# HEALTH CARE SERVICES FOUNDATION

# CONSOLIDATED FINANCIAL STATEMENTS

# JUNE 30, 2013

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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A Professional Accounting Corporation
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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Health Care Services Foundation
Baton Rouge, Louisiana

We have audited the accompanying consolidated financial statements of The Health Care Services Foundation and its subsidiary (collectively referred to as the Organization) which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of changes in net assets and cash flows for the year then ended, and the related consolidated notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Health Care Services Foundation and its subsidiary as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating schedules, on pages 18 - 21, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 15, 2013

**HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY**
**BATON ROUGE, LOUISIANA**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**JUNE 30, 2013**

### ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ | 1,908,938 |
| Capital lease receivable, current portion | | 683,255 |
| Other receivables | | 8,278 |
| Prepaid expenses | | 27,865 |
| Due from affiliate | | 896,310 |
| Total current assets | | 3,524,646 |
| **NON-CURRENT ASSETS:** | | |
| Restricted cash | | 2,216,024 |
| Certificates of deposits | | 750,000 |
| Deferred bond and note issuance costs, net | | 549,710 |
| Capital lease receivable, net of current portion | | 18,799,632 |
| Property, plant and equipment, net | | 2,974,160 |
| Total non-current assets | | 25,289,526 |
| **TOTAL ASSETS** | $ | 28,814,172 |

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

## LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ | 382,058 |
| Other current liabilities | | 154,293 |
| Notes payable, current portion | | 453,791 |
| Bonds payable, current portion | | 290,000 |
| Unearned revenue | | 42,656 |
| Total current liabilities | | 1,322,798 |
| **LONG-TERM LIABILITIES:** | | |
| Bonds payable (including unamortized bond premium of $501,081), net of current portion | | 18,291,081 |
| Notes payable, net of current portion | | 1,904,494 |
| Other long-term liabilities | | 96,303 |
| Total long-term liabilities | | 20,291,878 |
| Total liabilities | | 21,614,676 |
| **NET ASSETS** | | |
| Unrestricted | | 7,192,890 |
| Temporarily restricted | | 6,606 |
| Total net assets | | 7,199,496 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 28,814,172 |

**HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY**
**BATON ROUGE, LOUISIANA**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**
**YEAR ENDED JUNE 30, 2013**

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **REVENUES** | | | |
| Interest income on capital leases | $ 692,726 | $ - | $ 692,726 |
| Interest earnings on investments | 41,829 | - | 41,829 |
| Rental income | 951,372 | - | 951,372 |
| Contributions | 377,874 | - | 377,874 |
| Total revenues | 2,063,801 | - | 2,063,801 |
| Net assets released from restrictions | 1,527 | (1,527) | - |
| Total revenues and support | 2,065,328 | (1,527) | 2,063,801 |
| **EXPENSES** | | | |
| **Building** | | | |
| Depreciation and amortization | 141,170 | - | 141,170 |
| Insurance expense | 163,405 | - | 163,405 |
| Landscaping | 11,885 | - | 11,885 |
| Maintenance contracts | 16,560 | - | 16,560 |
| Repairs and maintenance | 101,736 | - | 101,736 |
| Supplies and other | 41,976 | - | 41,976 |
| Utilities | 85,790 | - | 85,790 |
| **Other management and general** | | | |
| Bank fees | 10,683 | - | 10,683 |
| Interest expense | 796,809 | - | 796,809 |
| In-kind donations | 255,572 | - | 255,572 |
| Legal and professional | 157,000 | - | 157,000 |
| Total expenses | 1,782,586 | - | 1,782,586 |
| Change in net assets | 282,742 | (1,527) | 281,215 |
| **NET ASSETS - BEGINNING OF THE YEAR** | 6,910,148 | 8,133 | 6,918,281 |
| **NET ASSETS - END OF THE YEAR** | $ 7,192,890 | $ 6,606 | $ 7,199,496 |

