

LINCOLN HEALTH FOUNDATION

RUSTON, LOUISIANA

SEPTEMBER 30, 2010 AND 2009

LINCOLN HEALTH FOUNDATION

RUSTON, LOUISIANA

TABLE OF CONTENTS

AUDITED FINANCIAL STATEMENTS

	<u>Page</u>
Independent Auditor's Report	1
Statements of Assets, Liabilities, and Net Assets-Modified Cash Basis	2
Statements of Revenues, Expenses, and Other Changes in Net Assets-Modified Cash Basis	3-4
Statements of Cash Flows-Modified Cash Basis	5
Notes to Financial Statements	6-12

AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLP

CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET, SUITE 1525
SHREVEPORT, LOUISIANA 71101
318-429-1525 PHONE • 318-429-2070 FAX

December 18, 2010

The Board of Directors
Lincoln Health Foundation
Ruston, Louisiana

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and net assets-modified cash basis of Lincoln Health Foundation (a nonprofit organization) as of September 30, 2010, and the related statement of revenues, expenses, and other changes in net assets-modified cash basis for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Lincoln Health Foundation as of September 30, 2010, and its revenue, expenses, and other changes in net assets for the year then ended, on the basis of accounting described in Note 1.

The 2009 financial statements were reviewed by us and our report thereon, dated July 29, 2010, stated we were not aware of any material modifications that should be made to those statements in order for them to be in conformity with the modified cash basis of accounting. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Heard, McElroy & Vestal, LLP

HMV

A PROFESSIONAL SERVICES FIRM
SHREVEPORT • MONROE • DELHI

hmv@hmvcpa.com E-MAIL
www.hmvcpa.com WEB ADDRESS

LINCOLN HEALTH FOUNDATION

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS-MODIFIED CASH BASIS

SEPTEMBER 30, 2010 (AUDITED) AND 2009 (REVIEWED)

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	62,912	4,625
Investments	25,055,646	11,857,700
Investments at cost plus equity in undistributed earnings	602,008	13,202,008
Restricted assets-investments	176,084	1,785
Property and equipment, net	<u>10,081</u>	<u>-</u>
Total assets	<u><u>25,906,731</u></u>	<u><u>25,066,118</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>	-	-
<u>Net assets:</u>		
Unrestricted	25,730,647	25,064,333
Temporarily restricted	<u>176,084</u>	<u>1,785</u>
Total net assets	<u><u>25,906,731</u></u>	<u><u>25,066,118</u></u>
Total liabilities and net assets	<u><u>25,906,731</u></u>	<u><u>25,066,118</u></u>

The accompanying notes are an integral part of these financial statements.

LINCOLN HEALTH FOUNDATION

STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS-

MODIFIED CASH BASIS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 (AUDITED) AND 2009 (REVIEWED)

	<u>2010</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues, gains, and other support:</u>			
Net investment income	923,118	(317)	922,801
Contributions	<u>-</u>	<u>174,616</u>	<u>174,616</u>
Total revenues, gains, and other support	923,118	174,299	1,097,417
<u>Net assets released from restrictions</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	923,118	174,299	1,097,417
<u>Program expenses:</u>			
Grants	<u>49,800</u>	<u>-</u>	<u>49,800</u>
Total program expenses	49,800	-	49,800
<u>Administrative expenses</u>	<u>207,004</u>	<u>-</u>	<u>207,004</u>
<u>Change in net assets</u>	666,314	174,299	840,613
<u>Net assets, beginning of year</u>	<u>25,064,333</u>	<u>1,785</u>	<u>25,066,118</u>
<u>Net assets, end of year</u>	<u>25,730,647</u>	<u>176,084</u>	<u>25,906,731</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN HEALTH FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS-
MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 (AUDITED) AND 2009 (REVIEWED)

	2009		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues, gains, and other support:</u>			
Net investment income	2,163,066	702	2,163,768
Contributions	-	194,338	194,338
Total revenues, gains, and other support	2,163,066	195,040	2,358,106
<u>Net assets released from restrictions</u>	364,611	(364,611)	-
Total revenues, gains, and other support	2,527,677	(169,571)	2,358,106
<u>Program expenses:</u>			
Grants	368,811	-	368,811
Total program expenses	368,811	-	368,811
<u>Administrative expenses</u>	197,775	-	197,775
<u>Change in net assets</u>	1,961,091	(169,571)	1,791,520
<u>Net assets, beginning of year</u>	23,103,242	171,356	23,274,598
<u>Net assets, end of year</u>	25,064,333	1,785	25,066,118

The accompanying notes are an integral part of these financial statements.

