

LINCOLN HEALTH FOUNDATION

RUSTON, LOUISIANA

SEPTEMBER 30, 2011 AND 2010

LINCOLN HEALTH FOUNDATION

RUSTON, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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March 14, 2012

The Board of Directors
Lincoln Health Foundation
Ruston, Louisiana

Independent Auditor's Report

We have audited the accompanying statements of assets, liabilities, and net assets-modified cash basis of Lincoln Health Foundation (a nonprofit organization) as of September 30, 2011 and 2010, and the related statement of revenues, expenses, and other changes in net assets-modified cash basis for the years 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 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.

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, 2011 and 2010, and its revenue, expenses, and other changes in net assets for the years then ended, on the basis of accounting described in Note 1.

Heard, McElroy & Vestal, LLC

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LINCOLN HEALTH FOUNDATION

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

SEPTEMBER 30, 2011 AND 2010

| <u>ASSETS</u> | <u>2011</u> | <u>2010</u> |
|--|--------------------------|--------------------------|
| Cash and cash equivalents | 186,694 | 62,912 |
| Investments | 24,481,442 | 25,055,646 |
| Investments at cost plus equity in undistributed earnings | - | 602,008 |
| Restricted assets-investments | 344,124 | 176,084 |
| Property and equipment, net | <u>8,872</u> | <u>10,081</u> |
| Total assets | <u>25,021,132</u> | <u>25,906,731</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>Liabilities</u> | - | - |
| <u>Net assets:</u> | | |
| Unrestricted | 24,677,008 | 25,730,647 |
| Temporarily restricted | <u>344,124</u> | <u>176,084</u> |
| Total net assets | <u>25,021,132</u> | <u>25,906,731</u> |
| Total liabilities and net assets | <u>25,021,132</u> | <u>25,906,731</u> |

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

| 2010 | | |
|---------------------|-----------------------------------|-------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| 923,118 | (317) | 922,801 |
| - | 174,616 | 174,616 |
| <u>-</u> | <u>-</u> | <u>-</u> |
| 923,118 | 174,299 | 1,097,417 |
| <u>-</u> | <u>-</u> | <u>-</u> |
| 923,118 | 174,299 | 1,097,417 |
| <u>49,800</u> | <u>-</u> | <u>49,800</u> |
| 49,800 | - | 49,800 |
| <u>207,004</u> | <u>-</u> | <u>207,004</u> |
| 666,314 | 174,299 | 840,613 |
| <u>25,064,333</u> | <u>1,785</u> | <u>25,066,118</u> |
| <u>25,730,647</u> | <u>176,084</u> | <u>25,906,731</u> |

LINCOLN HEALTH FOUNDATION
STATEMENTS OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|----------------|------------------|
| <u>Cash flows from operating activities:</u> | | |
| Change in net assets | (885,599) | 840,613 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 1,209 | 214 |
| Net realized and unrealized (gains) losses | <u>332,457</u> | <u>(565,350)</u> |
| Net cash provided (used) by operating activities | (551,933) | 275,477 |
| <u>Cash flows from investing activities:</u> | | |
| Purchases of investments | (20,472,134) | (41,343,288) |
| Proceeds from sale of investments | 20,545,841 | 28,536,393 |
| Distribution from Lincoln Health System, Inc. | 602,008 | 12,600,000 |
| Purchases of property and equipment | <u>-</u> | <u>(10,295)</u> |
| Net cash provided (used) by investing activities | <u>675,715</u> | <u>(217,190)</u> |
| <u>Net increase in cash and cash equivalents</u> | 123,782 | 58,287 |
| <u>Cash and cash equivalents at beginning of the year</u> | <u>62,912</u> | <u>4,625</u> |
| <u>Cash and cash equivalents at end of the year</u> | <u>186,694</u> | <u>62,912</u> |

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

LINCOLN HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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 at September 30, 2010 in the System is being held for any potential future liabilities of the System (except as noted below).

The Foundation received a distribution of \$715,293 in February 2011. Of this amount, \$602,008 reduced the investment in LHS to zero and \$113,285 was recognized as revenue. LHS still maintains a contingency fund of \$425,000 of which \$294,231 represents the Foundation's portion. As it is unknown if the Foundation will ever receive these funds, no investment has been recorded for them due to their contingent nature.

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."

1. Organization and Significant Accounting Policies (Continued)

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.

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 2008 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 \$1,982 and \$185 for the fiscal years ended September 30, 2011 and 2010, respectively, and are included in administrative expenses.