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

**HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY**
**BATON ROUGE, LOUISIANA**

# CONSOLIDATED STATEMENT OF CASH FLOWS
**YEAR ENDED JUNE 30, 2013**

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets: | $ | 281,215 |
| Adjustments to reconcile change in net assets to net cash used in operating activites: | | |
| Depreciation and amortization | | 121,127 |
| Transfer of capital assets related to capital lease | | 2,703,696 |
| In-kind donation to HCSD | | 255,572 |
| Change in operating assets and liabilities: | | |
| Increase in lease receivables | | (1,677,143) |
| Decrease in other receivables | | 140,960 |
| Increase in other assets | | (881,911) |
| Increase in prepaid expense | | (990) |
| Decrease in accounts payable | | (424,048) |
| Decrease in other liabilities | | (411,488) |
| Decrease in unearned income | | (459,628) |
| Net cash used in operating activities | | (352,638) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Construction related costs | | (1,849,103) |
| Purchases of certificates of deposits | | 750,000 |
| Proceeds from maturities of certificates of deposits | | (750,000) |
| Transfers to bond sinking fund | | (445,996) |
| Net cash used in investing activities | | (2,295,099) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Principal payments on debt | | (441,715) |
| Net cash used in financing activities | | (441,715) |
| **Net decrease in cash and cash equivalents** | | (3,089,452) |
| **Cash and cash equivalents at beginning of period** | | 4,998,390 |
| **Cash and cash equivalents at end of period** | $ | 1,908,938 |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

| | | |
|---|---|---|
| Cash Payments for Interest | $ | 796,809 |

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

## HEALTH CARE SERVICES FOUNDATION AND ITS SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. The Foundation

#### Organization

The Health Care Services Foundation (the Foundation) is a nonprofit organization incorporated in the State of Louisiana, that provides support and appropriate services to the Health Care Services Division of the Louisiana State University Agricultural and Mechanical College (the Division) including purchasing, leasing, owning, operating, managing, and selling property and services to maximize healthcare capabilities in Louisiana. The Bogalusa Community Medical Center (BCMC) is a nonprofit, non-stock corporation, incorporated in the State of Louisiana. On April 25, 2002, the Foundation became the sole member of the BCMC. Prior to September 27, 2007 BCMC leased the hospital's facilities to the Louisiana State University Health Care Service Division (HCSD). Effective September 27, 2007, the facilities were sold to the HCSD as part of a capital lease transaction. The Foundation and the BCMC are referred to collectively as the "Organizations."

#### Consolidation

The consolidated financial statements include the accounts of the Health Care Services Foundation and the Bogalusa Community Medical Center. All significant intercompany accounts and transactions have been eliminated in these financial statements.

#### Operations

All of the Organizations operations consist of program and supporting service activities undertaken to promote and support the Division and all the hospitals, health care facilities, departments, and divisions comprising it.

#### Reporting Entity

The Health Care Services Foundation and its wholly-owned subsidiary, the Bogalusa Community Medical Center, are considered to be a component unit of HCSD. HCSD is a component unit of the LSU System, which is a component unit of the State of Louisiana.

The accompanying financial statements present information only on the activities and funds maintained by the Organizations and do not present information on HCSD, the general governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity for the State of Louisiana.

### 2. Summary of significant accounting policies

The accounting and reporting policies of the Organization conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the non-profit industry. A summary of significant accounting policies is as follows:

2. Summary of significant accounting policies (continued)

Use of estimates

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

Basis of accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless such assets are held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered.

Net Assets

The Organizations classify net assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of net assets as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions. The Organizations had no permanently restricted net assets at June 30, 2013.

Lease receivable

Lease receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on an aging of current outstanding amounts and the current status of the individual accounts. Management believes that all receivables at year-end are collectable, and therefore no allowance has been provided in the financial statements.

Prepaid expenses and deferred charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the effective interest method.

2. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment acquisitions are recorded at cost if purchased or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The class lives of the assets are as follows:

| | |
|---|---|
| Buildings | 40 years |
| Equipment | 5 years |
| Furniture and Fixtures | 7 years |

Maintenance and repairs are charged to expense when incurred.

The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any resulting gain or loss is reflected in operations.

