10434

LAFAYETTE GENERAL HEALTH SYSTEM

(Formerly Lafayette General Medical Center and Subsidiaries)

Consolidated Financial Statements

Years Ended September 30, 2011 and 2010

Under provisions of state law, this report is a public document A copy of the report has been submitted to the entity and other appropriate public officials The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court

Release Date APR 04 2012

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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, 2011 and 2010, 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, 2011 and 2010, 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

January 24, 2012

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LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Balance Sheets
September 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and Cash Equivalents	$ 28,221,535	$ 34,799,923
Short-Term Investments	765,877	758,206
Assets Limited as to Use, Current Portion	1,866,349	599,356
Patient Accounts Receivable, Less Allowance for Doubtful Accounts $3,487,143 in 2011 and $5,795,056 in 2010	41,226,290	41,409,059
Amounts Due from Third-Party Payors	698,360	2,225,052
Inventories	7,558,562	6,713,142
Other Current Assets	6,862,579	3,653,142
Total Current Assets	87,199,552	90,157,880
Noncurrent Assets		
Assets Limited as to Use		
Under Debt Agreements Held by Third Party	4,804,289	25,760,315
Board Designated for Property and Equipment Additions and Replacements	65,280,531	65,188,138
	70,084,820	90,948,453
Less Amount Required to Meet Current Obligations	(1,866,349)	(599,356)
	68,218,471	90,349,097
Investments in Joint Ventures	1,302,083	1,312,523
Goodwill	-	5,411,054
Property and Equipment, Net	188,917,267	150,195,078
Unamortized Debt Issuance Costs	1,794,781	1,843,992
Other Assets	4,996,003	2,263,792
Total Noncurrent Assets	265,228,605	251,375,536
Total Assets	$ 352,428,157	$ 341,533,416

See notes to consolidated financial statements

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Balance Sheets (Continued)
September 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	$ 19,957,079	$ 20,499,328
Salaries and Wages Payable	6,723,670	6,964,893
Amounts Due to Third-Party Payors	877,092	1,158,223
Construction and Equipment Loans	4,351,178	-
Current Portion of Self-Insurance Reserves	3,970,290	3,577,325
Current Portion of Capital Lease Obligation	518,640	1,293,745
Current Maturities of Long-Term Debt	2,281,442	407,736
Total Current Liabilities	38,679,391	33,901,250
Noncurrent Liabilities		
Self-Insurance Reserves, Less Current Portion	980,651	945,206
Accrued Postretirement Benefit Costs	3,233,800	3,194,263
Capital Lease Obligation, Less Current Portion	3,389,229	3,907,433
Long-Term Debt, Less Current Portion, Net of Discount	125,378,835	123,783,816
Total Noncurrent Liabilities	132,982,515	131,830,718
Total Liabilities	171,661,906	165,731,968
Net Assets		
Non Controling Interest in Subsidiaries	3,282,802	2,644,630
Unrestricted Net Assets	177,483,449	173,156,818
Total Net Assets	180,766,251	175,801,448
Total Liabilities and Net Assets	$ 352,428,157	$ 341,533,416

See notes to consolidated financial statements

Consolidated Statements of Operations
For the Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted Revenues, Gains and Other Support		
Net Patient Service Revenues	$ 268,698,936	$ 248,901,253
Other Operating Revenues	8,691,188	8,412,605
Total Revenues, Gains and Other Support	277,390,124	257,313,858
Operating Expenses		
Salaries, Wages, and Benefits	106,066,214	103,705,362
Medical Supplies and Drugs	59,199,455	58,560,115
Contract Services	25,418,656	21,776,795
Utilities and Equipment Rentals	22,005,072	19,716,070
Depreciation and Amortization	14,686,048	13,442,852
Provision for Doubtful Accounts	25,392,346	21,012,017
Interest Expense	4,724,294	3,365,047
Insurance Expense	3,740,456	5,053,609
Other Expenses	7,560,305	3,846,775
Total Operating Expenses	268,792,846	250,478,642
Operating Income	8,597,278	6,835,216
Non-Operating Income (Loss)		
Interest and Dividend Income	2,879,291	2,944,941
Realized Gains on Investments	1,007,100	37,117
Unrealized Gain (Loss) on Investments	(2,075,488)	5,115,663
Loss on Sale/Disposal of Assets	(6,090,342)	-
Loss on Refunding of Long-Term Debt	-	(1,361,732)
Other Revenue (Expense), Net	1,420,325	(177,339)
Total Non-Operating Income (Loss)	(2,859,114)	6,558,650
Change in Net Assets	5,738,164	13,393,866
Attributable to Noncontrolling Interest	1,411,533	977,699
Change in Net Assets Attributable to Medical Center	$ 4,326,631	$ 12,416,167