LINCOLN HEALTH FOUNDATION

STATEMENTS OF CASH FLOWS-MODIFIED CASH BASIS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 (AUDITED) AND 2009 (REVIEWED)

	<u>2010</u>	<u>2009</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	840,613	1,791,520
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	214	-
Net realized and unrealized (gains)	(565,350)	(1,987,303)
Changes in operating assets and liabilities:		
Due to Lincoln Health System, Inc.	-	(27,087)
Net cash provided (used) by operating activities	<u>275,477</u>	<u>(222,870)</u>
<u>Cash flows from investing activities:</u>		
Purchases of investments	(41,343,288)	(7,659,658)
Proceeds from sale of investments	28,536,393	7,535,359
Distribution from Lincoln Health System, Inc.	12,600,000	350,900
Purchases of property and equipment	(10,295)	-
Net cash (used) provided by investing activities	<u>(217,190)</u>	<u>226,601</u>
<u>Net increase in cash and cash equivalents</u>	58,287	3,731
<u>Cash and cash equivalents at beginning of the year</u>	<u>4,625</u>	<u>894</u>
<u>Cash and cash equivalents at end of the year</u>	<u>62,912</u>	<u>4,625</u>
<u>Noncash transactions:</u>		
Assets transferred in-kind from Lincoln Health System, Inc.	-	9,315,566

The accompanying notes are an integral part of these financial statements.

LINCOLN HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

1. **Organization and Significant Accounting Policies**

Organization

On July 30, 1996, Lincoln Health Foundation (the "Foundation"), a Louisiana nonprofit corporation, was organized exclusively to support and benefit Lincoln Health System, Inc. d.b.a. Lincoln General Hospital (the "System") in Ruston, Louisiana. The System is 69% owned by the Foundation and 31% owned by St. Francis Medical Center and Willis-Knighton Medical Center, which are tax-exempt organizations.

On March 31, 2007, the System entered into a purchase agreement with Community Health Systems, Inc. ("Purchaser") to sell the hospital operations and various other assets for approximately \$36,000,000, less adjustments per the agreement. After the sale of Hospital operations, the System's main purpose has become to manage the remaining investments until the organization's remaining assets can be liquidated to the remaining owners and to help support healthcare services in the local community.

In accordance with the purchase agreement, the Purchaser deposited a portion of the purchase price (\$18,000,000) into an interest-bearing escrow account for three years to pay any unforeseen liabilities of the System. In March 2009, the Foundation received the first distribution from the sale of \$9,666,466, which consisted of \$350,900 in cash and \$9,315,566 in investments. In April 2010, the Foundation received a cash distribution of \$12,600,000 from the escrow account. The settlement date of any potential future receipts has not yet been determined as the Foundation's remaining \$602,008 investment in the System is being held for any potential future liabilities of the System.

Upon liquidation of the System, the purpose of the Foundation is now to use the sales proceeds and liquidating distributions to improve healthcare and outcomes for residents of Lincoln Parish in Louisiana.

Significant Accounting Policies

Basis of accounting

The Foundation's financial statements are presented on the modified cash basis of accounting. Accordingly, they reflect revenues when received rather than when earned and expenses are recognized when paid rather than when incurred.

Cash and cash equivalents

It is the Foundation's policy to define all highly liquid investments with an initial maturity of three months or less as "cash and cash equivalents."

Financial statement presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions.

1. **Organization and Significant Accounting Policies** (Continued)

Contributions

The Foundation records contributions and grants when received. All contributions are considered to be available for unrestricted use unless specifically restricted by a donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as released from restrictions.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Therefore, no provision for income taxes has been made in the financial statements, but the Foundation is required to file an annual information tax return. The Foundation is also required to review various tax positions it has taken with respect to its exempt status and determine whether in fact it is a tax exempt entity. The Foundation must also consider whether it has nexus in jurisdictions in which it has income and whether a tax return is required in those jurisdictions. In addition, as a tax exempt entity, the Foundation must assess whether it has any tax positions associated with unrelated business income subject to income tax. The Foundation does not expect its positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Foundation's accounting records.