Cost of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets if material. Costs incurred in connection with the obtaining of financing are deferred and are amortized over the period the obligation is outstanding on the effective interest method. Costs and premium or discounts incurred in connection with the issuance of bonds or indentures are amortized over the life of the obligation on the straight line method, and the unamortized amount is included in the balance of the outstanding debt.

Contributions

Unconditional promises to give cash or other assets to the Organizations are recorded at fair value on the date the promise is received. Conditional promises to give are recorded at fair value at the date the promise becomes unconditional. Gifts of cash and other assets are presented as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of changes in net assets as net assets released from restrictions.

Contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support, unless explicit donor stipulations specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Non-cash gifts and donations are recorded as contributions at their fair values at the date of the donation.

2. Summary of significant accounting policies (continued)

Income taxes

The Foundation and BCMC are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

The Organization accounts for income taxes in accordance with income tax accounting guidance included in the Accounting Standards Codification (ASC). The Organization recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than fifty percent likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Organization has evaluated its positions regarding the accounting for uncertain tax positions and does not believe it has any material uncertain tax positions.

The statute of limitations for the examination of the Organization's income tax returns is generally 3 years from the due date of the tax return including extensions. With few exceptions, the Organization is no longer subject to federal, state, or local tax examinations by tax authorities for years ending before June 30, 2010.

3. Restricted cash

Certain proceeds of the Series 2007A and 2007B Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of financial position because they are maintained in a separate bank account and their use is limited by applicable bond covenants. The assets included in restricted cash include; 2007A Bond Project Fund, 2007A Bond Debt Service Fund, 2007B Special Sinking Fund, 2007B Project Fund and Capitalized Interest Fund.

4. Related parties

The Foundation entered into an agreement to lease space, land and equipment to HCSD to be used as a medical office and clinic facility. For the year ended June 30, 2013, rental income received from HCSD totaled $506,382. The amount received is based off of an approved budget prepared by the Foundation. A reconciliation of actual expenditures to amounts received from HCSD is made at year end and any differences are settled between the Foundation and HCSD. Amounts owed to HCSD at June 30, 2013 amounted to $33,969 for rent received in excess of the actual expenditures. This amount is included in Other Current Liabilities on the Statement of Financial Position.

Furthermore, the Foundation entered into an agreement on June 1, 2012 for the occupancy and construction of HCSD Administrative Offices. Within this lease agreement, the Foundation is leasing the grounds and warehouse facility from the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU) with an annual rent expense of $1,000. Also, as part of this lease, LSU is leasing the facilities, including the construction, from the Foundation. The details of this lease are further discussed in Note 7.

4. Related parties (continued)

The Foundation provides management and administrative services to BCMC. Administrative fees for the fiscal year ended June 30, 2013 totaled $90,000 and were eliminated in these financial statements.

The BCMC is affiliated with the Health Care Services Division of the Louisiana State University Health Sciences Center through a recapitalization agreement. Prior to September 27, 2007, HCSD leased from BCMC all net rentable space in its hospital. For the year ended June 30, 2013, rental income received from HCSD totaled $441,541.

During the fiscal year ended June 30, 2013, BCMC expended State Capital Outlay funds relating to the Emergency Room Expansion Project in the amount of $255,572. These funds have been reimbursed by the State of Louisiana at June 30, 2013; therefore, BCMC recorded revenue for $255,572. The costs associated with this project have been donated to HCSD at June 30, 2013 and are recorded as donation expenses on the Statement of Activities.

In addition, during the fiscal year ended June 30, 2013, BCMC expended $896,310 for a mechanical infrastructure project which is to be reimbursed by LSU under the terms of a cooperative endeavor agreement. During the fiscal year, BCMC did not receive any payments from LSU with respect to this agreement. Therefore, the total amount expended is reported as amounts due from affiliate in the Statement of Net Assets.

5. Concentrations

Credit risk
The Organizations maintain cash account with commercial banks which are insured by the Federal Deposit Insurance Corporation up to the maximum amount allowed. The uninsured and uncollateralized balance at June 30, 2013 totaled $1,554,415.