See notes to consolidated financial statements.

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Statements of Change in Net Assets
For the Years Ended September 30, 2011 and 2010

	Controlling Interest	Noncontrolling Interests
Balance at September 30, 2009	$ 160,740,651	$ 2,573,913
Increase in Net Assets for the Year Ended September 30, 2010	12,416,167	977,699
Contributions from Noncontrolling Interests	-	30,518
Distributions Paid to Noncontrolling Interests	-	937,500
Balance at September 30, 2010	173,156,818	2,644,630
Increase in Net Assets 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

See notes to consolidated financial statements

LAFAYETTE GENERAL HEALTH SYSTEM

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Change in Net Assets	$ 4,326,631	$ 12,416,167
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization	14,686,048	13,442,852
Provision for Doubtful Accounts	25,392,346	21,012,017
Loss on Sale/Disposal of Assets	6,090,342	-
Unrealized (Gains) Losses on Investments	2,075,488	(5,115,663)
Equity in Earnings of Joint Ventures	10,440	917,861
Noncontrolling Interests in Subsidiaries	1,411,533	977,699
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(25,209,577)	(23,724,832)
Amounts Due from/to Third-Party Payors	1,245,561	1,469,155
Inventories	(845,420)	(404,643)
Other Assets	(5,830,952)	485,176
Accounts Payable and Accrued Expenses	(783,472)	8,686,469
Self-Insurance Reserves	428,410	1,054,975
Other Liabilities	62,816	826,568
Net Cash Provided by Operating Activities	23,060,194	32,043,801
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(54,087,525)	(43,343,045)
Cash Paid for Goodwill in Physician Practice Acquisitions	-	(1,534,362)
Net Decrease (Increase) in Assets Whose Use is Limited	18,788,145	(25,490,034)
Principal Payments under Capital Lease Obligations	(1,293,309)	(764,453)
Net (Increase) Decrease in Short-Term Investments	(7,671)	828,464
Net Cash Used in Investing Activities	(36,600,360)	(70,303,430)
Cash Flows from Financing Activities		
Repayment of Long-Term Debt	(407,736)	(51,965,137)
Proceeds from Issuance of Long-Term Debt	3,853,182	84,137,555
Cash Paid to Issue New Debt	(61,485)	(1,745,497)
Net Constrution and Equipment Loan Activity	4,351,178	(992,342)
Distributions to Minority Interest Partners, Net of Contributions	(773,361)	(907,252)
Net Cash Provided by Financing Activities	6,961,778	28,527,327
Change in Cash and Cash Equivalents	(6,578,388)	(9,732,302)
Cash and Cash Equivalents		
Beginning	34,799,923	44,532,225
Ending	$ 28,221,535	$ 34,799,923

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. In years prior to the fiscal year ended September 30, 2011, the Organization's consolidated financial statements were titled "*Lafayette General Medical Center and Subsidiaries.*"

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 was licensed for 279 beds as of September 30, 2011 and is located in Lafayette, Louisiana. Subsequent to September 30, 2011, LGMC completed its total facility renovation. Post renovation the organization operates 353 beds which include 15 LDRs, 25 neonatal ICU bassinets and 26 nursery bassinets.

Lafayette Health Ventures, Inc. (LHV) is 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.

