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LAFAYETTE GENERAL MEDICAL CENTER
AND SUBSIDIARIES

Consolidated Financial Statements

Years Ended September 30, 2010 and 2009

Release Date 4/20/11

Contents

LaPorte Sehrt Romig Hand
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Trustees
Lafayette General Medical Center

We have audited the accompanying consolidated balance sheets of Lafayette General Medical Center and Subsidiaries (Medical Center) as of September 30, 2010 and 2009, 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 Medical Center'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 Medical Center and Subsidiaries as of September 30, 2010 and 2009, 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, Sehrt, Romig & Hand

A Professional Accounting Corporation

January 18, 2011

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LAFAYETTE GENERAL MEDICAL CENTER AND SUBSIDIARIES

Consolidated Balance Sheets
September 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and Cash Equivalents	$ 35,597,300	$ 44,532,225
Short-Term Investments	758,206	1,586,670
Assets Limited as to Use, Current Portion	599,356	183,172
Patient Accounts Receivable, Less Allowance for Doubtful Accounts $5,795,056 in 2010 and $5,893,120 in 2009	41,409,059	38,696,244
Amounts Due from Third-Party Payors	2,225,052	2,589,002
Inventories	6,713,142	6,308,499
Other Current Assets	4,356,923	3,488,566
Total Current Assets	91,659,038	97,384,378
Noncurrent Assets		
Assets Limited as to Use		
Under Bond Indenture Agreement Held by Trustee	25,123,415	183,172
Board Designated for Property and Equipment Additions and Replacements	64,390,761	59,522,684
	89,514,176	59,705,856
Less Amount Required to Meet Current Obligations	(599,356)	(183,172)
	88,914,820	59,522,684
Investments in Joint Ventures	1,312,523	2,364,051
Goodwill	5,411,054	4,423,095
Property and Equipment, Net	150,195,078	118,679,296
Unamortized Debt Issuance Costs	1,843,992	1,082,609
Other	1,560,011	1,249,092
Total Noncurrent Assets	249,237,478	187,320,827
Total Assets	$ 340,896,516	$ 284,705,205

See notes to consolidated financial statements.

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	$ 20,499,328	$ 11,713,486
Salaries and Wages Payable	6,964,893	7,064,266
Amounts Due to Third-Party Payors	1,158,223	53,018
Current Portion of Self-Insurance Reserves	3,577,325	2,015,491
Current Portion of Capital Lease Obligation	1,293,745	678,780
Current Maturities of Long-Term Debt	1,044,636	5,062,479
Total Current Liabilities	34,538,150	26,587,520
Noncurrent Liabilities		
Self-Insurance Reserves, Less Current Portion	945,206	1,452,065
Accrued Postretirement Benefit Costs	3,194,263	2,728,914
Capital Lease Obligation, Less Current Portion	3,907,433	3,671,262
Long-Term Debt, Less Current Portion, Net of Discount	122,510,016	86,950,880
Total Noncurrent Liabilities	130,556,918	94,803,121
Total Liabilities	165,095,068	121,390,641
Minority Interest	2,644,630	2,573,913
Unrestricted Net Assets	173,156,818	160,740,651
Total Liabilities and Net Assets	$ 340,896,516	$ 284,705,205

See notes to consolidated financial statements.

LAFAYETTE GENERAL MEDICAL CENTER AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

	2010	2009
Unrestricted Revenues, Gains and Other Support		
Net Patient Service Revenues	$ 248,901,253	$ 213,287,496
Other Operating Revenues	8,412,605	9,643,063
Total Revenues, Gains and Other Support	257,313,858	222,930,559
Expenses		
Salaries, Wages, and Benefits	103,705,362	94,468,444
Medical Supplies and Drugs	58,560,115	52,276,981
Contract Services	21,776,795	18,750,552
Utilities and Equipment Rentals	19,716,070	18,235,848
Depreciation and Amortization	13,442,852	13,569,451
Provision for Doubtful Accounts	21,012,017	17,911,742
Interest Expense	3,365,047	2,868,989
Insurance Expense	5,053,609	3,667,410
Other Expenses	3,846,775	2,177,688
Total Expenses	250,478,642	223,927,105
Operating Income (Loss)	6,835,216	(996,546)
Non-Operating Income (Loss)		
Interest and Dividend Income	2,944,941	2,680,242
Realized Gains on Investments	37,117	480,626
Unrealized Gain (Loss) on Investments	5,115,663	(1,828,202)
Loss on Refunding of Long-Term Debt	(1,361,732)	-
Other Revenue (Expense), Net	(177,339)	741,141
Total Non-Operating Income (Loss)	6,558,650	2,073,807
Change in Net Assets Before Minority Interest	13,393,866	1,077,261
Minority Interest in Earnings of Consolidated Joint Ventures	(977,699)	(991,640)
Change in Net Assets	12,416,167	85,621
Unrestricted Net Assets		
Beginning	160,740,651	160,655,030
Ending	$ 173,156,818	$ 160,740,651

See notes to consolidated financial statements.

