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**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Southwest Louisiana Health Care System, Inc.

### Opinion

We have audited the accompanying consolidated financial statements of Southwest Louisiana Health Care System, Inc. and its affiliates (the System), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Other Reports Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 30, 2023, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
April 14, 2023

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**

**ASSETS**

<i>(in thousands)</i>	<u>2022</u>	<u>2021</u>
<b><u>CURRENT ASSETS</u></b>		
Cash and cash equivalents	\$ 72,854	\$ 106,567
Cash and cash equivalents - restricted	9,312	14,315
Patient accounts receivable	36,336	34,440
Assets limited as to use - current portion	8,162	8,106
Inventory	7,461	7,264
Short-term investments	96	93
Other current assets	23,222	16,812
Total current assets	<u>157,443</u>	<u>187,597</u>
 <b><u>ASSETS LIMITED AS TO USE</u></b>		
Held by trustee in accordance with bond indentures	8,815	10,871
Internally designated for malpractice claims	1,820	2,035
Internally designated for the Foundation	2,891	2,618
Total assets whose use is limited	<u>13,526</u>	<u>15,524</u>
Less: amounts required to meet current liabilities	<u>(8,162)</u>	<u>(8,106)</u>
Noncurrent assets limited as to use	<u>5,364</u>	<u>7,418</u>
 <b><u>PROPERTY AND EQUIPMENT, net</u></b>		
Total property and equipment, net	<u>155,271</u>	<u>155,386</u>
 <b><u>RIGHT OF USE ASSETS</u></b>		
Total right of use assets	<u>18,570</u>	<u>18,843</u>
 <b><u>OTHER ASSETS</u></b>		
Other	2,319	1,867
Total other assets	<u>2,319</u>	<u>1,867</u>
 <b>TOTAL ASSETS</b>		
	<u>\$ 338,967</u>	<u>\$ 371,111</u>

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

**LIABILITIES AND NET ASSETS**

(in thousands)

	<u>2022</u>	<u>2021</u>
<b><u>CURRENT LIABILITIES</u></b>		
Current portion of long-term debt	\$ 6,131	\$ 6,001
Current portion of lease liability	1,676	3,578
Accrued interest payable	407	418
Accounts payable	26,114	31,893
Accrued compensation and benefits	24,975	25,524
Estimated third-party payor settlements	9,890	12,339
Other accrued expenses	34,200	60,230
Credit balances in patient accounts receivable	1,558	1,032
Total current liabilities	<u>104,951</u>	<u>141,015</u>
<b><u>LONG-TERM LIABILITIES</u></b>		
Long-term debt, net of current portion	107,721	113,852
Lease liability, net of current portion	15,690	11,512
Other long-term liabilities	-	3,753
Total long-term liabilities	<u>123,411</u>	<u>129,117</u>
Total liabilities	<u>228,362</u>	<u>270,132</u>
<b><u>TOTAL NET ASSETS</u></b>		
Noncontrolling interest	(21)	(83)
Controlling interest - without donor restrictions	109,504	100,461
Controlling interest - with donor restrictions	1,122	601
Total net assets	<u>110,605</u>	<u>100,979</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 338,967</u></b>	<b><u>\$ 371,111</u></b>

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

(in thousands)

	<u>2022</u>	<u>2021</u>
<b><u>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</u></b>		
<b><u>OPERATING REVENUES</u></b>		
Patient service revenue	\$ 384,166	\$ 375,232
Other operating revenues	59,114	35,960
Total operating revenues	<u>443,280</u>	<u>411,192</u>
<b><u>OPERATING EXPENSES</u></b>		
Salaries and wages	186,612	173,826
Employee benefits	28,552	27,306
Contract labor	16,124	11,873
Supplies	99,345	102,178
Professional fees	7,675	4,711
Service contracts	9,715	8,442
Purchased services	37,125	38,396
Management fees	1,986	1,594
Depreciation	15,505	15,219
Interest	4,133	4,136
Insurance	6,832	6,327
Other	20,315	17,486
Total operating expenses	<u>433,919</u>	<u>411,494</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>9,361</u>	<u>(302)</u>
<b><u>NONOPERATING REVENUES</u></b>		
Contributions	43	436
Other revenues - net	295	200
	<u>338</u>	<u>636</u>
<b>REVENUES OVER EXPENSES</b>	9,699	334
Change in fair value of investments	(244)	(239)
Loss on disposal of property and equipment	(19)	(360)
Insurance proceeds related to property and equipment	-	670
Net assets released from restriction	109	158
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>9,545</u>	<u>563</u>
<b><u>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</u></b>		
Contributions	630	268
Net assets released from restriction	(109)	(158)
Total changes in net assets with donor restrictions	<u>521</u>	<u>110</u>
<b>CHANGE IN NET ASSETS</b>	10,066	673
Increase in net assets - noncontrolling interest	<u>502</u>	<u>342</u>
Increase in net assets - controlling interest	<u>\$ 9,564</u>	<u>\$ 331</u>

