UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION

(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)

DECEMBER 31, 2011

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION

(A MAJOR AFFILIATE OF LSU PURSUANT TO LA. R.S. 17:3390)

DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
University Medical Center Management Corporation
(A Major Affiliate of LSU Pursuant to La. R.S. 17:3390)
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position of the University Medical Center Management Corporation (A Major Affiliate of LSU Pursuant to La. R.S. 17:3390) (the "Corporation") as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2012 on our consideration of the Corporation's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 16, 2012

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UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS		
Cash	$	2,536
Accounts receivable		115,748
Total current assets		118,284
TOTAL ASSETS	$	118,284

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	117,919
Total current liabilities		117,919
NET ASSETS		
Unrestricted		365
Total net assets		365
TOTAL LIABILITIES AND NET ASSETS	$	118,284

The accompanying notes are an integral part of this financial statement.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

REVENUES		
Grant revenue - State of Louisiana	$	784,572
Grant revenue - Office of Community Development		324,494
Total revenues		1,109,066
EXPENSES		
Legal fees		189,295
Consulting fees		814,295
Bank charges		427
Total expenses		1,004,017
Change in net assets		105,049
NET ASSETS - UNRESTRICTED		
Beginning of year		(104,684)
End of year	$	365

The accompanying notes are an integral part of this financial statement.

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
BATON ROUGE, LOUISIANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	105,049
Changes in operating assets and liabilities:		
Receivables		(115,748)
Accounts payable		13,235
Net cash provided by operating activities		2,536
Net change in cash and cash equivalents		2,536
Cash and cash equivalents, beginning of year		-
Cash and cash equivalents, end of year	$	2,536

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Purpose

The Corporation was originally incorporated on October 12, 2005, as Earl K. Long Medical Foundation, Inc. Its articles of incorporation were amended and restated on July 9, 2010, pursuant to which its name was changed to University Medical Center Management Corporation (A Major Affiliate of LSU Pursuant to La. R.S. 17:3390). The Corporation is (i) organized on a non-stock basis as a nonprofit corporation, as provided for by La. R.S. 12:201, and is irrevocably dedicated to the purposes stated in Article 4 of its amended and restated articles of incorporation and (ii) a support organization affiliated with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College ("LSU").

As contemplated by that certain Memorandum of Understanding ("MOU") among LSU, the State of Louisiana Division of Administration, the State of Louisiana Department of Health and Hospitals and Tulane University, originally dated August 28, 2009, which was subsequently amended on March 2, 2010, it is intended the Corporation will manage and operate the new Academic Medical Center under construction by the State of Louisiana in New Orleans. The intended purposes and role of the Corporation are set forth in the MOU. The Corporation's affiliation in support of LSU is for the purpose of furthering LSU's educational mission in training its medical and allied health students, medical residents and conducting research in alignment with its academic and educational research mission.

Pursuant to the MOU, it is contemplated the Corporation will enter into a cooperative endeavor agreement and other agreements providing authority for it to manage and operate the Academic Medical Center when the construction is complete. The Corporation is not responsible for the design or construction of the Academic Medical Center and does not own the land and buildings comprising the Academic Medical Center.

The Corporation had no operations and no employees as of December 31, 2011. The Board of Directors is currently serving as management for the Corporation. The members of the Board of Directors serve without compensation.

2. Significant Accounting Policies

Basis of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows generally accepted accounting principles (GAAP), which requires the Corporation to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Corporation did not have any temporarily or permanently restricted net assets at December 31, 2011.

2. Significant Accounting Policies (continued)

Accounts Receivable

The Corporation determines past due accounts based on contractual terms and does not charge interest on the accounts. The Corporation charges off receivables if management considers the collection of the outstanding balance to be doubtful. Management does not believe an allowance is necessary at December 31, 2011.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturities of less than three months.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates

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

Income Taxes

The Corporation has been recognized by the Internal Revenue Service as a not-for-profit Corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. Accordingly, no provision for income taxes on related income has been included in the financial statements.

The Corporation has adopted the accounting guidance related to accounting for uncertain tax positions. In Management's judgment, the Corporation does not have any tax positions that would result in a loss contingency considering the facts, circumstances, and information available at the reporting date.

With few exceptions, the statute of limitation for the examination of the Corporation's income tax return is generally 3 years from the due date of the tax return including extensions. The tax years open for assessment are the years ending on or after December 31, 2008.

NOTES TO FINANCIAL STATEMENTS

3. Custodial Credit Risk

There are times the Corporation's cash balances with financial institutions may be in excess of the FDIC insured limits. The Corporation has not experienced any losses in its cash accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. Grants

The Corporation received a grant from the Office of Community Development on December 1, 2010 with reimbursement for qualified expenses up to $325,000. The agreement ended on June 30, 2012. The purpose of the program was to assist in the development of the new Academic Medical Center and the resultant provision of health care services to the citizens of Louisiana as well as the creation of economic growth and retention of existing businesses in areas impacted by Hurricanes Katrina and/or Rita.

The Corporation received a grant from the State of Louisiana (Division of Administration) with reimbursement for qualified expenses up to $1,186,000. Payments under this agreement shall be authorized for costs incurred between August 1, 2010 and June 30, 2013. The purpose of this funding is to assist with the administrative costs of the Board related to compliance with or in furtherance of the objectives of the Memorandum of Understanding. The amount remaining on the grant as of December 31, 2011 was approximately $401,000.

5. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 16, 2012 and determined that no events occurred that require additional disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
University Medical Center Management Corporation
(A Major Affiliate of LSU Pursuant to La. R.S. 17:3390)
Baton Rouge, Louisiana

We have audited the financial statements of the University Medical Center Management Corporation (A Major Affiliate of LSU Pursuant to La. R.S. 17:3390) (the "Corporation") as of and for the year ended December 31, 2011, and have issued our report thereon dated August 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 consider the deficiency described in the accompanying schedule of findings as item 2011-1to be a material weakness.

Compliance and other matters

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

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The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management and others within the Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 16, 2012

UNIVERSITY MEDICAL CENTER MANAGEMENT CORPORATION
(A MAJOR AFFILIATE OF LSU PURSUANT TO LA R.S. 17:3390)
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2011

Findings– Financial Statements and Segregation of Duties

2011-1 **Drafting of Financial Statements and Related Notes**

Criteria: The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Corporation, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Internal control over financial reporting should also include policies and procedures that ensure that controls over the accounting function are segregated to serve as a check and balance.

Condition: As part of the audit process, we assisted management in drafting the financial statements and related note disclosures required for the year-end financial reporting. The fact that our role is a key part of the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) is an indication that the internal control over year-end GAAP financial statements by Corporation personnel is not sufficient. We also noted that one person was responsible for issuing the checks and compiling the financial information.

Cause: Since the Corporation had no operations or employees during the year, many of the critical duties were combined and assigned to one Board member.

Effect: The lack of accounting personnel constitutes a material weakness in their internal control over financial reporting.

Recommendation: Upon obtaining additional funding and prior to commencement of operations, we recommend that the Corporation hire accounting personnel to assist with financial reporting and enhance segregation of duties within the Corporation.

View of Responsible Official And Planned Corrective Action: The Corporation intends to implement this recommendation prior to the commencement of operations and upon obtaining necessary funding.