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

Lafayette Investment Group, LLC (LIG) was organized to operate a 60,000 square foot short-stay hospital and medical office building in Lafayette, Louisiana, that houses LGSH. LGMC has a 29% ownership interest in LIG, and LGSH has a 38% ownership interest in LIG. The complex is currently undergoing an expansion involving an additional 24,000 square feet of medical space Upon completion, LGMC's individual ownership interest is expected to exceed 50%

St. Martin Hospital Inc. (SMH) is a non-profit Louisiana corporation that is currently a wholly owned subsidiary of LGMC. The entity was organized in 2009, and 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. The leasing arrangement commenced August 1, 2009. Under the terms of the lease, detailed more fully in Note 10, SMH assumed all operations for the Service District as of that date.

Changes in Reporting Entity:

The governing board of Lafayette General Medical Center, Inc. has initiated a process of a corporate reorganization to facilitate greater efficiency in the administration of the various entities above which collectively comprise the reporting entity, and to reduce any redundancies in corporate governance. As of September 30, 2011, LGHS has now become the sole corporate member of LGMC, and LHV. It is currently anticipated that LGHS will acquire the sole membership interest in SMH during fiscal year 2012 from LGMC.

Since LGHS had no other assets or operations in years prior to the fiscal year ended September 30, 2010, there has been no impact to the previously reported consolidated financial statements as of September 30, 2010, other than to apply the name change discussed above to those statements.

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.

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, 2011 and 2010, 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.

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

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.

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

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

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

Property and Equipment: Property and equipment are recorded at acquisition cost, including interest expense capitalized during construction Interest expense of approximately $1,755,000 and $570,000, was capitalized in 2011 and 2010, 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

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

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

Current Assets and Liabilities - LGMC 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 LGMC marketable equity securities are based on quoted market prices in an active market. The carrying amounts of other investments approximate fair value

Bonds Payable - The fair values of LGMC's bonds are based on currently traded values of similar financial instruments

Long-Term Debt - LGMC considers the carrying value of its long-term debt to approximate fair value at September 30, 2011, due to the variable nature of the interest rate

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.

Net Patient Service Revenues. The Organization provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for 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 36% and 39% in 2011 and 2010, 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.

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

SMH serves a disproportionate share of low-income patients and qualifies for Medicaid Disproportionate Share Reimbursements LGMC also often qualifies for similar reimbursement. Total Medicaid Disproportionate Share reimbursements recognized as a component of net patient service revenue were $974,449 and $2,137,775, for the fiscal years ended September 30, 2011 and 2010, respectively.

During 2011 LGMC and SMH formed collaborations with the State and a unit of state government in Louisiana, Louisiana State University Medical Center, 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 collaboration is to create a vehicle 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) Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS).

Federal matching funds are not available for Medicaid payments that exceed UPLs. LGMC and SMH received funding from the State of Louisiana during the fiscal year ended September 30, 2011, 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 $1,505,397 and $782,864 in 2011 and 2010, 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, 2011, will be reported in the Organization's consolidated operations as such determinations are made.

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

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.

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, totaled approximately, $10,720,642 and $8,745,756, for the years ended September 30, 2011 and 2010, respectively.

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, 2011, the Internal Revenue Service still recognizes LHV as a corporation subject to income tax.

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

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.

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

New Accounting Pronouncements adopted: In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-07 *Not-For-Profit Entities: Mergers and Acquisitions* ASU 2010-07 provides guidance on how a not-for-profit entity determines whether a combination is a merger or an acquisition, applies the carryover method in accounting for a merger, applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer, and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. ASU 2010-07 is effective prospectively for mergers that occur at or after the beginning of an initial reporting period that begins on or after December 15, 2009, and acquisitions that occur at or after the beginning of the first annual reporting period that begins on or after December 15. 2009. In addition, ASU 2010-07 applied previously issued guidance regarding the periodic impairment evaluation for goodwill and the accounting for noncontrolling interests to not-for-profit entities for reporting periods beginning on or after December 15, 2009 The Organization adopted ASU 2010-07 on October 1, 2010, and as a result, goodwill and trade name were no longer amortized. This resulted in a decrease in amortization expense of $591,108, in the statement of operations, for fiscal year ended September 30, 2011 The Organization will review goodwill and intangible assets for impairment at least annually. See note 7 for discussion of goodwill activity subsequent to initial adoption of this standard. The significant impact to the Organization's financial statements related to the adoption of the accounting for the noncontrolling interests provisions of the standard was to require those interests to be classified as a component of net assets