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



**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

<i>(in thousands)</i>	Controlling Interest		Noncontrolling Interest	Total Net Assets
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		
<b><u>Balance at December 31, 2020</u></b>	\$ 100,240	\$ 491	\$ 44	\$ 100,775
Cash paid to minority shareholders	-	-	(469)	(469)
Increase in net assets for the year ended December 31, 2021	221	110	342	673
<b><u>Balance at December 31, 2021</u></b>	100,461	601	(83)	100,979
Cash paid to minority shareholders	-	-	(440)	(440)
Increase in net assets for the year ended December 31, 2022	9,043	521	502	10,066
<b><u>Balance at December 31, 2022</u></b>	\$ 109,504	\$ 1,122	\$ (21)	\$ 110,605

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

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

<i>(in thousands)</i>	<u>2022</u>	<u>2021</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 10,066	\$ 673
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation	15,505	15,219
Amortization of bond premium	(725)	(725)
Net unrealized gain (loss) on investments	244	239
Loss on disposal of property and equipment	19	360
Insurance proceeds related to property and equipment	-	(670)
Lease liability and right of use asset adjustment	2,549	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,370)	(4,989)
Inventories and other current assets	(6,607)	(6,460)
Other assets	(452)	48
Accounts payable and accrued expenses	(32,325)	8,253
Third party payor settlements	(2,449)	499
Other liabilities	(3,753)	(30,563)
<b>Net cash provided by (used in) operating activities</b>	<u>(19,298)</u>	<u>(18,116)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Acquisitions of property and equipment	(15,453)	(32,956)
Insurance proceeds related to property and equipment	-	670
Sale of investments	609	1,640
Purchase of investments	(627)	(1,632)
Change in assets whose use is limited	1,769	5,429
<b>Net cash provided by (used in) investing activities</b>	<u>(13,702)</u>	<u>(26,849)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on revenue bonds and notes	(4,371)	(4,639)
Principal payments on lines of credit	(905)	(2,670)
Proceeds from issuance of long-term debt	-	4,815
Cash paid to minority shareholders	(440)	(469)
<b>Net cash used in financing activities</b>	<u>(5,716)</u>	<u>(2,963)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(38,716)	(47,928)
Cash and cash equivalents at beginning of year	<u>120,882</u>	<u>168,810</u>
Cash and cash equivalents at end of year	<u>\$ 82,166</u>	<u>\$ 120,882</u>
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u></b>		
Cash paid during the year for interest, net of capitalized interest	<u>\$ 4,142</u>	<u>\$ 4,136</u>
Property and equipment acquired with financing	<u>\$ -</u>	<u>\$ 5,452</u>
Accounts payable for property and equipment	<u>\$ 44</u>	<u>\$ 259</u>
<b><u>RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH REPORTED:</u></b>		
Cash and cash equivalents	\$ 72,854	\$ 106,567
Cash and cash equivalents - restricted	9,312	14,315
Total cash, cash equivalents, and restricted cash reported	<u>\$ 82,166</u>	<u>\$ 120,882</u>

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

## SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### **1. Summary of significant accounting policies**

Southwest Louisiana Health Care System, Inc. (the System) was organized as a Louisiana non-profit corporation for the purpose of conducting charitable, scientific, and educational activities. The System or the Hospital is designated as the “sole member” of its affiliates with the exception of several joint ventures, and, through the actions of its Board of Trustees, has the power to change or elect the Board of Trustees, approve certain corporate actions, and amend the articles of incorporation of its affiliates, thereby functioning in the capacity of the sole shareholder.

The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America and the prevailing practices within the healthcare industry. The significant accounting policies used by the System in preparing and presenting its consolidated financial statements are summarized as follows:

#### Principles of consolidation

The consolidated financial statements include the Southwest Louisiana Hospital Association, d/b/a Lake Charles Memorial Hospital (the Hospital), the major operating unit in the System. The Hospital provides a wide range of inpatient and outpatient services through a 313-bed acute care facility, a 52-bed hospital for women, a 42-bed behavioral health hospital, and satellite locations. Also, included in the consolidated financial statements is Memorial Medical Group, LLC, a wholly-owned corporation formed for the purpose of entering into for-profit healthcare ventures, and the Southwest Louisiana Hospital Association Foundation, Inc. Through these entities, the System provides integrated healthcare services in southwest Louisiana. All significant intercompany transactions and balances have been eliminated upon consolidation.

The System owns greater than 50% in Lake Charles Health Plan, which was formed in 1997. The System is also a 51% owner in an MRI joint venture, which began operations in January of 2006. The joint ventures are consolidated in the accompanying financial statements due to the System’s ownership percentage exceeding 50%.

The System established the Southwest Louisiana Hospital Association Foundation, Inc. in 2009. The Foundation is organized as a non-profit corporation established to operate exclusively for the charitable, benevolent, educational and scientific purposes of Lake Charles Memorial Hospital. The Foundation has received exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code.