Revenues
During 2013, the Foundation and BCMC received approximately 84.0% and 72.5%, respectively, of total revenue from HCSD, respectively. The Organization is unaware of any modifications or reductions to the current agreements which may impact these revenue sources.

6. Property and equipment

A summary of property and equipment at June 30, 2013 is set forth below:

| | |
|---|---|
| Building and improvements | $ 3,408,339 |
| Furniture | 100,950 |
| Equipment | 182,512 |
| | 3,691,801 |
| Less: Accumulated Depreciation | ( 1,087,641) |
| | 2,604,160 |
| Land | 370,000 |
| Total Property, Plant and Equipment | $ 2,974,160 |

6. Property and equipment (continued)

Depreciation expense for the year ended June 30, 2013 amounted to $117,918.

7. Leases

Foundation

The Foundation entered into an agreement to lease land and equipment to Louisiana State University Health Care Sciences Division (HCSD) to be used as a medical office and clinic facility. The rent commencement date was June 1, 2004 and continues until May 31, 2014. The lease has an option to renew for ten years. The lessee has given written notice to extend the lease through June 30, 2024. Base rent is $53,323 per month, based on monthly estimated operating costs plus estimated debt service. The operating costs component of base rent shall be reconciled annually and the debt service component of base rent shall be reconciled quarterly. Rent income for the year ended June 30, 2013 was $506,382. All of the property and equipment owned by the Foundation (see Note 6) is being leased under the terms of this agreement with the HCSD.

Effective June 1, 2012, the Foundation entered into a lease with the Board of Supervisors of Louisiana State University and Agriculture and Mechanical College (LSU) for the occupancy and construction of LSU Health Care Services Division (HCSD) Administrative Offices. Within this lease agreement, the Foundation is leasing the grounds and warehouse facility from LSU with an annual rent expense of $1,000 for a period of twelve years. The Foundation is renovating the existing warehouse with an estimated project cost of approximately $2.8 million. In addition, the Foundation borrowed $2.8 million to fund the project. During the year ended June 30, 2013, construction costs totaling $2,703,696 were transferred to LSU as a part of this capital lease transaction.

Also, as part of this lease, a capital lease agreement was entered into where LSU is leasing the facilities, including the construction, from the Foundation for a term of eight years with a monthly rental payment amount due to the Foundation of $42,656. Both of these lease agreements may be terminated after the Foundation has paid in full the Notes Payable, as detailed in Note 9.

Unearned revenue is amortized using the effective interest method calculated based on a constant periodic annual rate of 2.7% over the lease term.

BCMC

Effective September 1, 2007, a capital lease agreement was entered into to lease space, land, and equipment to Louisiana State University Health Care Sciences Division ("HCSD") to be used as a hospital, and has a term of 32 years. The monthly lease amount consists of two base components: (1) debt services in accordance with Series 2007A Bonds, and (2) $158,065 (Series 2007B Payment). In accordance with the lease agreement, monthly estimated costs will be reimbursed. These operating costs are not included in the minimum lease receivable.

Unearned revenue is amortized using the effective interest method calculated based on a constant periodic annual rate of 3.589% over the lease term.

7. Leases (continued)

The following schedule represents the estimated total minimum lease payments receivable under the lease agreements described above:

| For the years ending June 30, | Foundation | BCMC | Total |
|---|---|---|---|
| 2014 | $ 511,876 | $ 844,079 | $ 1,355,955 |
| 2015 | 511,876 | 1,079,079 | 1,590,955 |
| 2016 | 511,876 | 1,075,561 | 1,587,437 |
| 2017 | 511,876 | 1,080,861 | 1,592,737 |
| 2018 | 473,719 | 1,079,191 | 1,552,910 |
| Thereafter | - | 20,793,233 | 20,793,233 |
| Total minimum lease payment receivable | $ 2,521,223 | $ 25,952,004 | $ 28,473,227 |
| Less: interest income | ( 162,938) | ( 8,827,402) | ( 8,990,340) |
| Net investment in capital lease receivable | $ 2,358,285 | 17,124,602 | 19,482,887 |
| Less: current portion of capital lease | ( 453,791) | ( 229,464) | ( 683,255) |
| Capital lease receivable, net of current portion | $ 1,904,494 | $ 16,895,138 | $ 18,799,632 |

Lease agreements have been entered into with various third parties on a month to month basis to lease office space, property, and equipment. The monthly rental of these various leases totaled $3,449.