LAFAYETTE GENERAL MEDICAL CENTER AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in Net Assets	$ 12,416,167	$ 85,621
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	13,442,852	13,569,451
Provision for Doubtful Accounts	21,012,017	17,911,742
Unrealized (Gains) Losses on Investments	(5,115,663)	1,828,202
Equity in Earnings of Joint Ventures	917,861	1,295,698
Minority Interest	977,699	991,640
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(23,724,832)	(15,296,249)
Amounts Due from/to Third-Party Payors	1,469,155	(2,835,397)
Inventories	(404,643)	377,006
Other Assets	485,176	(1,254,569)
Accounts Payable and Accrued Expenses	8,686,469	(4,082,794)
Self-Insurance Reserves	1,054,975	(423,134)
Other Liabilities	826,568	620,314
Net Cash Provided by Operating Activities	32,043,801	12,787,531
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(43,343,045)	(15,491,192)
Cash Paid for Goodwill in Physician Practice Acquisitions	(1,534,362)	(1,714,453)
Net (Increase) Decrease in Assets Whose Use is Limited	(24,692,657)	4,642,559
Principal Payments under Capital Lease Obligations	(764,453)	(222,277)
Net Decrease (Increase) in Short-Term Investments	828,464	(789,260)
Net Cash Used in Investing Activities	(69,506,053)	(13,574,623)
Cash Flows from Financing Activities		
Repayment of Long-Term Debt	(51,965,137)	(5,918,334)
Proceeds from Issuance of New Market Tax Credit Facilities	-	35,000,000
Proceeds from Issuance of Installment Loan	-	4,300,000
Proceeds from Issuance of Long-Term Debt	84,137,555	-
Construction Loans	-	5,437,387
Cash Paid to Issue New Debt	(1,745,497)	-
Net Line of Credit Activity	(992,342)	992,342
Distributions to Minority Interest Partners, Net of Contributions	(907,252)	(395,782)
Net Cash Provided by Financing Activities	28,527,327	39,415,613
Change in Cash and Cash Equivalents	(8,934,925)	38,628,521
Cash and Cash Equivalents		
Beginning	44,532,225	5,903,704
Ending	$ 35,597,300	$ 44,532,225

See notes to consolidated financial statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business:

The consolidated financial statements include the accounts of the following entities, which are collectively referred to as the Medical Center. There are no other organizations whose financial statements should be consolidated and presented with these consolidated financial statements.

Lafayette General Medical Center (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 214 beds as of September 30, 2010 and is located in Lafayette, Louisiana. LGMC is currently in the midst of a total facility renovation. Post renovation the organization plans to operate 294 licensed beds.

Lafayette Health Ventures, Inc. (LHVI) is a management holding company established to manage certain operations that are part of the Medical Center, including a professional collection agency, urgent care clinics, durable medical equipment, orthotic services, and physician practice support services including billing, office management, and staffing.

The accounts of LHVI include the operations of Delta Financial Services, Medical Dimensions, Advanced Medical Supplies and Services, Orthotics Center, Primary Care Physicians, Quick Care-Southpark, and Family Health Plaza. In recent years, LHVI also encompasses the practices of several directly employed physicians.

Greater Lafayette Physicians Hospital Organization, Inc. (PHO) is a physician-hospital organization that currently negotiates managed care contract arrangements.

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

Lafayette General Surgical Hospital, LLC (LGSH) operates an ambulatory surgery center in Lafayette, Louisiana, located within the ASC Building owned by Lafayette Investment Group, LLC. The Medical Center has a 50% ownership interest in LGSH. The operating agreement of LGSH provides the Medical Center with specific powers that provide the Medical Center with a controlling interest.

Lafayette Investment Group, LLC (LIG) was organized to operate a 60,000 square foot ambulatory surgical center and medical office building (ASC Building) in Lafayette, Louisiana, that houses LGSH. LGMC has a 29% ownership interest in LIG, and LGSH has a 38% ownership interest in LIG.

St. Martin Hospital Inc. (SMH) is a non-profit Louisiana corporation that is a wholly owned subsidiary of Lafayette General Medical Center. 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 leasing arrangement from 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.

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

Significant Accounting Policies:

Principles of Consolidation: The accompanying consolidated financial statements of Lafayette General Medical Center and Subsidiaries include the accounts of Lafayette General Medical Center, its wholly owned subsidiaries and entities in which the Medical Center 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 Medical Center and changes therein are classified and reported as permanently restricted, temporarily restricted, or unrestricted. At September 30, 2010 and 2009, and during the years then ended, all of the Medical Center's net assets were unrestricted.

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

Short-Term Investments: Short-term investments consist of highly liquid investments with a maturity of more than three months, when purchased, and a current maturity of less than one year. Short-term investments are stated at fair value based on quoted market values.

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

Assets Whose Use is Limited: Assets whose use is limited include investments held by trustees under bond indenture agreements and the Medical Center'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.

Investments: 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 mutual funds and fixed income funds are classified as noncurrent due to the Medical Center's intent to hold the investment for long-term purposes. Investments classified as long-term may be sold before their maturities to fund working capital or for other purposes.

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

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

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

Property and Equipment: Property and equipment are recorded at acquisition cost, including interest expense capitalized during construction. Interest expense of approximately $570,000 and $46,000 was capitalized in 2010 and 2009, 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 over 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 bond issues 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.

Minority Interest: The interest held by third parties in subsidiaries owned or controlled by the Medical Center is reported as minority interest in the consolidated balance sheets. Minority 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 Medical Center's results of operations.

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

Fair Value of Financial Instruments: Financial instruments are described as cash or contractual obligations or rights to pay or receive cash. The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments which include cash and cash equivalents, receivables, accounts payable, accrued liabilities, estimated third-party payor settlements, and other current liabilities. The Medical Center's investments and assets limited as to use are carried at fair value on the balance sheets. The fair value of long-term debt excluding capital lease obligations is discussed in Note 9.

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.

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

Net Pàtient Service Revenues: The Medical Center 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 43% and 42% in 2010 and 2009, respectively.

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

SMH serves a disproportionate share of low-income patients and qualifies for Medicaid Disproportionate Share Reimbursements. LGMC often also qualifies for similar reimbursement. Total Medicaid Disproportionate Share reimbursements recognized as a component of net patient service revenue were $2,137,775 and $790,464 for the fiscal years ended September 30, 2010 and 2009, respectively.