The Foundation files U.S. federal Form 990 for informational purposes. The Foundation's federal income tax returns for the tax years 2006 and beyond remain subject to examination by the Internal Revenue Service.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect financial statement amounts and disclosures. Actual results could differ from those estimates and assumptions.

Property and Equipment

The Foundation capitalizes the cost of property and equipment in excess of \$1,500 with a useful life of more than one year. Improvements are capitalized when they extend an asset's useful life or increase its value. Otherwise, they are charged to operations. Donations of property and equipment are recorded at their fair value at the date of the donation. The Foundation uses the straight-line method of depreciation, with estimated useful lives of five to ten years for furniture, fixtures and equipment.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Gains or losses on the sale of securities are recognized on a specific-identification method.

Advertising Costs

Advertising costs are expensed as paid. Such costs amounted to \$185 and \$261 for the fiscal years ended September 30, 2010 and 2009, respectively, and are included in administrative expenses.

Reclassifications

Certain amounts previously reported in the Foundation's financial statements have been reclassified to conform to current classifications, with no effect on previously reported net assets or changes in net assets.

2. **Temporarily Restricted Funds**

As of September 30, 2010 and 2009, temporarily restricted net assets consisted of \$176,084 and \$1,785, respectively, of funds received for the treatment of indigent patients.

3. **Investments**

Investments are reported in these financial statements at fair market value.

	<u>Market</u>	<u>Cost</u>	<u>Unrealized Market Gain (Loss)</u>
Year Ended September 30, 2010			
Money market	2,685,883	2,685,883	-
Domestic equity	5,525,720	4,891,925	633,795
International equity	767,219	525,686	241,533
Domestic fixed income	<u>16,252,908</u>	<u>15,476,549</u>	<u>776,359</u>
Total	<u>25,231,730</u>	<u>23,580,043</u>	<u>1,651,687</u>
Investments	25,055,646		
Restricted assets-investments	<u>176,084</u>		
Total	<u>25,231,730</u>		

Year Ended September 30, 2009

Money market	1,119,108	1,119,108	-
Domestic equity	2,434,587	1,670,445	764,142
International equity	548,662	314,881	233,781
Domestic fixed income	<u>7,757,128</u>	<u>7,018,674</u>	<u>738,454</u>
Total	<u>11,859,485</u>	<u>10,123,108</u>	<u>1,736,377</u>
Investments	11,857,700		
Restricted assets-investments	<u>1,785</u>		
Total	<u>11,859,485</u>		

4. **Investments at Cost Plus Equity in Undistributed Earnings**

	<u>2010</u>	<u>2009</u>
Lincoln Health System, Inc., 69% interest, reported under the equity method	<u>602,008</u>	<u>13,202,008</u>

5. **Fair Value of Financial Instruments**

The Foundation adopted FASB Accounting Standards Codification Topic 820, "Fair Value Measurements" (Topic 820), as of January 1, 2008. Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements. These strata included:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

5. Fair Value of Financial Instruments (Continued)

- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and
- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Foundation-specific data. These unobservable assumptions reflect the Foundation's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair values of assets and liabilities measured on a recurring basis at September 30, 2010 and 2009 are as follows:

	<i>Assets at Fair Value as of September 30, 2010</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Markets	-	2,685,885	-	2,685,885
Certificates of Deposit	209,254	-	-	209,254
Mutual Funds:				
Commodities	8,835	-	-	8,835
Domestic Blended	177,270	-	-	177,270
Domestic Fixed Income	5,968,818	-	-	5,968,818
Domestic Growth	23,205	-	-	23,205
Domestic Value	11,203	-	-	11,203
Foreign Blended	307,457	-	-	307,457
Foreign Growth	<u>272,549</u>	-	-	<u>272,549</u>
Total Mutual Funds	6,769,337	-	-	6,769,337
Fixed Income:				
U.S. Government Obligations	-	5,551,402	-	5,551,402
Corporate Bonds & Notes	-	2,860,171	-	2,860,171
Mortgage Backed Securities	-	<u>1,663,263</u>	-	<u>1,663,263</u>
Total Fixed Income	-	10,074,836	-	10,074,836
Common Stock:				
Domestic	5,305,206	-	-	5,305,206
Foreign	<u>187,212</u>	-	-	<u>187,212</u>
Total Common Stock	5,492,418	-	-	5,492,418
Investment in Lincoln Health System	-	-	<u>602,008</u>	<u>602,008</u>
Total	<u>12,471,009</u>	<u>12,760,721</u>	<u>602,008</u>	<u>25,833,738</u>