8. Bonds payable

Foundation

The Foundation issued Equipment and Capital Facilities Pooled Loan Program Revenue Bonds Series 2003B in the amount of $2,500,000 dated October 1, 2003. The bond was issued to finance the renovation of a health care facility. The bond was issued through the Louisiana Public Facilities Authority. The trust indenture established the maturity of this bond to be July 1, 2014. Whitney Bank serves as the Trustee and is the Mortgagee. The bonds are secured by an irrevocable direct pay letter of credit issued by Capital One in the amount of $600,157.

Under the terms of the Trust Indenture for the bonds, the Foundation is required to fund a sinking fund account at the bank. The account is to be funded monthly for 1/12 of the principal amount to be paid at the next due date of the bond payment. The provisions of the bond contain certain covenants that the Foundation must comply with or maintain throughout the term of the bonds.

8. Bonds payable (continued)

Foundation (continued)

At June 30, 2013, the outstanding indebtedness consisted of the following:

| Bond Series | Indenture Maturity | Interest Rate | Payable 6/30/13 |
|---|---|---|---|
| 2003B | 7/01/14 | The rate at June 30, 2013 was 1.20% and adjusts weekly. | $580,000 |

Interest expense for the year ended June 30, 2013 was $5,693.

Bonds are required to be redeemed as follows:

| For the years ending June 30, | Amount |
|---|---|
| 2014 | $ 290,000 |
| 2015 | 290,000 |
| | $ 580,000 |

BCMC

BCMC entered into a loan agreement with Health Care Community Development Corporation (HCCDC) on September 1, 2007. In this agreement, HCCDC loaned the proceeds of the Series 2007A Health Care Community Development Corporation Revenue Bonds and the Series 2007B Health Care Community Development Corporation Taxable Revenue Bonds with aggregate principle sums of $13,490,528 (which includes a bond premium of $615,528) and $4,625,000, respectively. These proceeds were to be used to finance the cost of (1) the renovation of the first floor for an acute care and obstetrics unit of the hospital, (2) the acquisition of a generator and power distribution system, (3) the renovation and expansion of the clinic to be known as Family Medicine Residency Clinic, (4) refinancing the line of credit used to purchase equipment for the hospital and make repairs to the roof, (5) refinancing an existing loan with the United States Department of Agriculture and (6) the funding of the Debt Service Reserve, capitalized interest and the payment of issuance cost. Within the loan agreement, BCMC agreed to assign certain rights under the Facilities Lease (including rent) and to make payments in the amount sufficient to make timely payment of principle and interest on these bonds.

The 2007A Bonds bear the following fixed interest rate and maturities as set forth by the Trust Indenture:

| | Amount |
|---|---|
| 7.88% Term Bond due June 15, 2022 | $ 2,490,000 |
| 4.98% Term Bond due June 15, 2026 | 1,855,000 |
| 5.17% Term Bond due June 15, 2038 | 8,530,000 |
| | $ 12,875,000 |

The 2007B Bond was issued in the aggregate principle amount of $4,625,000 and bears a fixed interest rate of 0.2466% due on June 15, 2038.

8. Bonds payable (continued)

BCMC (continued)

| At June 30, 2013, long-term debt consisted of the following: | Amount |
|---|---|
| Series 2007A | $ 12,875,000 |
| Series 2007B | 4,625,000 |
| | $ 17,500,000 |
| Add: unamortized bond premium | 501,081 |
| | $ 18,001,081 |

The future scheduled maturities of long-term debt are as follows:

| For the years ending June 30, | Amount |
|---|---|
| 2014 | $ - |
| 2015 | - |
| 2016 | - |
| 2017 | - |
| 2018 | - |
| Thereafter | 17,500,000 |
| | $ 17,500,000 |

For the year ended June 30, 2013, BCMC recorded interest expense of $720,955, which is net of the amortization of the bond premium of $20,043.