During 2013, the System entered into discussions with the LSU System and the State of Louisiana to lease the assets and be responsible for the operations of W.O. Moss Regional Hospital (Moss). A memorandum of understanding (MOU) was approved by the LSU Board of Supervisors, and a cooperative endeavor agreement (CEA) outlining the terms of the agreement was signed on June 24, 2013. W.O. Moss Regional ceased inpatient operations in June 2013 subject to legislative action and the System began operating ambulatory/outpatient clinics at the site effective June 24, 2013. The CEA was amended and restated in October of 2014. MOUs have been signed in 2016, 2017, 2018, and 2019 that modify some of the terms of the CEA. The Moss campus activities are included in the accompanying consolidated financial statements. The Louisiana Department of Health (LDH) and Centers for Medicare and Medicaid Services (CMS) jointly reassessed the hospital reimbursement programs in place. The revised methodologies would consider LDH’s priority of maintaining reimbursement levels provided under the CEA between the System and Louisiana State University. Current Hospital reimbursement levels inclusive of base rates and any supplemental payments are expected to remain similar. Additionally, directed payment methodologies should utilize at a minimum the principal reimbursement “following” the patient thereby “rewarding” the hospital for treating Medicaid patients and or increasing access for Medicaid recipients. These changes were effective July 1, 2022.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents includes all checking and savings accounts and certain investments in highly liquid debt instruments which had maturities of three months or less at the time of purchase.

Restricted cash includes local taxes paid as “payments under protest” since April 2011 as it relates to Medicare and Medicaid recipients of medical devices. Medical devices are defined as instruments, apparatus, implants, or pharmaceuticals used to diagnose, prevent, or treat the body. Escrow accounts for the local government which total approximately \$14,895,000 and \$13,569,000 as of December 31, 2022 and December 31, 2021, respectively, have been established. This escrow account was set up as a holding account awaiting the outcome of a pending lawsuit with the Calcasieu Parish School Board regarding the decision on whether certain medical devices and pharmaceuticals that are provided to Medicare and Medicaid patients are taxable at the local level. On March 22, 2023, the dispute was settled with the System agreeing to pay \$8,545,000 to the Calcasieu Parish School Board.

Short-term investments

Short-term investments include stock and a certificate of deposit (See Note 5).

Investments and investment income

The System follows the provisions of the accounting guidance contained in the Accounting Standards Codification (ASC) for investments in equity securities with readily determinable fair values and all investments in debt securities which requires them to be measured at fair value in the consolidated balance sheets.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is recorded as an increase in net assets without donor restrictions, unless the use is restricted by the donor or law. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, are reported as other operating revenues. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Donated investments are recorded at their market value at the date of receipt, which is then treated as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. These realized gains and losses flow through the System's yearly activities.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies (continued)**

Assets limited as to use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the System have been reclassified in the consolidated balance sheets.

Patient accounts receivable

The System provides credit in the normal course of operations to patients located primarily in Southwestern Louisiana and to third-party payors conducting operations in these areas. Due to the Hospital's geographic location, the System also participates in Texas' Medicaid programs to cover patients who are admitted.

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined for each payor. For third-party payors, including Medicare, Medicaid, and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries, and any anticipated changes in trends.

Patient accounts receivable can be impacted by the effectiveness of the System's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The System also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, and the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables.

The System determines if patient accounts receivable are past-due based on the discharge date; however, the System does not charge interest on past-due accounts but has entered into an agreement with a third party vendor who charges a monthly administrative fee to the patient on extended payment plans. The System charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful.

Contract assets consist of services provided to patients who are still receiving inpatient care at the System's facilities at the balance sheet date. This represents patient charges that have not been billed and which do not meet the conditions of unconditional right to payment at the consolidated balance sheet dates.

Inventories

Inventories consist primarily of drugs, medical supplies, and general supplies and are stated at the lower of cost (using the first-in, first-out method) or net realizable value.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies (continued)**

Property and equipment

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives or increase the value of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Depreciation of assets is computed primarily by the use of straight-line methods over the estimated useful lives of the respective assets, as follows:

Building and improvements	25 - 40 years
Furniture and fixtures	5 - 7 years
Office & Medical Equipment	3 -15 years

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gains and losses are recognized in the System's yearly operations.

The System reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the assets. No impairments were recognized for December 31, 2022 or 2021.

Other assets

Other assets consist primarily of investments in affiliated entities, including Louisiana Pet Imaging of Lake Charles, LLC (33% ownership), and CHG Hospital Sulphur, LLC, specialty hospital (49% ownership). The Shareport, LLC ownership was terminated during 2021. The System accounts for investments in affiliated entities of which it owns more than 20% but not more than 50%, using the equity method.

Leases

The Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)," was issued to increase transparency and comparability among financial statements by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about lease agreements.

The System determines if an arrangement is a lease at inception of the contract. For leases with terms greater than twelve months, right of use assets and lease liabilities are recognized at contract commencement date based on the present value of lease payments over the lease term. Right of use assets represent the System's right to use the underlying assets for the lease term. Lease liabilities represent the System's obligation to make lease payments arising from these contracts. The System uses the risk-free rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies (continued)**

Leases (continued)

Lease agreements may include rental escalation clauses or renewal options that are factored into management's determination of lease payments, when appropriate. The estimated useful life of assets is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The System's lease agreements may include payments based on usage while others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in operating expenses, but are not included in the right of use asset or lease liability balances. The System's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

The System has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. Additionally, the System elected the package of transition provisions available which allowed the carryforward of the System's historical assessments of whether contracts are or contain leases, the lease classification, and the treatment of initial direct costs.

The System reviews the carrying values of right of use assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the right of use assets. No impairments were recognized for December 31, 2022 or 2021.