Note 2. Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2011 and 2010, were as follows:

	2011	2010
Gross Patient Service Revenue	$ 779,293,354	$ 694,284,424
Provisions for Contractual and Other Adjustments	(504,836,157)	(439,317,160)
Charges Forgone for Charity Care	(5,758,261)	(6,066,011)
Net Patient Service Revenue	$ 268,698,936	$ 248,901,253

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, 2011 and 2010, were as follows:

	2011	2010
Medicare	23 %	28 %
Managed Care	47	43
Other Third-Party Payors	5	6
Medicaid	4	6
Self-Pay Patients	21	17
	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, 2011, LGMC and its subsidiaries reported cash and cash equivalents balances of $28,331,535 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 $22,164,216, as of September 30, 2011.

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

At September 30, 2011 and 2010, 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 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, 2011 and 2010 were primarily invested in money market funds. The balance in short-term investments consisted of $765,877 and $758,206, for 2011 and 2010, respectively.

Assets limited as to use at September 30, 2011 and 2010, were as follows:

	2011	2010
Under Debt Agreement Held by Third Party		
Cash and Cash Equivalents	$ 3,530,489	$ 25,123,415
Loan Participation Interests (Note 9)	1,273,800	636,900
	4,804,289	25,760,315
By Board for Property and Equipment Additions and Replacements		
Equity Mutual Funds	28,696,899	30,185,289
Fixed Income Funds	34,138,161	34,072,332
Cash and Cash Equivalents	2,322,258	797,387
Accrued Interest	123,213	133,130
	65,280,531	65,188,138
Total Assets Whose Use is Limited	$ 70,084,820	$ 90,948,453

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, 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	$ -

These instruments are included on the Organization's September 30, 2011, 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

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2010:

	Fair Value	Level 1	Level 2	Level 3
Mutual Funds				
Equity Funds	$30,185,289	$30,185,289	$ -	$ -
Fixed Income Funds	34,297,851	34,297,851	-	-
Total Mutual Funds	64,483,140	64,483,140	-	-
Money Market and Certificates of Deposit	25,920,802	25,920,802	-	-
Pooled Investment Accounts	758,206	-	758,206	-
Marketable Equity Securities	334,500	334,500	-	-
Insurance Company Group Annuity Contract	387,428	-	387,428	-
Total	$91,884,076	$90,738,442	$1,145,634	$ -

Note 5. Fair Value Measurements (Continued)

These instruments are included on the Organization's September 30, 2010, balance sheet under the following captions:

Short-Term Investments	$ 758,206
Assets Limited as to Use	90,311,553
Items Included as a Component of Other Noncurrent Assets	
Marketable Equity Securities	334,500
Deferred Compensation Arrangement Assets	479,817
Total	$ 91,884,076

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 joint ventures accounted for under the equity method consist of $1,302,083 and $1,312,523, as of September 30, 2011 and 2010, 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, 2011 and 2010, respectively.

Summarized financial information of GI-ASC as of September 30, 2011 includes total assets of $206,716 and total liabilities of $383,701. GI-ASC operates on a calendar year basis and reported $1,253,261 of net income for the nine months ended September 30, 2011. 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

Under this method, the Organization's share of the earnings or losses of such Investee companies is not included in the Consolidated Balance Sheet or Statement of Operations However, impairment charges are recognized in the Consolidated Statement of Operations if applicable If circumstances suggest that the value of the investee company has subsequently recovered, such recovery is not recorded. Included in Other Noncurrent Assets are $334,278 of investments accounted for under the cost method

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.