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 $782,864 and $1,379,340 in 2010 and 2009, respectively. LGMC's estimated settlements through September 30, 2005 for the Medicare program, and September 30, 2004 for the Medicaid program, have been reviewed by program representatives. SMH's estimated settlements through September 30, 2008 for the Medicare program, and September 30, 2007 for the 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, 2010, will be reported in the Medical Center's consolidated operations as such determinations are made.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Medical Center 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.

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

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 so-called Recovery Audit Contractor (RAC) program on a permanent and nationwide basis no later than 2010. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts. RAC audits are anticipated; however, the outcome cannot be reasonably estimated.

Charity Care: The Medical Center 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 Medical Center 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, $6,066,000 and $4,816,000 for the years ended September 30, 2010 and 2009, respectively.

Income Taxes: LGMC and SMH are exempt from federal income taxes on related income under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3). LHVI is a for-profit Louisiana corporation that has incurred operating losses as described in Note 14. 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.

Uncertain Tax Positions: The Hospital accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) ACS 740 (formerly Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109). 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.

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. Actual results could differ from those estimates.

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

Note 2. Net Patient Service Revenues

Net patient service revenues for the years ended September 30, 2010 and 2009, were as follows:

	2010	2009
Gross Patient Service Revenue	$ **694,284,424**	$ 595,595,743
Provisions for Contractual and Other Adjustments	**(439,317,160)**	(377,491,513)
Charges Forgone for Charity Care	**(6,066,011)**	(4,816,734)
Net Patient Service Revenue	$ **248,901,253**	$ 213,287,496

Note 3. Business and Credit Concentration

The Medical Center grants credit to patients, substantially all of whom are local residents. The Medical Center 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).

Receivables from Medicare and Medicaid programs represent a concentrated credit risk for the Medical Center. Management does not believe that there is a significant risk of loss associated with these programs. Various other payors, including managed care companies, patients, and other third-party payors, subject to differing economic conditions, do not represent significant concentrated credit risks to the Medical Center.

The Medical Center 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 Medical Center 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 Medical Center's assessment of historical and expected net collections, business and economic conditions, and trends in government reimbursement. Uncollectible accounts are written off when the Medical Center has determined the account will not be collected.

Note 3. Business and Credit Concentration (Continued)

The approximate percentages of net patient accounts receivable by payor at September 30, 2010 and 2009 were as follows:

	2010	2009
Medicare	28 %	28 %
Managed Care	43	39
Other Third-Party Payors	6	7
Medicaid	6	6
Self-Pay Patients	17	20
	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. As of September 30, 2010, LGMC and its subsidiaries reported cash and cash equivalents balances of $35,597,300. These balances substantially exceeded the amount of insurance coverage. The Medical Center'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 Medical Center to a significant risk of loss.

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

At September 30, 2010 and 2009, the Medical Center had short-term investments consisting of equity interests in a series of commingled private trusts established under the Louisiana Hospital Investment Pool program. The Medical Center 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, 2010 and 2009 were primarily invested in money market funds. The balance in short-term investments consisted of $758,206 and $1,586,670 for 2010 and 2009, respectively.

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

Assets limited as to use at September 30, 2010 and 2009 were as follows:

	2010	2009
Under Bond Indenture Agreement Held by Trustee		
Automated Government Money Trust	$ 25,123,415	$ 183,172
By Board for Property and Equipment Additions and Replacements		
Equity Mutual Funds	30,185,289	25,869,767
Fixed Income Funds	34,072,332	33,492,230
Money Market Funds	10	37
Accrued Interest	133,130	160,650
	64,390,761	59,522,684
Total Assets Whose Use is Limited	$ 89,514,176	$ 59,705,856

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 Medical Center 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.

Note 5. Fair Value Measurements (Continued)

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.

The following table sets forth by level, within the fair value hierarchy, the Medical Center'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	25,123,425	25,123,425	-	-
Pooled Investment Accounts	758,206	-	758,206	-
Insurance Company Group Annuity Contract	387,428	-	387,428	-
Total	$ 90,752,199	$ 89,606,565	$ 1,145,634	$ -

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

Short-Term Investments	$ 758,206
Assets Limited as to Use	89,514,176
Deferred Compensation Arrangement Assets Included as a Component of Other Noncurrent Assets	479,817
Total	$ 90,752,199

Note 6. Investments in Joint Ventures

Investments in joint ventures accounted for under the equity method consist of the following as of September 30th

		2010		2009
Gastrology Intestinal ASC				
Endoscopy Center, Inc	$	1,312,523	$	1,477,794
Lafayette General Imaging, LLC		-		886,257
Total	$	1,312,523	$	2,364,051

The Medical Center holds a 50% interest in Gastrology Intestinal ASC Endoscopy Center, Inc. (GI-ASC). This Company provides ambulatory surgical services in Lafayette, Louisiana. The investment in GI-ASC includes approximately $1,333,333 and $1,467,000 of equity method goodwill net of accumulated amortization of $666,667 and $533,000, as of September 30, 2010 and 2009, respectively. Amortization expense of $133,333 is being recognized annually.

The Medical Center held a 50% interest in Lafayette General Imaging, LLC. (LGI). After acquiring the remaining units of membership, the Medical Center assumed the capital lease obligation and related asset held by LGI. LGI was then dissolved in February 2010.

Note 7. Goodwill

Goodwill on the Medical Center's consolidated statement of position represents 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.

Goodwill with a net carrying amount of $5,411,054 and $4,423,095 as of September 30, 2010 and 2009 recorded by LHVI and LGMC is related to the acquisition of medical practices in recent fiscal years

Equity method goodwill arising upon the 2005 acquisition of GI-ASC by LGMC is included within the carrying amount of that investment as detailed in Note 6 above. The carrying amount of the equity method goodwill component included in Note 6 above comprises the substantial portion of the investment in joint ventures.

Nonprofit organizations, such as the Medical Center, 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 SFAS No. 164 *Not for Profit Entities: Mergers and Acquisitions*. For fiscal years beginning after December 15, 2009, the Medical Center will account for goodwill in the manner prescribed by FASB ASC 350-10-05. See Note 17 for further details.