Under the terms of the Trust Indenture for the bonds, BCMC is required to maintain a Debt Service Reserve Fund for the Series 2007A. The Debt Service Reserve fund deposit should be an amount equal to the debt service fund requirement. The balance in the debt service reserve fund at June 30, 2013 equaled $968,390. The debt service fund balance is included in restricted cash on the Statement of Financial Position. The Series 2007A Bond has a mandatory sinking fund requirement. Payments made to this sinking fund will begin on June 15, 2015 and continue through maturity of the bond. As of June 30, 2013, no payments have been made to the sinking fund.

The 2007B bond requires an annual special sinking fund payment of $158,065 which is due on June 1 each year. The payments are to be made until the funds in the Series 2007B Special Sinking Fund equal $4,625,000. The balance of this sinking fund as of June 30, 2013 was $949,078. The 2007B Special Sinking Fund balance is included in restricted cash on the Statement of Financial Position.

9. Notes payable

On June 11, 2012, HCSF entered into a loan agreement with JP Morgan Chase Bank, N.A. This note bears interest at 2.7% per annum and is payable in monthly installments of $42,656 with a final balance in the amount of $4,499 due on June 11, 2018. The Foundation has assigned the lease and rent related to the Lease Agreement for Construction and Occupancy of HCSD Administrative Offices dated effective June1, 2012 as collateral for the note.

Maturities of the note payable for the next five years are as follows:

| For the years ending June 30, | Amount |
|---|---|
| 2014 | $ 453,791 |
| 2015 | 466,196 |
| 2016 | 478,940 |
| 2017 | 492,033 |
| 2018 | 467,325 |
| | $ 2,358,285 |
| Less: current portion | (453,791) |
| Notes payable, long-term | $ 1,904,494 |

For the year ended June 30, 2013, the Foundation recorded interest expense of $70,161.

The Foundation's notes payable agreement with the bank contains certain restrictions and covenants. Under these restrictions, the Foundation is required to maintain certain levels of net operating income over the cost of the debt service (debt service coverage ratio).

10. Net assets released from restrictions

During the year ended June 30, 2013, net assets were released from restrictions for incurring, expenses, satisfying the operations of the Earl K. Long Foundation which totaled $1,527.

11. Restrictions on net assets

Temporarily restricted net assets are available for the following purposes:

| | Foundation | BCMC | Total |
|---|---|---|---|
| Employee Activities | $ 19 | $ - | $ 19 |
| Disease Management Program | 3,000 | - | 3,000 |
| Earl K. Long Foundation | 129 | - | 129 |
| Family Center Equipment | - | 3,458 | 3,458 |
| | $ 3,148 | $ 3,458 | $ 6,606 |

12. Commitment

In September 2010, BCMC approved an HVAC Capital Improvement project at the BCMC facility not to exceed a cost of $4.1 million with cost increase not to exceed 20% of total cost. Financing for the project is being derived from cash reserves. As of June 30, 2013, the remaining balance due on the project totals approximately $1,270,000.

13. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 15, 2013, and determined that no events occurred that require additional disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

**HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY**
**BATON ROUGE, LOUISIANA**

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION
**JUNE 30, 2013**

| | Health Care Services Foundation | Bogalusa Community Medical Center | Eliminations | Consolidated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS:** | | | | |
| Cash and cash equivalents | $ 624,654 | $ 1,284,284 | $ - | $ 1,908,938 |
| Accounts receivable | 7,770 | - | (7,770) | - |
| Capital lease receivable, current portion | 453,791 | 229,464 | - | 683,255 |
| Other receivables | 325 | 7,953 | - | 8,278 |
| Prepaid expenses | 990 | 26,875 | - | 27,865 |
| Due from affiliate | - | 896,310 | - | 896,310 |
| Total current assets | 1,087,530 | 2,444,886 | (7,770) | 3,524,646 |
| **NON-CURRENT ASSETS:** | | | | |
| Restricted cash | 298,556 | 1,917,468 | - | 2,216,024 |
| Certificates of deposit | - | 750,000 | - | 750,000 |
| Deferred bond and note issuance costs, net | 39,569 | 510,141 | - | 549,710 |
| Capital lease receivable, net of current portion | 1,904,494 | 16,895,138 | - | 18,799,632 |
| Property, plant and equipment, net | 2,974,160 | - | - | 2,974,160 |
| Total non-current assets | 5,216,779 | 20,072,747 | - | 25,289,526 |
| **TOTAL ASSETS** | $ 6,304,309 | $ 22,517,633 | $ (7,770) | $ 28,814,172 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES:** | | | | |
| Accounts payable | 26,902 | 362,926 | (7,770) | 382,058 |
| Other current liabilities | 35,281 | 119,012 | - | 154,293 |
| Notes payable, current portion | 453,791 | - | - | 453,791 |
| Bonds payable, current portion | 290,000 | - | - | 290,000 |
| Unearned revenue | 42,656 | - | - | 42,656 |
| Total current liabilities | 848,630 | 481,938 | (7,770) | 1,322,798 |
| **LONG-TERM LIABILITIES:** | | | | |
| Bonds payable (including unamortized bond premium of $501,081), net of current portion | 290,000 | 18,001,081 | - | 18,291,081 |
| Notes payable, net of current portion | 1,904,494 | - | - | 1,904,494 |
| Other long-term liabilities | 96,303 | - | - | 96,303 |
| Total long-term liabilities | 2,290,797 | 18,001,081 | - | 20,291,878 |
| Total liabilities | 3,139,427 | 18,483,019 | (7,770) | 21,614,676 |
| **NET ASSETS** | | | | |
| Unrestricted | 3,161,734 | 4,031,156 | - | 7,192,890 |
| Temporarily restricted | 3,148 | 3,458 | - | 6,606 |
| Total net assets | 3,164,882 | 4,034,614 | - | 7,199,496 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 6,304,309 | $ 22,517,633 | $ (7,770) | $ 28,814,172 |

## HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY
## BATON ROUGE, LOUISIANA

## CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
## YEAR ENDED JUNE 30, 2013

| | Health Care Services Foundation - Unrestricted | Health Care Services Foundation - Temporarily Restricted | Health Care Services Foundation - Total |
|---|---|---|---|
| **REVENUES** | | | |
| Management and implementation fees | $ 90,000 | $ - | $ 90,000 |
| Interest income on captial lease | 70,160 | - | 70,160 |
| Interest earnings on investments | 13,471 | - | 13,471 |
| Rental income | 506,382 | - | 506,382 |
| Contributions | 6,340 | - | 6,340 |
| Total revenues | 686,353 | - | 686,353 |
| Net assets released from restrictions | 1,527 | (1,527) | - |
| Total revenues and other support | 687,880 | (1,527) | 686,353 |
| **EXPENSES** | | | |
| **Building** | | | |
| Depreciation and amortization | 119,859 | - | 119,859 |
| Insurance expense | 3,480 | - | 3,480 |
| Landscaping | 11,885 | - | 11,885 |
| Maintenance contracts | 16,560 | - | 16,560 |
| Repairs and maintenance | 8,650 | - | 8,650 |
| Supplies and other | 17,177 | - | 17,177 |
| Utilities | 85,790 | - | 85,790 |
| **Other management and general** | | | |
| Bank fees | 10,433 | - | 10,433 |
| Interest expense | 75,854 | - | 75,854 |
| In-kind donations | - | - | - |
| Legal and professional | 138,500 | - | 138,500 |
| Total expenses | 488,188 | - | 488,188 |
| Change in net assets | 199,692 | (1,527) | 198,165 |
| **NET ASSETS - BEGINNING OF THE YEAR** | 2,962,042 | 4,675 | 2,966,717 |
| **NET ASSETS - END OF THE YEAR** | $ 3,161,734 | $ 3,148 | $ 3,164,882 |