Other long-term liabilities

Other long-term liabilities include the long-term portion of advance payments related to government advances reported by the System. Federal economic relief was provided for in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and subsequent legislation. Advances recorded by the System include cash advances received from Medicare.

Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Financing costs are amortized to interest expense on a straight-line basis over the period that the related obligation is outstanding.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies (continued)**

Net assets

Net assets, revenues and gains, are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use for any purpose in performing the primary objectives and general operations of the System and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed or grantor restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The System did not have any net assets with perpetual donor restrictions at December 31, 2022 or 2021.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions.

Income (loss) from operations

The consolidated statements of operations include the line item entitled “income (loss) from operations.” Income (loss) from operations includes, but is not limited to, patient revenues, investment income from unrestricted assets, cafeteria revenues, business interruption insurance proceeds, medical office rental revenues, provider relief funds, FEMA funds and other government subsidies. Changes in net assets without donor restrictions which are excluded from income from operations include contributions, unrealized gains (losses), property and equipment insurance proceeds, loss on disposal of assets, and other non-operating activities.

Patient service revenue and third-party settlements

Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services or patients receiving services in the outpatient clinics or in their homes (home care). The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services related to that sale.



**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies (continued)**

Patient service revenue and third-party settlements (continued)

Since all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in The FASB Accounting Standards Codification (ASC) FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to examination. The System has recorded these third-party estimates based on the most likely amount to be realized. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Consequently, there is at least a reasonable possibility that recorded estimates could change by a material amount. The System applied the principles surrounding balance sheet offsetting during the years ended December 31, 2022 and 2021. Therefore, the third-party receivables and payables are presented separately on the accompanying consolidated balance sheets.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The laws and regulations governing the System's operations, along with the terms of participation in various government programs, regulate how the System does business, the services offered and its interactions with patients and the public. These laws and regulations, and their interpretations, are subject to frequent change. Changes in existing laws or regulations, or their interpretations, or the enactment of new laws or regulations could materially and adversely affect the System's operations and financial condition.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies (continued)**

Patient service revenue and third-party settlements (continued)

The System is subject to various routine and non-routine governmental reviews, audits and investigations. In recent years, federal and state civil and criminal enforcement agencies have heightened and coordinated their oversight efforts related to the health care industry, including referral practices, cost reporting, billing practices, joint ventures and other financial relationships among health care providers. Violation of the laws governing the System's operations, or changes in the interpretation of those laws, could result in the imposition of fines, civil or criminal penalties, and/or termination of the System's rights to participate in federal and state-sponsored programs and suspension or revocation of the System's licenses. The System believes that it is in material compliance with all applicable laws and regulations.

Donor-restricted gifts

Unconditional promises to give cash and other assets to the System are reported at their fair values at the date the promises are received. Conditional promises to give and indications of intentions to give are reported at their fair values at the date the gifts are received or become unconditional. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

Employee health benefit claims

The provision for accrued and unpaid medical claims includes estimates of claims related to its employees who participate in the group health care benefit plan. Such provisions are estimated by management and include amounts for claims filed and not paid and an estimate of claims incurred but not filed at year end.

Professional liability claims

The provision for estimated malpractice claims includes estimates of the ultimate cost for both reported claims, including costs to defend claims, and claims incurred but not reported. The System has not experienced material losses from professional liability claims in the past.

Functional allocation of expenses

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on a square-footage basis. See Note 12.

Income taxes

The Hospital and certain affiliates are non-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. Certain other affiliates are for-profit taxpaying entities. Federal income tax liabilities generated by the System's taxable activities, if any, are insignificant. Accordingly, no provision for income taxes on related income has been included in the consolidated financial statements.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies (continued)**

Income taxes (continued)

The System applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The System 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 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The System has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions.

**2. Current operating environment**

Coronavirus pandemic

As a result of the coronavirus (COVID-19) pandemic, legislation on the federal and state level was passed to assist healthcare providers in providing care to COVID-19 and other patients during the public health emergency. A primary source of relief for healthcare providers was the CARES Act, an economic stimulus package signed into law on March 27, 2020. The Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded the Medicare Accelerated and Advance Payment Program to increase cash flow to providers impacted by the COVID-19 pandemic. Inpatient acute care hospitals were able to request accelerated payments of up to 100% of their Medicare payment amount for a six-month period. The Medicare Accelerated and Advanced Payment Program payments are advances that providers must repay.