Note 8. Property and Equipment

Property and equipment consists of the following:

	2010	2009
Land and Land Improvements	$ 9,284,020	$ 9,396,934
Buildings and Fixed Equipment	190,023,569	186,262,576
Major Movable Equipment	68,852,846	83,804,087
	268,160,435	279,463,597
Less: Accumulated Depreciation	140,437,764	165,388,143
	127,722,671	114,075,454
Construction in Progress	22,472,407	4,603,842
Total	$ 150,195,078	$ 118,679,296

At September 30, 2010, the Medical Center was obligated under purchase commitments of approximately $29,602,960, related to the completion of various property improvement projects, and $295,923 related to other purchase commitments.

Note 9. Long-Term Debt

The following table summarizes the Medical Center's outstanding debt as of September 30 2010 and 2009:

		2010	2009
Revenue Bonds, Series 1998: Interest rates ranging from 3.75% to 5.25%, payable semi-annually.	(A)	$ -	$ 27,400,000
Taxable Revenue and Refunding Notes, Series 1998B: Interest payable monthly at variable rates.	(B)	-	20,675,000
New Market Tax Credit Facility A: Variable interest at not less than 4.00%, payable in annual installments through 2023.	(C)	24,839,100	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 rates ranging from 2.0% to 5.5%, payable semi-annually through 2041.	(D)	84,840,000	-
Bank Note Payable - LGMC, Interest at 4.10%: Payable in quarterly installments of principal and interest through September 26, 2010.	(E)	-	2,866,666
Bank Note Payable - LIG: Variable interest at 5.5% - 5.875%, due in serial installments through April 23, 2014.	(F)	5,050,816	5,437,387
Revolving Credit Line: Variable interest at LIBOR plus 2.25%, matures August 9, 2011.	(G)	-	992,344
		124,253,916	92,371,397
Less: Unamortized original issue discount		(699,264)	(358,038)
		123,554,652	92,013,359
Less: Current maturities of long-term debt		(1,044,636)	(5,062,479)
Total		$ 122,510,016	$ 86,950,880

Note 9. Long-Term Debt (Continued)

(A) Revenue Bonds, Series 1998: On August 1, 1998, the Medical Center issued $36,945,000 of tax-exempt revenue refunding bonds through the Louisiana Public Facilities Authority (LPFA). The 1998 series bonds are secured by a pledge of the Medical Center's revenues and receipts. These bonds were due serially through October 1, 2022. The bonds were callable in periods after October 1, 2008.

On August 1, 2010, the Medical Center used a portion of the proceeds of the Series 2010 bonds, detailed as item (D) below, to refund the Series 1998 revenue bonds. In August of 2010 the funds were deposited in an escrow fund with the Bank of New York Mellon Trust Company, N.A., to be held for the payment of principal and interest on the refunded bonds. The Medical Center was relieved of its liability and obligation for its master trust indenture note to LPFA and the bonds were considered defeased as of September 30, 2010. The bonds were subsequently called for redemption on October 1, 2010 at a price of 100% of the principal amount plus any accrued interest to the redemption date. The Medical Center recorded a loss in the amount of $1,361,732 on the refunding transaction.

(B) Taxable Revenue and Refunding Notes, Series 1998B: On August 1, 1998, the Medical Center issued $20,675,000 of taxable revenue and refunding notes. The 1998B series notes were secured by a pledge of the Medical Center's revenues and receipts. These notes bore interest at a variable rate that was determined so as to have been the lowest rate of interest which would cause the notes to have a market value equal to the principal amount thereof, plus accrued interest, under prevailing market conditions for comparable securities. The notes were due serially from October 1, 2010 to October 1, 2022. The notes were redeemed by Medical Center in their entirety along with accrued interest prior to the issuance of the Series 2010 Bonds.

(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 is due serially from September 30, 2010 to September 30, 2023, however LGMC may not prepay the note in full or in part prior to September 2016. Interest on this obligation is at a rate equal to the LIBOR base rate plus 2.5%, however that interest rate shall never be lower than 4%.

The Facility B Note (subordinate note) issued for $9,524,000 is also secured by the credit and loan agreements referred to above. The Facility B Note includes a provision prohibiting any early payment, and is due on September 30, 2023. 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.

Note 9. Long-Term Debt (Continued)

The notes are intended to qualify as a "quality low-income community investment" for purposes of generating certain tax credits called New Market Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, LGMC must comply with certain representations, warranties and covenants. These include, but are not limited to, LGMC's non-profit status, and that the "portion of the business" (as defined) will operate to qualify as a qualified low-income community business. 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) Bank Note Payable – LGMC: During 2009, LGMC issued this note to a local bank. The proceeds of the financing were used to retire the balance of the Series 1985A Equipment Refunding and Revenue Bonds in full. The balance was due in quarterly installments $716,667 plus interest at 4.10% through September 26, 2010. At September 30, 2010, the note was paid in full.

(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.

(G) Revolving Credit Line: The Medical Center had an unsecured revolving line of credit from a bank that permits the borrowings of up to $10,000,000 at an interest rate of LIBOR plus 2.25% (4.25% at September 30, 2010). The line of credit matures on August 9, 2011. At September 30, 2010, the Medical Center had no outstanding borrowings under this line of credit. At September 30, 2009, the Medical Center had borrowings of $992,344 against this line.

In connection with the Series 1998 Bonds and the Series 1998B Notes, the Medical Center was required to comply with covenants contained in the Master Trust Indenture dated June 1, 1998. These covenants included, among other requirements, annual certification by the Medical Center to the Bond Trustee of proper corporate existence and maintenance of property, current ratio, debt service coverage ratio, liquidity ratio, minimum day's cash on hand, and minimum unrestricted fund balance. For the years ended September 30, 2010 and 2009, the Medical Center was in compliance with these covenants.