Nonprofit organizations, such as the Organization, are within the scope of FASB ASC 350-10-05, but were not permitted to adopt the provisions of that standard for goodwill or intangible assets acquired in a business combination until the effective date of ASC 958 Not for Profit Entities Mergers and Acquisitions. The Organization ceased amortization of Goodwill effective October 1, 2010, as the new standard required and adopted the process of impairment testing at the "reporting unit" level as defined in the standard. Recorded goodwill as of September 30, 2010, net of related amortization of $546,737, was $5,411,054. 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

	2011	2010
Land and Land Improvements	$ 9,299,091	$ 9,284,020
Buildings and Fixed Equipment	242,279,903	190,023,569
Major Movable Equipment	76,888,642	68,852,846
	328,467,636	268,160,435
Less Accumulated Depreciation	154,394,792	140,437,764
	174,072,844	127,722,671
Construction in Progress	14,844,423	22,472,407
Total	$ 188,917,267	$ 150,195,078

At September 30, 2011, the Organization was obligated under purchase commitments of approximately $1,640,236, related to the completion of various property improvement projects, and $941,669 related to other purchase commitments In addition, at September 30, 2011, the Organization has $2,855,226, of retainage payable, related to the completion of various construction projects, included in accounts payable and accrued expenses.

Note 9. Short-Term and Long-Term Debt

The following table summarizes the Organization's outstanding debt as of September 30, 2011 and 2010:

Construction and Equipment Loans		2011	2010
Construction Loan - LIG Interest rate of 5 625%, due on demand or upon maturity on February 15, 2012	(A)	$ 2,174,992	$ -
Equipment Loan - LGMC Variable interest at LIBOR plus 2 25% (2 74% at September 30, 2011), matures May 4, 2012	(B)	2,176,186	-
Total		$ 4,351,178	$ -

Long Term Debt		2011	2010
New Market Tax Credit Facility A Variable interest at not less than 4 00%, payable in annual installments through 2023	(C)	$ 25,476,000	$ 25,476,000
New Market Tax Credit Facility B Interest Rate of 1 00%, maturing on September 30, 2023	(C)	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	(D)	84,840,000	84,840,000
Revenue Note Payable - LGMC Interest rate of 3 61%, payable in monthly installments of $78,760 through February 25, 2016	(E)	3,853,182	-
Bank Note Payable - LIG Variable interest at 5 5% - 5 875%, due in serial installments through April 23, 2014	(F)	4,643,080	5,050,816
		128,336,262	124,890,816
Less: Unamortized original issue discount		(675,985)	(699,264)
		127,660,277	124,191,552
Less: Current maturities of long-term debt		(2,281,442)	(407,736)
Total		$ 125,378,835	$ 123,783,816

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

(A) 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 is due upon demand, or if no demand upon maturity - February 15, 2012 Interest is payable with each draw request with any remaining amount due upon maturity As of September 30, 2011 there was $2,174,992 of outstanding borrowings under the terms of the note. The note is secured by a security interest in deposit accounts with the lender, and certain real estate owned by LIG. The agreement provides for conversion to a term loan with principal and interest due monthly and a balloon payment at the end of 60 months.

(B) 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 requires monthly interest payments at a rate of LIBOR plus 2.50% (2.74% at September 30, 2011). The line of credit matures on May 4, 2012. At September 30, 2010, the Organization had no outstanding borrowings under this line of credit At September 30, 2011, the Organization had $2,176,186 outstanding borrowings against this line of credit. If no default under the terms of the note as of May 4, 2012, the outstanding principal shall be converted to a term loan, due in monthly installments, amortized over a period of 60 months Prior to May 4, 2012, LGMC may prepay the note's outstanding principal and accrued interest in full.

(C) 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%.

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

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 on 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.

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. Provided that compliance with these criteria is achieved, the Facility B loan shall be forgiven at maturity 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

(D) 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 These bonds are due serially through November 1, 2041

(E) 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%.

(F) 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)

(G) 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%, with the index being subject to a minimum of 2.0% (4.25% at September 30, 2011) The line of credit matures on August 7, 2012. At September 30, 2011 and 2010, the Organization had no outstanding borrowings under this line of credit.

