central role in providing healthcare services to the uninsured and high-risk Medicaid populations, (ii) provide UMC patients enhanced access to tertiary services, (iii) preserve the quality of medical education in Louisiana through medical training partnerships with LSU, and (iv) limit the reductions in workforce currently contemplated for UMC until operations are transferred to LGHS or its affiliate.

The cooperative endeavor will contain the full and complete agreement of the Parties with respect to the terms and conditions for completing the transaction, setting forth their respective rights and obligations. It is planned to include: (i) creation of a new LGHS subsidiary or affiliate to implement the transaction; (ii) preparation and submission of a Change of Ownership filing; (iii) the financial commitments of LGHS and its affiliates, (iv) Affiliation Agreements to reflect the ongoing commitments between LSU and its academic partners, (v) Physician Services Agreements to provide for physician staffing of UMC and its outpatient clinics, and (vi) fulfillment of LSU's obligation to provide healthcare to the medically indigent population. LSU will provide ongoing input into UMC's medical education and resident training, as well as provide avenues with respect to the ongoing implementation of the teaching and research missions of LSU and UMC, and collaboration in the implementation and use of LSU's health information technology and data warehouse services. A timetable regarding the transfer of the UMC operations to LGHS or affiliate is currently under discussion.

Note 17. Subsequent Events (Continued)

Finally, all parties will seek to maximize funding for services rendered by LGHS and/or affiliate to the extent allowed by federal law, and in amounts that shall be appropriated by the state legislature involving the use of Medicaid disproportionate share ("DSH") reimbursement, Medicaid reimbursement, and supplemental payments available through upper payment limit funding. The ultimate impact of this transaction on the consolidated financial position, operations, and cash flows of LGSH is contingent upon the final terms of the agreement and cannot be currently estimated.

Management has evaluated subsequent events through the date that the financial statements were issued, February 5, 2013. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements. Based on such evaluation, no events have occurred that, in the opinion of management, warrant recognition in the financial statements or disclosure in the notes to the financial statements as of September 30, 2011 other than those noted above.

Note 18. New and Pending Financial Accounting Standards Board (FASB) Pronouncements

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:

Accounting Standards Update (ASU) 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts - a consensus of the FASB Emerging Issues Task Force.* In December 2010, the FASB issued amended accounting guidance relating to the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units with zero or negative carrying amounts, an entity is required to perform "Step Two" of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

Accounting Standards Update (ASU) 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* In September 2011, the FASB issued guidance to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.

Note 18. New and Pending Financial Accounting Standards Board (FASB) Pronouncements (Continued)

Accounting Standards Update (ASU) 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities - a consensus of the FASB Emerging Issues Task Force.* In July 2011, the FASB issued guidance which amends the current presentation and disclosure requirements for health care entities that recognize significant amounts of patient service revenue at the time the services are rendered without assessing the patient's ability to pay. This guidance requires health care entities to reclassify the provision for bad debts from an operating expense to a deduction from patient service revenues. In addition, this guidance requires more disclosure on the policies for recognizing revenue, assessing bad debts, as well as quantitative and qualitative information regarding changes in the allowance for doubtful accounts. This guidance is applied retrospectively to all prior periods presented and is effective during interim and annual periods beginning after December 15, 2011. This guidance is applied retrospectively to all prior periods presented and is effective for the first annual period ending after December 15, 2012.

Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011.

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February 5, 2013

To the Audit Committee
Attn: Julie Falgout
Lafayette General Health System
1214 Coolidge St.
Lafayette, LA 70503

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of Lafayette General Health System, (the System) for the year ended September 30, 2012, on which we have issued our report dated February 5, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control 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 that we consider to be significant deficiencies.

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

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.

We consider the following deficiencies in the Health System's internal control to be significant deficiencies:

Observation 2012-1:
During our testing of property and equipment, we noted discrepancies between the general ledger balances to those within the subsidiary ledger detailing the assets captured on the general ledger. The effort needed from System personnel to reconcile the differences was significant given the volume of construction in the 2012 year, together with a reduction in the personnel available to facilitate this reconciliation.

Overall, the amounts noted were not material, and correcting entries were accepted by management; however, the potential for error is significant given the volume of construction occurring on the medical campus.

Recommendation:
We recommend that the roles of System personnel, together with the number of personnel needed, be evaluated and modifications made to facilitate timely reconciliation of the ledgers supporting property and equipment, including construction in progress, to their general ledger control accounts.

While this evaluation is critical given the significant construction and expansion activity occurring within the System's physical plants, there is the added benefit of ensuring adherence to capital budgets, and the complete reporting of retainage payables.

Management's Response:
Management agrees with the observation. Additional positions were approved during the fiscal year and one staff position remains open as a replacement is found. The open Director of Finance position and related tasks along with learning a new fixed asset system compounded the process this fiscal year. Management evaluates workload and resourced needs on an ongoing basis and will adjust as necessary to meet the needs of the organization.

Observation 2012-2:

As written, too, in the prior year, we noted that the templates utilized in the monthly estimation process for calculating patient accounts receivable allowances, for third party payor contractuals and bad debts, are subject to periodic updates without protection from unapproved changes in formula. The templates utilized, which serve as a tool to consistently incorporate historical recovery percentages of patient billings in the calculation of a net realizable value, were developed years ago. Over time, the original templates have been manually tweaked to reflect changes in payor mix, the estimation process, Medicare and Medicaid regulations, software replacement, and other refinements. As a result, there is increased risk of formulaic errors occurring within the interrelated spreadsheets when adjusted manually. Additionally, while very detailed, the expanded format serves to make the review process cumbersome and difficult to review.

Recommendation:
Now, with the software conversion fully implemented, we recommend a redesign of the allowance estimates to streamline the underlying calculations, decrease the amount of manual inputs, and protect the spreadsheets from inadvertent errors. Any redesign should have the primary goal of incorporating the patient accounting system report formats and current payor methodologies to continue to appropriately value the related receivables, while aggregating the necessary financial reporting information in accordance with the latest accounting pronouncements and management's internal needs. The redesign should also incorporate a process for easy review and validation by those involved in the preparation and review of the allowance estimates.

Management Response:
Management agrees with the observation and had intended to develop a sufficient simplified process during fiscal year 2012. However, complications related to the new revenue cycle systems and the need to develop and/or obtain from these systems has delayed this task. Development of a revised accounts receivable reserve estimation model is a priority for fiscal 2013.

Observation 2012-3:
We observed that management has not implemented a general ledger, specific to Lafayette General Health System (LGHS) that would facilitate producing a complete set of financial statements for LGHS, prior to consolidation with its subsidiaries.

The absence of such a system leads to incomplete reporting and extended efforts in building auditable financial statements, especially with regards to investments in subsidiaries, amounts due to and from those subsidiaries, net assets, and the production of accurate elimination entries.

Recommendation:
We recommend that management build a general ledger for LGHS that would allow for the production of monthly financial statements that are in accordance with accounting principles generally accepted in the United States, thus reflecting accuracy in reporting investments in affiliates and non-controlling interests. This should eliminate the need for adjustments to year-end financial statements through the audit process.

Management Response:
Management agrees with the observation. The general ledger will be modified to include necessary system accounts and related intercompany accounts for all system entities. This will insure that all elimination and intercompany related transactions are appropriately recorded for each LGHS entity.

The Health System's written responses to the significant deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, members of the board of trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

LaPorte

A Professional Accounting Corporation