Medicare accelerated payments of approximately \$48,000,000 were received by the System in April 2020. No additional Medicare accelerated payments have been received by the System since such time, including during the twelve months ended December 31, 2022. Effective October 1, 2020, the program was amended such that providers are required to repay accelerated payments beginning one year after the payment was issued. After such one-year period, Medicare payments owed to providers are recouped according to the repayment terms. The repayment terms specify that for the first 11 months after repayment begins, repayment will occur through an automatic recoupment of 25% of Medicare payments otherwise owed to the provider. At the end of the eleven-month period, recoupment increases to 50% for six months. At the end of the six months (or 29 months from the receipt of the initial accelerated payment), Medicare will issue a letter for full repayment of any remaining balance, as applicable. In such event, if payment is not received within 30 days, interest will accrue at the annual percentage rate of four percent (4%) from the date the letter was issued, and will be assessed for each full 30-day period that the balance remains unpaid. In April 2021, the Centers for Medicare and Medicaid Services (CMS) began recouping Medicare accelerated payments previously received by the System. During the years ended December 31, 2022 and 2021, approximately \$25,000,000 and \$15,000,000 had been recouped from the System by CMS subject to the aforementioned repayment terms. As of December 31, 2022 and 2021, approximately \$8,112,000 and \$33,000,000 of Medicare accelerated payments are reflected within other accrued expenses on the balance sheet. On September 13, 2022, the System received a demand letter from CMS requiring repayment in full of the outstanding COVID-19 Accelerated Advance Payment (CAAP) balance within 30 days of the letter to avoid the assessment of an annual interest rate at 4%. Congress established this rate of interest to be applied on CAAP balances due. As previously mentioned, interest is calculated at an annual percentage rate assessed for each full 30-day period that payment is not made on time. The System submitted an Extended Repayment Schedule (ERS) subsequently approved by CMS. The balance will be repaid through and ending October 2023 incurring interest at 4%, or approximately \$215,000.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2. Current operating environment (continued)**

The Provider Relief Fund (PRF) supports healthcare providers in the battle against the COVID-19 pandemic. Qualified providers of health care, services, and support may receive PRF payments for healthcare-related expenses or lost revenue due to COVID-19. Provider Relief Funds payments of approximately \$9,000,000 were received by the System between the months of April, May, and June 2020 representing Phase 1 funding. An additional \$3,000,000 was received during Phase 2 of distribution in July 2020, and nothing was submitted nor received for Phase 3 distribution. The System has successfully applied for and received approximately \$3,400,000, \$204,579, and \$10,959,895 of Phase 4 funding in November 2021, January 2022, and April 2022. These funds are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using these funds to reimburse expenses or losses that other sources are obligated to reimburse. The System does not expect to repay funds received; thus, the amount received is recognized in other operating revenue in the consolidated statements of operations for the years ended December 31, 2022 and 2021.

**Weather related events**

A mandatory evacuation of the Lake Charles area was issued on August 25, 2020 as Hurricane Laura was centered on Southwest Louisiana. Hurricane Laura made landfall on August 26, 2020 as a Category 4 hurricane, with the eye of the Storm passing directly over Lake Charles. The storm caused significant damage to the entire city and surrounding areas and resulted in the prolonged loss of power and water services throughout the area. The System sustained minimal to catastrophic damages to every property owned and operated by the System. Due to the enormity of the damages, the System contracted with a third party vendor to manage the mitigation, remediation, bidding, and overall recovery of property and equipment.

On September 15, 2020 Lake Charles Memorial Hospital was granted approval from the Louisiana Department of Health and Hospitals to resume hospital clinical operations. The Women's campus was cleared by the State of Louisiana to reoccupy and resume normal business operations on September 29, 2020. The System's behavioral health hospital was closed for a few weeks until damages could be repaired and has since reopened. The System was making progress in repairs to buildings and rebuilding both inpatient and outpatient volumes, when it became clear that another hurricane impact was imminent. On Wednesday October 7, 2020 a mandatory evacuation of the area was issued as the target of Hurricane Delta centered on Southwest Louisiana. Delta made landfall on October 9, 2020 as a Category 2 hurricane, with the eye of the Storm passing just east of Lake Charles (within 15 miles of the path Hurricane Laura took). The System's main campus remained open throughout the storm. The main hospital resumed operations immediately following the passing of Hurricane Delta. The Women's Campus was approved for occupancy October 11, 2020.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2. Current operating environment (continued)**

The System opened a claim with its insurer for damages sustained as a result of Hurricane Laura. During 2020, the System received insurance proceeds of \$75,000,000 for time element and property and equipment damages. The System also opened a claim with its insurer for damages associated with Hurricane Delta. The claim was denied by the carrier, noting that, per policy provisions, the insurance policy limits were met with Hurricane Laura damages.

In February 2021, the System was impacted by Winter Storm Uri. A major flood also affected the Lake Charles area on May 17, 2021. For the years ended December 31, 2022 and 2021, the System has incurred expenses totaling approximately \$0 and \$3,000,000 for Winter Storm Uri and approximately \$0 and \$1,000,000 for the May flood event. Final repairs associated with Winter Storm Uri and the flood event have been completed.

The System settled a claim with its insurer for damages sustained from Winter Storm Uri. Approximately \$4,100,000 was received related to this claim in 2021. Of this amount, \$670,000 related to property and equipment and the remaining portion related to business interruption and one time storm related expenses. Insurance claims for both Hurricanes Laura and Delta and Winter Storm Uri have been settled.

The System opened claims with the Federal Emergency Management Agency (FEMA) for Hurricanes Laura and Delta, Winter Storm Uri, and the May 2021 flood event. In addition, a FEMA claim has been initiated for the COVID-19, global pandemic. The System is working with FEMA and State of Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) representatives to identify expenditures that might be covered under those claims. FEMA has obligated funds to the System and the System has recognized revenues of approximately \$14,200,000 and \$508,000 for Hurricane Laura, Delta, Winter Storm and flood event in 2022 and 2021, respectively. In 2022 and 2021, approximately \$8,500,000 and \$45,000 has been received from FEMA.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2. Current operating environment (continued)**

Other

The Affordable Care Act provides for significant reductions in the growth of Medicare spending and reductions in Medicare and Medicaid disproportionate share hospital payments. Any shortfalls, now or in the future, whether as a result of economic changes, the expansion of Medicaid coverage under the Affordable Care Act, or otherwise, could result in additional reductions to Medicare or Medicaid payments.