In connection with the Series 2010 Bonds, the Medical Center 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 year ended September 30, 2010, the Medical Center was in compliance with these covenants.

Note 9. Long-Term Debt (Continued)

The fair values of the Series 1998 Bonds, and the 1988 Notes, were based on actual quoted market prices for the bonds and were $-0- and $49,067,000 at September 30, 2010 and 2009, respectively. The fair value of the Series 2010 Bonds is based on actual quoted market prices for the bonds and was $87,249,098 at September 30, 2010. The fair values of the Medical Center'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 Medical Center. At September 30, 2010, scheduled maturities of long-term debt for the years ending September 30th were as follows:

2011	$ 1,044,636
2012	2,098,846
2013	2,176,041
2014	5,523,894
2015	2,547,600
Thereafter	110,862,899
Total	$ 124,253,916

The Medical Center paid interest related to long-term debt of $3,602,490 and $2,894,636 during the years ended September 30, 2010 and 2009, respectively. See Note 1 for details of interest cost capitalized as a component of property and equipment.

Note 10. Capital Leases

The Medical Center 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, LGMC's wholly owned subsidiary St. Martin Hospital, Inc. 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, St. Martin Hospital, Inc. became the lessee of substantially all of the land, buildings and equipment associated with the Service District. St Martin Hospital, Inc. simultaneously became the operator of that facility and assumed responsibility for management. As a result of the arrangement, all financial results operations of the facility during the lease term flow directly to St. Martin Hospital Inc.

Note 10. Capital Leases (Continued)

Additionally as part of the agreement, St. Martin Hospital, Inc. 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 $1,745,786, and the recorded cost of construction in progress associated with this lease is $23,096 as of September 30, 2010. Accumulated amortization of the leased assets acquired was $91,973 as of September 30, 2010.

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, 2010:

Year Ending September 30:		
2011	$	1,601,607
2012		772,972
2013		731,934
2014		286,000
2015		286,000
2016-2020		1,430,000
2021-2025		1,430,000
2026-2030		1,430,000
2031-2035		1,096,333
Total Minimum Lease Payments		9,064,846
Less: Amount Representing Interest		(3,863,668)
Present Value of Minimum Lease Payments		5,201,178
Less: Current Maturities of Capital Lease Obligations		(1,293,745)
Long-Term Capital Lease Obligations	$	3,907,433

Note 11. Retirement Benefits

The Medical Center 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 Medical Center'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 Medical Center'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 Medical Center 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, 2010 and 2009, management elected to suspend this contribution. For the contributory component, the Medical Center matches two-thirds of a participating employee's elective deferrals, up to a maximum of two-thirds of 3% of the employee's annual salary. In addition, during each plan year, participants may elect to defer up to 20% of their compensation to be contributed by the employee plan.

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

The Medical Center'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, 2010 and 2009, were $1,071,024 and $953,052, respectively.

During the year ended September 30 2009, the Medical Center 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 Medical Center's retirement income sources, provides a specified target level of retirement benefits for those executives. As of September 30, 2010 and 2009, the Medical Center had set aside $479,817 and $231,475, respectively, in a Rabbi Trust included as a component of Other Noncurrent Assets on its balance sheets in accordance with terms of the arrangement. As of September 30, 2010 and 2009, the Medical Center had recorded accrued liabilities of $246,463 and $135,014, respectively, which represents the estimated present value of the benefits earned under this agreement.

Note 12. Accrued Other Postretirement Benefits

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

The Medical Center'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 Medical Center's current policy is to fund the cost of the postretirement health care plan on a pay-as-you-go basis.

Note 12. Accrued Other Postretirement Benefits (Continued)

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

The plan's funded status, along with assumptions used to calculate that status at September 30, 2010 and 2009 were as follows:

	Fiscal Year Ending September 30,	
	2010	2009
Benefit Obligation Information:		
Accumulated Postretirement Benefit Obligation	$ 3,199,000	$ 2,835,500
Asset Information:		
Employer Contributions	$ 277,500	$ 257,600
Plan Participants' Contributions	9,500	10,000
Benefits Paid	$ 287,000	$ 267,600
Fair Value of Assets at End of Year	$ -	$ -
Funded Status at End of Year	$ (3,199,000)	$ (2,835,500)
Amounts Recognized in the Statement of Financial Position:		
Noncurrent Assets	$ -	$ -
Current Liabilities	(251,200)	(241,600)
Noncurrent Liabilities	(2,947,800)	(2,593,900)
Total	$ (3,199,000)	$ (2,835,500)
Amounts Recognized in Unrestricted Net Assets:		
Amount Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	$ -	$ -
Prior Service Cost/(Credit)	(126,200)	(165,500)
Net Actuarial (Gain)/Loss	(27,400)	(556,700)
Total	$ (153,600)	$ (722,200)
Total Amount Recognized in Unrestricted Net Assets	$ (153,600)	$ (722,200)
Assumptions for End of Year Disclosure:		
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

Note 12. Accrued Other Postretirement Benefits (Continued)

	Fiscal Year Ending September 30, 2010	2009
Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets:		
Net Periodic Benefit Cost		
Net Periodic Benefit (Income)/Expense	$ 72,400	$ 38,900
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Transition Obligation/(Asset)	$ -	$ -
Prior Service Cost (Credit)	-	-
Net Loss (Gain)	501,600	572,400
Amortization of Transition Obligation/(Asset)	-	-
Amortization of Prior Service Cost	39,300	39,300
Amortization of Net Loss (Gain)	-	92,600
Total Change in Unrestricted Net Assets	$ 540,900	$ 704,300
Total Recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	$ 613,300	$ 743,200
Assumptions for Net Periodic Benefit Cost:		
Discount Rate	5.14%	7.67%
Initial Medical Trend Rate	8.50%	9.00%
Ultimate Medical Trend Rate	5.00%	5.50%
Years from Initial to Ultimate Trend	7	4
Measurement Date	9/30/2009	9/30/2008