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

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, 2011 and 2010, temporarily restricted net assets consisted of \$344,124 and \$176,084, 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, 2011 | | | |
| Money market | 2,286,751 | 2,286,751 | - |
| Domestic equity | 7,721,471 | 7,508,956 | 212,515 |
| International equity | 1,532,466 | 1,630,406 | (97,940) |
| Domestic fixed income | <u>13,284,878</u> | <u>12,853,295</u> | <u>431,583</u> |
| Total | <u>24,825,566</u> | <u>24,279,408</u> | <u>546,158</u> |
| Investments | 24,481,442 | | |
| Restricted assets-investments | <u>344,124</u> | | |
| Total | <u>24,825,566</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> | | |

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

| | <u>2011</u> | <u>2010</u> |
|---|-------------|----------------|
| Lincoln Health System, Inc., 69% interest, reported under the equity method | <u>-</u> | <u>602,008</u> |

Refer to Note 1.

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),
- 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, 2011 and 2010 are as follows:

| | <i>Assets at Fair Value as of September 30, 2011</i> | | | |
|-------------------------------------|--|-------------------|----------------|-------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Money Markets | - | 2,286,751 | - | 2,286,751 |
| Certificates of Deposit | 107,132 | - | - | 107,132 |
| Mutual Funds: | | | | |
| Domestic Fixed Income | 1,213,992 | - | - | 1,213,992 |
| Foreign Growth | <u>1,472,320</u> | <u>-</u> | <u>-</u> | <u>1,472,320</u> |
| Total Mutual Funds | 2,686,312 | - | - | 2,686,312 |
| Fixed Income: | | | | |
| U.S. Government Obligations | - | 9,988,754 | - | 9,988,754 |
| Corporate Bonds & Notes | <u>-</u> | <u>1,975,000</u> | <u>-</u> | <u>1,975,000</u> |
| Total Fixed Income | - | 11,963,754 | - | 11,963,754 |
| Common Stock: | | | | |
| Domestic | 7,721,471 | - | - | 7,721,471 |
| Foreign | <u>60,146</u> | <u>-</u> | <u>-</u> | <u>60,146</u> |
| Total Common Stock | 7,781,617 | - | - | 7,781,617 |
| Investment in Lincoln Health System | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>10,575,061</u> | <u>14,250,505</u> | <u>-</u> | <u>24,825,566</u> |

5. Fair Value of Financial Instruments (Continued)

| | |
|---|-------------------|
| Investments | 24,481,442 |
| Investments at cost plus equity in undistributed earnings | - |
| Restricted assets-investments | <u>344,124</u> |
| Total | <u>24,825,566</u> |

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

| | |
|---|-----------|
| Balance-October 1, 2010 | 602,008 |
| Gains (losses) realized and unrealized | 113,285 |
| Purchases, issuances, and settlements | (715,293) |
| Transfers in and/or out of Level 3, net | <u>-</u> |
| Balance-September 30, 2011 | <u>-</u> |

| | <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: | | | | |
| Domestic Fixed Income | 6,189,331 | - | - | 6,189,331 |
| Foreign Growth | <u>580,006</u> | <u>-</u> | <u>-</u> | <u>580,006</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>-</u> | <u>1,663,263</u> | <u>-</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>-</u> | <u>-</u> | <u>187,212</u> |
| Total Common Stock | 5,492,418 | - | - | 5,492,418 |
| Investment in Lincoln Health System | <u>-</u> | <u>-</u> | <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> |

| | |
|---|-------------------|
| 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> |

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

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> |

6. **Net Investment Income**

An analysis of net investment income is provided below:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|------------------|----------------|
| <u>Investment income</u> | | |
| Income | 811,163 | 397,743 |
| Net unrealized gains and (losses) | 106,699 | (84,690) |
| Net realized gains and (losses) | <u>(439,156)</u> | <u>650,040</u> |
| | 478,706 | 963,093 |
| <u>Investment expenses</u> | | |
| Administration fees | <u>154,055</u> | <u>40,292</u> |
| Net investment income | <u>324,651</u> | <u>922,801</u> |

7. **Property and Equipment**

At September 30, 2011 and 2010, property and equipment consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|----------------|---------------|
| Furniture, fixtures and equipment | 10,295 | 10,295 |
| Less-accumulated depreciation | <u>(1,423)</u> | <u>(214)</u> |
| | <u>8,872</u> | <u>10,081</u> |

Depreciation expense was \$1,209 and \$214 for the years ended September 30, 2011 and 2010, 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:

| | |
|------|---------------|
| 2012 | 16,426 |
| 2013 | 16,426 |
| 2014 | 15,888 |
| 2015 | <u>8,800</u> |
| | <u>57,540</u> |

For fiscal years ended September 30, 2011 and 2010, rental expense amounted to \$17,283 and \$5,068, 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 March 14, 2012, which is the date that the financial statements were available to be issued, and noted no subsequent events.