In connection with the Series 2010 Bonds, 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 and minimum day's cash on hand. For the years ended September 30, 2011 and 2010, the Organization was in compliance with these covenants

The fair values of the Series 2010 Bonds were based on actual quoted market prices for the bonds and were $88,701,124 and $87,249,098, at September 30, 2011 and 2010, respectively. The fair value of the Organization's other long-term debt instruments approximate the carrying values reported above Debt service payments sufficient to meet annual principal and interest requirements under the bond indenture are required to be made by the Organization.

At September 30, 2011, scheduled maturities of long-term debt for the years ending September 30th, were as follows.

2012	$ 2,281,442
2013	2,388,715
2014	5,767,749
2015	913,083
2016	390,273
Thereafter	116,595,000
Total	$ 128,336,262

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, 2011, are as follows:

2012	$ 636,900
2013	636,900
2014	636,900
2015	2,547,600
2016	2,467,988
Thereafter	17,275,912
Total	$ 24,202,200

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

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 $1,273,800 as of September 30, 2011, and are included in Assets Limited as Use on the consolidated balance sheets

The Organization paid interest related to long-term debt of $6,293,533 and $3,602,490, during the years ended September 30, 2011 and 2010, 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, effective August 1, 2009, SMH began leasing 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.

Additionally as part of the agreement, SMH assumed certain current assets and liabilities of the Service District related to the operation of the facility. 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 and equipment associated with this lease is $1,928,696 and $1,745,786, and the recorded cost of construction in progress associated with this lease is $39,835 and $23,096 as of September 30, 2011 and 2010. Accumulated amortization of the leased assets acquired was $187,499 and $91,973, as of September 30, 2011 and 2010.

Note 10. Capital Leases (Continued)

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, 2011.

Year Ending September 30:	Amount
2012	$ 773,407
2013	731,935
2014	286,000
2015	286,000
2016	286,000
2017-2021	1,430,000
2022-2026	1,430,000
2027-2031	1,430,000
2032-2036	810,333
Total Minimum Lease Payments	7,463,675
Less Amount Representing Interest	(3,555,806)
Present Value of Minimum Lease Payments	3,907,869
Less Current Maturities of Capital Lease Obligations	(518,640)
Long-Term Capital Lease Obligations	$ 3,389,229

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, 2011 and 2010, 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.

Note 11. Retirement Benefits (Continued)

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, 2011 and 2010, were $850,470 and $1,071,024, respectively

During the year ended September 30 2009, the Organization entered into a deferred compensation arrangement with a group of its key executives. The arrangement was made retroactively effective as of January 1, 2008. 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, 2011 and 2010, the Organization had set aside $621,529 and $479,817, respectively, in a Rabbi Trust, which is included as a component of Other Noncurrent Assets on its balance sheets, in accordance with terms of the arrangement As of September 30, 2011 and 2010, the Organization had recorded accrued liabilities of $280,782 and $246,463, 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.

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

Note 12. Accrued Other Postretirement Benefits (Continued)

The plan's funded status, along with assumptions used to calculate that status at September 30, 2011 and 2010, were as follows:

	Fiscal Year Ending September 30,	
	2011	2010
Benefit Obligation Information:		
Accumulated Postretirement Benefit Obligation	$ 3,233,800	$ 3,199,000
Asset Information:		
Employer Contributions	$ 269,600	$ 277,500
Plan Participants' Contributions	8,400	9,500
Benefits Paid	$ 278,000	$ 287,000
Fair Value of Assets at End of Year	$ -	$ -
Funded Status at End of Year	$ (3,233,800)	$ (3,199,000)
Amounts Recognized in the Statement of Financial Position:		
Noncurrent Assets	$ -	$ -
Current Liabilities	(258,800)	(251,200)
Noncurrent Liabilities	(2,975,000)	(2,947,800)
Total	$ (3,233,800)	$ (3,199,000)
Amounts Recognized in Unrestricted Net Assets:		
Amount Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	$ -	$ -
Prior Service Cost/(Credit)	(86,900)	(126,200)
Net Actuarial (Gain)/Loss	147,200	(27,400)
Total	$ 60,300	$ (153,600)
Total Amount Recognized in Unrestricted Net Assets	$ 60,300	$ (153,600)
Assumptions for End of Year Disclosure:		
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

Note 12. Accrued Other Postretirement Benefits (Continued)

The following table presents expected future benefit payments to beneficiaries.