The following table presents expected future benefit payments to beneficiaries:

	2010	2009
Expected Benefit Payments:		
2011 Fiscal Year	$ 256,500	$ 247,700
2012 Fiscal Year	$ 263,000	$ 253,200
2013 Fiscal Year	$ 267,500	$ 256,600
2014 Fiscal Year	$ 270,000	$ 257,900
2015 Fiscal Year	$ 270,200	$ 256,900
2016 - 2020 Fiscal Year	$ 1,275,000	$ 1,192,100
Expected Pharmaceutical Subsidy Receipts:		
2010 + Fiscal Years	$ -	$ -
Expected Employer Contributions Recognized for the 2010 Fiscal Year:	$ 256,500	$ 247,700
Expected Amortization Amounts Included in Expense for the 2010 Fiscal Year:		
Transition Obligation/(Asset)	$ -	$ -
Prior Service Cost	$ (39,300)	$ (39,300)
Actuarial (Gain)/Loss	$ -	$ (27,700)

Note 13. Functional Expenses

The Medical Center 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, 2010 and 2009 were as follows:

		2010		2009
Health Care Services	$	202,273,478	$	177,500,850
General and Administrative		48,205,164		46,426,255
Total	$	250,478,642	$	223,927,105

Note 14. Income Taxes

The operations of LHVI have resulted in an estimated cumulative net operating loss for federal income tax purposes at September 30, 2010. These net operating loss carry-forwards expire in varying amounts through 2030. Because of uncertainty involving LHVI'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 Medical Center participates in the Fund. The Fund provides up to $400,000 coverage for settlement amounts in excess of $100,000 per claim.

The Medical Center remains liable for $100,000 per claim. The Medical Center also carries umbrella coverage for losses from $1,000,000 to $15,000,000 in the aggregate. The aggregate retention for the 2010 and 2009 policy years was $397,500 and $321,500.

The Medical Center 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 Medical Center is involved in litigation arising in the ordinary course of business. Claims asserted against the Medical Center 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 Medical Center 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 $5,570,533 and $4,870,480 for the years ended September 30, 2010 and 2009, respectively.

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

2011	$	975,972
2012		975,972
2013		975,972
2014		975,972
2015		975,972
Thereafter		4,391,874
Total	$	9,271,734

The Medical Center and its affiliates lease office space and clinical facilities, generally to members of the medical staff, under operating leases whose terms range from monthly to up to five years. Assets held for lease, at September 30, 2010 and 2009, consist of buildings and improvements with an original cost of $63,222,009 and $62,947,768, respectively. Accumulated depreciation of the leased assets totaled $27,322,204 and $27,382,184, at September 30, 2010 and 2009, respectively.

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

2011	$	3,240,284
2012		1,935,284
2013		1,525,690
2014		910,341
2015		310,806
Thereafter		725,000
Total	$	8,647,405

Note 16. Subsequent Events

The governing board of LGMC is currently planning a corporate reorganization to facilitate greater efficiency in administration of the various entities which collectively comprise the Medical Center, and to reduce any redundancies in corporate governance. Upon completion of the proposed reorganization, Lafayette General Health Systems, Inc. (LGHS), a not-for-profit Louisiana corporation which currently has no operations or assets, will become the sole member of LGMC, SMH, and LHVI. The anticipated timetable for the reorganization to occur has not been established as of the date of these financial statements.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 18, 2011. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

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

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

Accounting Standards Codification 958, *Not-for-Profit Entities: Mergers and Acquisitions*. In May 2009, the FASB issued Accounting Standards Codification 958, Not-for-Profit Entities: Mergers and Acquisitions. This guidance 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. This standard also amends FASB ASC 350, Goodwill and Other Intangible Assets, and FASB ASC 810, Noncontrolling Interests in Consolidated Financial Statements, to make them fully applicable to not-for-profit entities. FASB ASC 350 requires that any goodwill of the Medical Center cease to be amortized, but must be tested for impairment at the "reporting unit" level, a new concept for not-for-profit entities. FASB ASC 810 is intended to improve reporting of noncontrolling interests in consolidated financial statements and will require noncontrolling interests to be classified as a component of net assets. The guidance is effective for fiscal years beginning on or after December 15, 2009, with early adoption prohibited. Management is evaluating the impact this standard may have on its combined financial statements.

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.

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

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.

LaPorte Sehrt Romig Hand

Certified Public Accountants

Independent Auditor's Report on Other Financial Information

To the Board of Trustees
Lafayette General Medical Center

Our audits were made for the purpose of forming an opinion on the consolidated financial statements for the years ended September 30, 2010 and 2009, taken as a whole. The consolidating balance sheets and consolidating statements of operations and changes in net assets as of, and for the years ended September 30, 2010 and 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