5. Fair Value of Financial Instruments (Continued)

Investments	25,055,646
Investments at cost plus equity in undistributed earnings	602,008
Restricted assets-investments	<u>176,084</u>
Total	<u>25,833,738</u>

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance-October 1, 2009	13,202,008
Gains (losses) realized and unrealized	-
Purchases, issuances, and settlements	-
Transfers in and/or out of Level 3, net	<u>(12,600,000)</u>
Balance-September 30, 2010	<u>602,008</u>

Assets at Fair Value as of September 30, 2009

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Markets	-	519,109	-	519,109
Certificates of Deposit	1,930,222	-	-	1,930,222
Mutual Funds:				
Commodities	5,132	-	-	5,132
Domestic Blended	8,698	-	-	8,698
Domestic Fixed Income	2,298,244	-	-	2,298,244
Domestic Growth	19,622	-	-	19,622
Domestic Value	8,546	-	-	8,546
Foreign Blended	236,423	-	-	236,423
Foreign Growth	<u>312,239</u>	<u>-</u>	<u>-</u>	<u>312,239</u>
Total Mutual Funds	2,888,904	-	-	2,888,904
Exchange Traded Funds	107,835	-	-	107,835
Fixed Income:				
U.S. Government Obligations	-	1,018,434	-	1,018,434
Corporate Bonds & Notes	-	1,263,348	-	1,263,348
Mortgage Backed Securities	<u>-</u>	<u>1,846,881</u>	<u>-</u>	<u>1,846,881</u>
Total Fixed Income	-	4,128,663	-	4,128,663
Common Stock-Domestic	2,284,752	-	-	2,284,752
Investment in Lincoln Health System	<u>-</u>	<u>-</u>	<u>13,202,008</u>	<u>13,202,008</u>
Total	<u>7,211,713</u>	<u>4,647,772</u>	<u>13,202,008</u>	<u>25,061,493</u>

5. **Fair Value of Financial Instruments** (Continued)

Investments	11,857,700
Investments at cost plus equity in undistributed earnings	13,202,008
Restricted assets-investments	<u>1,785</u>
Total	<u>25,061,493</u>

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance-October 1, 2008	22,868,474
Gains (losses) realized and unrealized	-
Purchases, issuances, and settlements	-
Transfers in and/or out of Level 3, net	<u>(9,666,466)</u>
Balance-September 30, 2009	<u>13,202,008</u>

6. **Net Investment Income**

An analysis of net investment income is provided below:

	<u>2010</u>	<u>2009</u>
<u>Investment income</u>		
Income	397,743	186,512
Net unrealized gains and (losses)	(84,690)	1,736,377
Net realized gains and (losses)	<u>650,040</u>	<u>250,926</u>
	963,093	2,173,815
<u>Investment expenses</u>		
Administration fees	<u>40,292</u>	<u>10,047</u>
Net investment income	<u>922,801</u>	<u>2,163,768</u>

7. **Property and Equipment**

At September 30, 2010 and 2009, property and equipment consisted of the following:

	<u>2010</u>	<u>2009</u>
Furniture, fixtures and equipment	10,295	-
Less-accumulated depreciation	<u>(214)</u>	<u>-</u>
	<u>10,081</u>	<u>-</u>

Depreciation expense was \$214 and \$-0- for the years ended September 30, 2010 and 2009, respectively.

8. **Leases**

The Foundation leases office space and office equipment used in its operations. The future minimum lease payments for the next five years are presented below:

Year ending September 30,	
2011	16,426
2012	16,426
2013	16,426
2014	15,888
2015	<u>8,800</u>
	<u>73,966</u>

8. **Leases** (Continued)

For fiscal years ended September 30, 2010 and 2009, rental expense amounted to \$5,068 and \$-0-, respectively.

9. **Concentrations**

The Foundation maintains its cash balances in financial institutions in the United States. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the Foundation may exceed the federally insured limits. The risk is mitigated by maintaining deposits in only well capitalized financial institutions.

10. **Subsequent Event**

Management evaluates events and transactions that occurred after the statement of financial position date but before the financial statements were made available for potential recognition or disclosure in the financial statements. Management evaluated such events through December 18, 2010, which is the date that the financial statements were available to be issued, and noted no subsequent events.