	Fiscal Year Ending September 30,	
	2011	2010
Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets:		
Net Periodic Benefit Cost		
Net Periodic Benefit (Income)/Expense	$ **90,500**	$ 72,400
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	$ -	$ -
Prior Service Cost (Credit)	-	-
Net Loss (Gain)	**174,600**	501,600
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	$ **213,900**	$ 540,900
Total Recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	$ **304,400**	$ 613,300
Assumptions for Net Periodic Benefit Cost:		
Discount Rate	**4.24%**	5 14%
Initial Medical Trend Rate	**10.00%**	8 50%
Ultimate Medical Trend Rate	**5.00%**	5 00%
Years from Initial to Ultimate Trend	**10**	7
Measurement Date	**9/30/2010**	9/30/2009
Expected Benefit Payments:		
2012 Fiscal Year	$ **263,900**	
2013 Fiscal Year	$ **269,500**	
2014 Fiscal Year	$ **273,000**	
2015 Fiscal Year	$ **274,300**	
2016 Fiscal Year	$ **273,200**	
2017 - 2021 Fiscal Year	$ **1,268,200**	
Expected Employer Contributions Recognized for the 2012 Fiscal Year:	$ **263,900**	
Expected Amortization Amounts Included in Expense for the 2012 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, 2011 and 2010, were as follows

	2011	2010
Health Care Services	$ 221,197,128	$ 202,273,478
General and Administrative	47,595,718	48,205,164
Total	$ 268,792,846	$ 250,478,642

Note 14. Income Taxes

The operations of LHV have 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

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 LGMC and subsidiaries are 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 It is the opinion of management that estimated costs resulting from pending or threatened litigation are adequately accrued.

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 Reserves have been established for all estimated known and incurred but not reported claims net of anticipated estimated insurance recoveries and are included in self-insurance reserves in the consolidated balance sheets

Operating Lease Commitments: Rental expense for all operating leases totaled $6,085,218 and $5,570,569 for the years ended September 30, 2011 and 2010, respectively

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

2012	$ 4,151,997
2013	3,675,606
2014	2,602,982
2015	2,337,997
2016	1,586,467
Thereafter	7,959,597
Total	$ 22,314,646

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, 2011 and 2010, consist of buildings and improvements with an original cost of $64,933,491 and $63,222,009, respectively. Accumulated depreciation of the leased assets totaled $29,855,413 and $27,322,204, at September 30, 2011 and 2010, respectively.

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

2012	$ 3,911,127
2013	3,354,863
2014	2,732,898
2015	2,061,174
2016	1,596,523
Thereafter	1,485,401
Total	$ 15,141,986

Note 16. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 24, 2012. 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

Note 17. 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) No 2010-23, *Health Care Entities (Topic 954) - Measuring Charity Care for Disclosure - a consensus of the FASB Emerging Issues Task Force*. 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. Various techniques will likely be used to determine how the direct and indirect costs are identified, such as obtaining the information directly from a costing system or 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 However, the disclosures affected by the ASU should be applied retrospectively for all prior periods presented. The amendments in the ASU are effective for fiscal years beginning after December 15, 2010.

Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries - a consensus of the FASB Emerging Issues Task Force*. This ASU clarifies that a health care entity within the scope of Topic 954, *Health Care Entities*, should not net insurance recoveries against a related claim liability Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The amendments eliminate an industry exception and thus conform to the general principle of FASB Accounting Standards Codification Subtopic 210-20, *Balance Sheet – Offsetting*, which does not permit offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties.

The amendments in the ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Any net difference between existing liabilities and insurance recoveries compared to those recorded as a result of applying the amendments should be recognized as a cumulative effect adjustment in opening retained earnings at that time.

Note 17. New and Pending Financial Accounting Standards Board (FASB) Pronouncements (Continued)

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

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

Note 17. New and Pending Financial Accounting Standards Board (FASB) Pronouncements (Continued)

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