As described in Note 1, the CEA related to the Moss campus provides for reimbursement for indigent patient care and effectively mitigates reductions in Medicaid reimbursements. As a result of the CEA signed in June 2013 and last amended September 2014 and further clarified by MOU's in 2016, 2017, 2018, and 2019, the Hospital received approximately \$18,500,000 and \$38,969,000 in CEA related payments during 2022 and 2021, respectively. Additionally, for the year ended December 31, 2022, the System received \$23,649,000 related to the Direct Payment Program which took effect beginning July 1, 2022. The outstanding receivable relating to this new program was approximately \$1,068,000 at December 31, 2022. Approximately \$1,265,925 and \$3,753,000 in 2021 and 2020, is rent paid in advance to LSU (see Note 11) and is unearned income paid to the Hospital under the CEA that is attributable to future periods.

The System is a member of the Gulf South Quality Network (GSQN), aimed at providing a physician network engaged in the process of clinical integration. The System has signed a clinical integration agreement through GSQN.

The System recognized approximately \$8,438,000 and \$5,274,000 in Upper Payment Limit revenue related to its clinic operations in 2022 and 2021, respectively. This amount is included in net patient service revenue in the consolidated statements of operations.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3. Liquidity and availability**

As of December 31, 2022, the System has working capital of \$52,492,000 and average days (based on normal operating expenditures) cash on hand of 64 days. As of December 31, 2021, the System had a working capital of \$40,897,000 and average days cash on hand of 98 days.

Financial assets at December 31 are as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents - unrestricted	\$ 72,854	\$ 106,567
Patient accounts receivable	36,336	34,440
Short-term investments	96	93
Assets limited to use:		
Internally designated	4,711	4,653
Funds held by trustee	8,815	10,871
	<u>122,812</u>	<u>156,624</u>
Total financial assets		
Less amounts not available to be used within one year:		
Internally designated and donor restricted	(4,711)	(4,653)
Funds held by trustee	(8,815)	(10,871)
	<u>(13,526)</u>	<u>(15,524)</u>
Financial assets not available to be used within one year		
	<u>\$ 109,286</u>	<u>\$ 141,100</u>
Financial assets available to meet general expenditures within one year		

The System has other assets limited as to use for donor-restricted purposes, debt service, and for malpractice claims. These assets limited as to use, which are more fully described in Note 5, are not available for general expenditure within the next year. However, the internally-designated amounts could be made available, if necessary.

Additionally, the System maintains a \$10,000,000 line of credit, as discussed in more detail in Note 7.

**4. Patient service revenue and receivables**

The System's patient revenues generally relate to contracts with patients in which the performance obligations are to provide health care services to patients and the System records revenues as performance obligations are satisfied. The performance obligations for inpatient services are generally satisfied over periods that average approximately four days, and revenues are recognized based on charges incurred in relation to total expected charges. The performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans, and commercial insurance companies, including plans offered through the health insurance exchanges).

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4. Patient service revenue and receivables (continued)**

The estimates for implicit price concessions are based upon management's assessment of historical writeoffs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical writeoffs and collections (the "hindsight analysis") as a primary source of information in estimating the collectability of accounts receivable.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare - Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid - Reimbursements for Medicaid services are generally paid at prospectively determined rates per day, or per occasion of service.
- Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

For the years ended December 31, 2022 and 2021, the System recorded approximately \$1,102,740,000 and \$996,419,000, respectively, of implicit and explicit price concessions as a direct reduction of net operating revenues.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Estimated settlements were \$9,890,059 and \$12,339,000 at December 31, 2022 and 2021, respectively.



**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4. Patient service revenue and receivables (continued)**

Net patient service revenue decreased approximately \$218,000 in 2022 and decreased approximately \$385,000 in 2021 due to prior-year retroactive adjustments in excess of amounts previously estimated.

The Emergency Medical Treatment and Labor Act (“EMTALA”) requires any hospital participating in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital’s emergency room for treatment and, if the individual is suffering from an emergency medical condition, to either stabilize the condition or make an appropriate transfer of the individual to a facility able to handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of an individual’s ability to pay for treatment. Federal and state laws and regulations require, and the System’s commitment to providing quality patient care encourages, the System to provide services to patients who are financially unable to pay for the health care services they receive. The System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. For the year ended December 31, the System’s patient revenue was comprised of:

	<b><u>Years Ended December 31,</u></b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
Inpatient	30.99%	33.26%
Outpatient	65.29%	64.18%
Other	3.72%	2.56%
Total	<u>100.00%</u>	<u>100.00%</u>

The composition of net patient care service revenue by primary payor for the years ended December 31 is as follows:

	<b><u>Years Ended December 31,</u></b>			
	<b><u>2022</u></b>	<b><u>Ratio</u></b>	<b><u>2021</u></b>	<b><u>Ratio</u></b>
Medicare	\$ 147,800	38%	\$ 135,084	36%
Medicaid	60,709	16%	63,789	17%
Managed care	145,604	38%	157,597	42%
Self-pay patients	30,053	8%	18,762	5%
Total Net Revenues	<u>\$ 384,166</u>	<u>100%</u>	<u>\$ 375,232</u>	<u>100%</u>

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4. Patient service revenue and receivables (continued)**

Assets from contracts with patients and governments are as follow:

	At December 31		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>Accounts Receivable from Contracts:</u>			
Patient Accounts Receivable	\$ 36,336	\$ 34,440	\$ 29,223
Contract Assets included	\$ 12,004	\$ 8,784	\$ 6,429

**5. Investments/Assets limited as to use**

The composition of assets limited as to use at December 31, 2022 and 2021 is set forth in the following tables. Investments are stated at fair value (in thousands).

	<u>2022</u>	<u>2021</u>
Assets held by the trustee in accordance with bond indenture agreements:		
Cash and cash equivalents	\$ 8,815	\$ 10,871
Less: amount classified as current	<u>(8,162)</u>	<u>(8,106)</u>
	<u>653</u>	<u>2,765</u>
Assets internally designated by the Board of Trustees for professional liability claims and the Foundation:		
Cash and cash equivalents	3,114	2,837
Equity mutual funds	346	465
U.S. Government agencies	<u>1,251</u>	<u>1,351</u>
	<u>4,711</u>	<u>4,653</u>
Total non-current assets limited as to use	\$ <u>5,364</u>	\$ <u>7,418</u>

Use of the above funds is limited by trust indentures as well as internal designations. Bond trust funds of \$8,815,000 and \$8,719,000 in 2022 and 2021, respectively, are generally limited to payment of debt service, maintenance of reserve funds, and security for bondholders. Additionally, bond trust funds of \$0 and \$2,152,000 at December 31, 2022 and 2021, respectively, are limited for use on future capital expenditures. Use of the professional liability funds of \$1,820,000 and \$2,035,000 at 2022 and 2021, respectively, is limited by the Board of Trustees for the payment of professional liability claims and related expenses. Funds totaling \$2,891,000 and \$2,618,000, in 2022 and 2021, respectively are designated for the Hospital's foundation.

Included in short-term investments is an investment in stock which totaled approximately \$90,000 and \$87,000 as of December 31, 2022 and 2021, respectively.

The System recognized net investment revenues of approximately \$8,000 and \$215,000 during the years ended December 31, 2022 and 2021, respectively. These amounts are classified as other operating revenues in the consolidated statements of operations.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6. Property and equipment**

Property and equipment at December 31, 2022 and 2021 consisted of the following (in thousands):

	<u>2022</u>		<u>2021</u>
Land and land improvements	\$ 19,041	\$	19,041
Buildings and improvements	226,126		213,345
Equipment, furniture, and fixtures	<u>187,694</u>		<u>182,672</u>
	432,861		415,058
Less: accumulated depreciation	<u>(280,537)</u>		<u>(265,137)</u>
	152,324		149,921
Construction-in-progress	<u>2,947</u>		<u>5,465</u>
Property and equipment, net	\$ <u><u>155,271</u></u>	\$	\$ <u><u>155,386</u></u>

Depreciation expense amounted to approximately \$15,505,000 and \$15,219,000 during the years ended December 31, 2022 and 2021, respectively.

The Board has approved a series of construction, renovation, and rebuilding projects throughout the System. Several of those projects were in progress in 2022 and 2021 and will continue into future years. See Note 15 regarding these construction commitments outstanding at December 31, 2022.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**7. Long-term liabilities**

A summary of long-term debt at December 31 is as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Promissory note of up to \$3,600,000, due in monthly installments through December 5, 2024 at a prime rate, 3.25% at December 31, 2022 and 2021 (secured by Oak Park Blvd property, Floors 2 & 3).	\$ 1,125	\$ 1,575
Promissory note of up to \$2,000,000, due in monthly installments through December 1, 2023 at 0% (secured by obligations of the lender to the System)	611	1,277
Promissory note of up to \$4,815,000, due in monthly installments through July 30, 2026 at a rate of 3.8%. (secured by 1717 Oak Park Blvd, 4345 Nelson Rd. 133 Sid Lane, and 217 Sam Houston Jones Pkwy properties).	3,538	4,443
Hospital Revenue Bonds (Series 2019); term bonds due at various dates through December 1, 2039, at rates ranging from 4% to 5%.	<u>96,500</u>	<u>99,755</u>
	101,774	107,050
Less: current portion of long-term liabilities	(6,131)	(6,001)
Less: unamortized debt issuance costs	(1,533)	(1,625)
Add: unamortized bond premium	13,611	14,428
Long-term liabilities, net	<u>\$ 107,721</u>	<u>\$ 113,852</u>

The System has a line of credit of \$10,000,000, secured by medical equipment at December 31, 2022 and 2021. The line of credit has an interest rate based on the Wall Street Journal (WSJ) Prime rate at December 31, 2022 (7.50% and 4.00% at December 31, 2022 and 2021, respectively). The \$10,000,000 line matures on May 20, 2023. As amounts are drawn on the line, they convert to promissory notes and are included in the above notes payable summary. The amount of unused line of credit was \$10,000,000 for both years at December 31, 2022 and 2021.