| Bogalusa Community Medical Center - Unrestricted | Bogalusa Community Medical Center - Temporarily Restricted | Bogalusa Community Medical Center - Total | Eliminations | Consolidated |
|---|---|---|---|---|
| $ - | $ - | $ - | $ (90,000) | $ - |
| 622,566 | - | 622,566 | - | 692,726 |
| 28,358 | - | 28,358 | - | 41,829 |
| 444,990 | - | 444,990 | - | 951,372 |
| 371,534 | - | 371,534 | - | 377,874 |
| 1,467,448 | - | 1,467,448 | (90,000) | 2,063,801 |
| - | - | - | - | - |
| 1,467,448 | - | 1,467,448 | (90,000) | 2,063,801 |
| 21,311 | - | 21,311 | - | 141,170 |
| 159,925 | - | 159,925 | - | 163,405 |
| - | - | - | - | 11,885 |
| - | - | - | - | 16,560 |
| 93,086 | - | 93,086 | - | 101,736 |
| 24,799 | - | 24,799 | - | 41,976 |
| - | - | - | - | 85,790 |
| 250 | - | 250 | - | 10,683 |
| 720,955 | - | 720,955 | - | 796,809 |
| 255,572 | - | 255,572 | - | 255,572 |
| 108,500 | - | 108,500 | (90,000) | 157,000 |
| 1,384,398 | - | 1,384,398 | (90,000) | 1,782,586 |
| 83,050 | - | 83,050 | - | 281,215 |
| 3,948,106 | 3,458 | 3,951,564 | - | 6,918,281 |
| $ 4,031,156 | $ 3,458 | $ 4,034,614 | $ - | $ 7,199,496 |

**HEALTH CARE SERVICES FOUNDATION AND SUBSIDIARY**
**BATON ROUGE, LOUISIANA**

**CONSOLIDATING STATEMENT OF CASH FLOWS**
**YEAR ENDED JUNE 30, 2013**

| | Health Care Services Foundation | Bogalusa Community Medical Center | Eliminations | Consolidated Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Change in net assets: | $ 198,165 | $ 83,050 | $ - | $ 281,215 |
| Adjustments to reconcile change in net assets to net cash used in operating activites: | | | | |
| Depreciation and amortization | 119,859 | 1,268 | - | 121,127 |
| Transfer of capital assets | 2,703,696 | - | - | 2,703,696 |
| In-kind donation to HCSD | - | 255,572 | - | 255,572 |
| Change in operating assets and liabilities: | | | | |
| (Increase) decrease in lease receivables | (2,521,223) | 844,080 | - | (1,677,143) |
| (Increase) decrease in accounts receivables | (7,770) | - | 7,770 | - |
| (Increase) decrease in other receivables | 1,632 | 139,328 | - | 140,960 |
| (Increase) decrease in other assets | 14,399 | (896,310) | - | (881,911) |
| (Increase) decrease in prepaid expense | (990) | - | - | (990) |
| Increase (decrease) in accounts payable | (705,072) | 288,794 | (7,770) | (424,048) |
| Increase (decrease) in other liabilities | 126,049 | (537,537) | - | (411,488) |
| Increase (decrease) in unearned income | 162,938 | (622,566) | - | (459,628) |
| Net cash provided by (used in) operating activities | 91,683 | (444,321) | - | (352,638) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Construction costs for HCSD central office | (1,849,103) | - | - | (1,849,103) |
| Purchases of certificates of deposits | - | 750,000 | - | 750,000 |
| Proceeds from maturities of certificates of deposits | - | (750,000) | - | (750,000) |
| Transfers to bond sinking fund | (287,884) | (158,112) | - | (445,996) |
| Net cash used in investing activities | (2,136,987) | (158,112) | - | (2,295,099) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Principal payments on debt | (441,715) | - | - | (441,715) |
| Net cash provided by (used in) financing activities | (441,715) | - | - | (441,715) |
| **Net decrease in cash and cash equivalents** | (2,487,019) | (602,433) | - | (3,089,452) |
| **Cash and cash equivalents at beginning of period** | 3,111,673 | 1,886,717 | - | 4,998,390 |
| **Cash and cash equivalents at end of period** | $ 624,654 | $ 1,284,284 | $ - | $ 1,908,938 |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

| | | | | |
|---|---|---|---|---|
| Cash Payments for Interest | $ 75,854 | $ 720,955 | $ - | $ 796,809 |