January 18, 2011

RSM McGladrey Network

OTHER FINANCIAL INFORMATION

LAFAYETTE GENERAL MEDICAL CENTER AND SUBSIDIARIES

Consolidating Balance Sheet
September 30, 2010
In Thousands

	Consolidated	Eliminating Entries	LGMC	LHVI	PHO	LGSH	LIG	SMH
Assets								
Current Assets								
Cash and Cash Equivalents	$ 35,597	$ -	$ 33,363	$ 1,077	$ -	$ 926	$ 136	$ 95
Short-Term Investments	758	-	758	-	-	-	-	-
Assets Limited as to Use Current Portion	599	-	599	-	-	-	-	-
Patient Accounts Receivable, Net	41,410	(30)	36,620	2,760	-	571	-	1,469
Amounts Due from Third-Party Payors	2,225	-	627	-	-	-	-	1,598
Intercompany Receivable	-	(26,984)	26,449	468	-	67	-	-
Inventories	6,713	-	5,838	163	-	453	-	259
Other Current Assets	4,356	-	3,559	636	-	102	2	57
Total Current Assets	91,658	(27,014)	107,813	5,124	-	2,119	138	3,478
Assets Limited as to Use	88,916	-	88,916	-	-	-	-	-
Investments in Joint Ventures	1,312	-	1,312	-	-	-	-	-
Goodwill, Net	5,412	-	71	5,341	-	-	-	-
Property and Equipment, Net	150,195	-	138,630	1,018	-	919	7,952	1,676
Unamortized Debt Issuance Costs	1,844	-	1,844	-	-	-	-	-
Other	1,560	7,076	(6,601)	1	-	738	336	10
Total Assets	$ 340,897	$ (19,938)	$ 331,985	$ 11,484	$ -	$ 3,776	$ 8,426	$ 5,164
Liabilities and Net Assets								
Current Liabilities								
Accounts Payable and Accrued Expenses	$ 20,500	$ (20)	$ 18,704	$ 606	$ -	$ 551	$ 290	$ 369
Salaries and Wages Payable	6,965	-	6,298	102	-	248	-	317
Amounts Due Third-Party Payors	1,158	-	1,119	-	-	39	-	-
Current Portion Self-Insurance Reserves	3,577	-	3,577	-	-	-	-	-
Current Portion of Capital Lease Obligation	1,293	-	1,249	-	-	-	-	44
Current Maturities of Long-Term Debt	1,044	-	637	-	-	-	407	-
Intercompany Payable	-	(26,995)	4,324	20,458	463	327	804	619
Total Current Liabilities	34,537	(27,015)	35,908	21,166	463	1,165	1,501	1,349
Self-Insurance Reserves, Less Current Portion	945	-	945	-	-	-	-	-
Accrued Postretirement Benefit Cost	3,194	-	3,194	-	-	-	-	-
Capital Lease Obligation	3,908	-	912	-	-	-	-	2,996
Long-Term Debt, Less Current Portion	122,510	-	117,866	-	-	-	4,644	-
Total Liabilities	165,094	(27,015)	158,825	21,166	463	1,165	6,145	4,345
Minority Interest	2,645	2,645						
Unrestricted Net Assets	173,158	4,432	173,160	(9,682)	(463)	2,611	2,281	819
	$ 340,897	$ (19,938)	$ 331,985	$ 11,484	$ -	$ 3,776	$ 8,426	$ 5,164

LAFAYETTE GENERAL MEDICAL CENTER AND SUBSIDIARIES

Consolidating Balance Sheet
September 30, 2009
In Thousands

	Consolidated	Eliminating Entries	LGMC	LHVI	PHO	LGSH	LIG	SMH
Assets								
Current Assets								
Cash and Cash Equivalents	$ 44,532	$ -	$ 43,122	$ 462	$ -	$ 730	$ 86	$ 132
Short-Term Investments	1,587	-	1,587	-	-	-	-	-
Assets Limited as to Use, Current Portion	183	-	183	-	-	-	-	-
Patient Accounts Receivable, Net	38,697	-	33,988	2,409	-	927	-	1,373
Amounts Due from Third-Party Payors	2,589	-	1,692	-	-	2	-	895
Intercompany Receivable	-	(16,760)	16,721	6	-	33	-	-
Inventories	6,308	-	5,460	154	-	434	-	260
Other Current Assets	3,489	-	2,888	475	-	64	2	60
Total Current Assets	97,385	(16,760)	105,641	3,506	-	2,190	88	2,720
Assets Limited As to Use	59,523	-	59,523	-	-	-	-	-
Investments in Joint Ventures	2,364	-	1,478	886	-	-	-	-
Goodwill, Net	4,423	-	-	4,423	-	-	-	-
Property and Equipment, Net	118,679	-	107,208	653	-	1,019	8,170	1,629
Unamortized Debt Issuance Costs	1,082	-	1,082	-	-	-	-	-
Other	1,249	(682)	899	14	-	713	305	-
Total Assets	$ 284,705	$ (17,442)	$ 275,831	$ 9,482	$ -	$ 3,922	$ 8,563	$ 4,349
Liabilities and Net Assets								
Current Liabilities								
Accounts Payable and Accrued Expenses	$ 11,713	$ -	$ 9,958	$ 387	$ -	$ 614	$ 367	$ 387
Salaries and Wages Payable	7,065	-	6,444	55	-	244	-	322
Amounts Due Third-Party Payors	53	-	53	-	-	-	-	-
Current Portion Self-Insurance Reserves	2,015	-	2,015	-	-	-	-	-
Current Portion of Capital Lease Obligation	679	-	638	-	-	-	-	41
Current Maturities of Long-Term Debt	5,062	-	4,676	-	-	-	386	-
Intercompany Payable	-	(16,760)	4,593	10,357	406	466	574	364
Total Current Liabilities	26,587	(16,760)	28,377	10,799	406	1,324	1,327	1,114
Self-Insurance Reserves, Less Current Portion	1,452	-	1,452	-	-	-	-	-
Accrued Postretirement Benefit Cost	2,728	-	2,728	-	-	-	-	-
Capital Lease Obligation	3,671	-	631	-	-	-	-	3,040
Long-Term Debt, Less Current Portion	86,951	-	81,900	-	-	-	5,051	-
Total Liabilities	121,389	(16,760)	115,088	10,799	406	1,324	6,378	4,154
Minority Interest	2,574	2,574	-	-	-			
Unrestricted Net Assets	160,742	(3,256)	160,743	(1,317)	(406)	2,598	2,185	195
	$ 284,705	$ (17,442)	$ 275,831	$ 9,482	$ -	$ 3,922	$ 8,563	$ 4,349

LAFAYETTE GENERAL MEDICAL CENTER AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2010
In Thousands

	Consolidated	Eliminating Entries	LGMC	LHVI	PHO	LGSH	LIG	SMH
Operating Revenue								
Net Patient Service Revenues	$ 248,902	$ (1,017)	$ 213,062	$ 14,323	$ -	$ 10,463	$ -	$ 12,071
Other Operating Revenue	8,413	(3,406)	7,617	2,656	-	40	1,392	114
Total Operating Revenues	257,315	(4,423)	220,679	16,979	-	10,503	1,392	12,185
Operating Expenses								
Salaries, Wages and Benefits	103,707	(1,011)	80,455	16,750	-	2,933	-	4,580
Medical Supplies and Drugs	58,560	-	52,618	1,589	-	3,016	25	1,312
Contract Services	21,775	-	17,480	921	-	264	155	2,955
Utilities and Equipment Rentals	19,717	-	17,490	1,130	-	240	315	542
Depreciation and Amortization	13,443	-	12,128	768	-	236	232	79
Provision for Doubtful Accounts	21,013	-	18,852	303	-	459	-	1,399
Interest Expense	3,365	-	2,818	-	-	-	302	245
Insurance Expense	5,052	-	4,301	545	-	97	45	64
Other Expenses	3,847	(3,849)	2,460	3,156	57	1,384	252	387
Total Operating Expenses	250,479	(4,860)	208,602	25,162	57	8,629	1,326	11,563
Operating Income (Loss)	6,836	437	12,077	(8,183)	(57)	1,874	66	622
Non-Operating Revenues								
Interest and Dividend Income	2,945	-	2,938	1	-	6	-	-
Realized Gains on Investments	37	-	37	-	-	-	-	-
Unrealized Gains (Losses) on Investments	5,116	-	5,116	-	-	-	-	-
Equity in Net Earnings of Consolidated Subsidiaries	-	6,821	(6,821)	-	-	-	-	-
Loss on Refunding of Long-Term Debt	(1,362)		(1,362)					
Other Revenue (Expense), Net	(178)	(437)	432	(183)	-	8	-	2
	6,558	6,384	340	(182)	-	14	-	2
Change in Net Assets Before Minority Interest	13,394	6,821	12,417	(8,365)	(57)	1,888	66	624
Minority Interest in Consolidated Joint Ventures	(978)	(978)	-	-	-	-	-	-
Change in Net Assets	12,416	5,843	12,417	(8,365)	(57)	1,888	66	624
Minority Shareholders Capital Contribution	-	(30)	-	-	-	-	30	-
Distributions	-	1,875	-	-	-	(1,875)	-	-
Unrestricted Net Assets, Beginning of Year	160,742	(3,256)	160,743	(1,317)	(406)	2,598	2,185	195
Unrestricted Net Assets, End of Year	$ 173,158	$ 4,432	$ 173,160	$ (9,682)	$ (463)	$ 2,611	$ 2,281	$ 819

LAFAYETTE GENERAL MEDICAL CENTER AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2009
In Thousands

	Consolidated	Eliminating Entries	LGMC	LHVI	PHO	LGSH	LIG	SMH
Operating Revenue								
Net Patient Service Revenues	$ 213,287	$ (4)	$ 191,636	$ 8,964	$ -	$ 10,161	$ -	$ 2,530
Other Operating Revenue	9,643	(3,250)	7,402	3,956	-	52	1,478	5
Total Operating Revenues	222,830	(3,254)	199,038	12,920	-	10,213	1,478	2,535
Operating Expenses								
Salaries, Wages and Benefits	94,468	(17)	78,582	12,322	-	2,822	3	756
Medical Supplies and Drugs	52,277	-	47,823	1,052	-	3,099	23	280
Contract Services	18,751	-	16,621	969	-	403	174	584
Utilities and Equipment Rentals	18,236	-	16,691	904	-	235	320	86
Depreciation and Amortization	13,569	-	12,810	153	-	355	238	13
Provision for Doubtful Accounts	17,912	-	16,261	749	-	381	-	521
Interest Expense	2,869	-	2,848	-	-	-	-	21
Insurance Expense	3,667	-	2,947	565	-	91	35	29
Other Expenses	2,177	(3,245)	2,441	1,383	58	1,209	281	50
Total Operating Expenses	223,926	(3,262)	197,024	18,097	58	8,595	1,074	2,340
Operating Income (Loss)	(996)	8	2,014	(5,177)	(58)	1,618	404	195
Non-Operating Revenues								
Interest and Dividend Income	2,680	-	2,673	2	-	5	-	-
Realized Gains on Investments	481	-	481	-	-	-	-	-
Unrealized Gains (Losses) on Investments	(1,828)	-	(1,828)	-	-	-	-	-
Equity in Net Earnings of Consolidated Subsidiaries	-	3,986	(3,986)	-	-	-	-	-
Other Revenue, Net	741	(9)	733	69	-	77	(129)	-
	2,074	3,977	(1,927)	71	-	82	(129)	-
Change in Net Assets Before Minority Interest	1,078	3,985	87	(5,106)	(58)	1,700	275	195
Minority Interest in Consolidated Joint Ventures	(991)	(991)	-	-	-	-	-	-
Change in Net Assets	87	2,994	87	(5,106)	(58)	1,700	275	195
Capital Contribution	-	(304)	-	-	-		304	-
Distributions	-	1,400	-	-	-	(1,400)	-	-
Unrestricted Net Assets, Beginning of Year	160,655	(7,346)	160,656	3,789	(348)	2,298	1,606	-
Unrestricted Net Assets, End of Year	$ 160,742	$ (3,256)	$ 160,743	$ (1,317)	$ (406)	$ 2,598	$ 2,185	$ 195