The System capitalized interest expense of \$387,000 and \$343,000 in 2022 and 2021, respectively, in connection with its construction-in-progress projects.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**7. Long-term liabilities (continued)**

The System is required to maintain certain deposits in accordance with bond agreements, and such deposits are included with assets limited as to use (see Note 5). The revenue bond indentures also place limits on the incurrence of additional borrowings, place limits on the amount of assets that can be disposed of outside the normal course of business, and require the restricted group to satisfy measures of financial performance as long as the bonds are outstanding. The System was in compliance with these covenants at December 31, 2022.

The long-term debt obligations are scheduled to mature as follows (in thousands):

Year ending December 31st,	Bonds & Notes Payable
2023	\$ 5,462
2024	5,092
2025	5,171
2026	4,976
2027	4,580
Thereafter	<u>76,493</u>
	101,774
Plus: unamortized bond premium	13,611
Less: unamortized debt issuance costs	<u>(1,533)</u>
Total long-term debt	<u>\$ 113,852</u>

**Hospital Revenue Bonds (Series 2019):**

During September of 2019, the Hospital completed an offering of \$104,935,000 of hospital revenue and refunding bonds. The Series 2019 bonds include \$38,270,000 in serial bonds with rates ranging from 4.0% to 5.0%, and \$66,665,000 in fixed rate term bonds with a 5.0% interest rate. The bonds are scheduled to mature at various times through December 1, 2039. The bonds are collateralized by the Hospital's gross receipts and a collateral mortgage on System property. The proceeds of the Series 2019 bonds were used, along with other available funds, to advance refund previous bond issues and to provide funds for new capital improvements.

**8. Insurance programs**

Any exposure under \$100,000 per claim for professional liability is covered by the System. Additional professional liability coverage is provided by the Louisiana Patient's Compensation Fund up to the present statutory maximum of \$500,000 per claim (exclusive of additional amounts for future medical expense provided by law). The preceding policies are on an occurrence basis. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims.

The System is self-insured for group health insurance and pays all claims up to \$225,000 per person. A stop loss policy pays claims in excess of this amount. The System is also self-insured for workers' compensation liability up to the deductible of its excess workers' compensation policy of \$750,000 per claim.

The System also maintains various other insurance programs typical of the industry (see Note 2).

The System has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying consolidated financial statements.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**9. Retirement plans**

The Hospital has a defined contribution plan under IRS Code Section 401(a) that covers substantially all full-time employees who are over the age of twenty-one and who have met eligibility requirements. Discretionary contributions by the Hospital include matching contributions to the employee 401(a) plan up to certain limits of compensation. Total contributions were approximately \$4,110,539 and \$2,692,000 for the years ended December 31, 2022 and 2021, respectively.

The Hospital also maintains a pretax retirement plan under code Section 403(b) in which substantially all of the employees of the System can participate. All contributions to the 403(b) are made by employees through tax deferred contributions and the employees are 100% vested in these amounts from the inception of their participation.

**10. Business and credit concentrations**

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of unsecured accounts receivable and temporary cash investments.

The System maintains its cash investments with several financial institutions operating primarily in southern Louisiana. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

The System grants credit to patients, substantially all of whom are regional residents. The System 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) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, and commercial insurance policies).

The mix of receivables from patients and third-party payors at December 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	22.01%	22.83%
Medicaid	29.73%	24.08%
Commercial insurance and managed care organizations	36.56%	36.45%
Self-pay patients and other	11.70%	16.64%
	<u>100.00%</u>	<u>100.00%</u>

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**11. Leases**

The System has no financing leases at December 31, 2022 or 2021. The following table presents the components of the right-of-use assets and liabilities related to operating leases in the System's consolidated balance sheets at December 31, 2022 and 2021 (in thousands):

<u>Assets:</u>	<u>2022</u>	<u>2021</u>
Operating lease assets	<u>\$ 18,570</u>	<u>\$ 18,843</u>
Total leased assets	<u>\$ 18,570</u>	<u>\$ 18,843</u>
<u>Liabilities:</u>		
<u>Operating lease liabilities:</u>		
Current	\$ 1,676	\$ 3,578
Long-term	<u>15,690</u>	<u>11,512</u>
Total operating lease liabilities	<u>17,366</u>	<u>15,090</u>
<u>Finance lease liabilities:</u>		
Total lease liabilities	<u>\$ 17,366</u>	<u>\$ 15,090</u>

Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The right of use assets and lease liabilities were recognized based on the present value of lease payments over the lease term at commencement date or adoption of FASB ASC 2016-02 at January 1, 2019.

Lease costs included in the consolidated statement of operations were approximately \$4,694,000 and \$4,048,000, for the years ended December 31, 2022 and 2021, including short-term lease expense related to equipment rentals, finance lease rent, and the operating lease rent as described below.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**11. Leases (continued)**

The System's operating leases are primarily for real estate, including off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices, as well as medical and office equipment. Other information related to operating leases is as follows (in thousands, except lease term and discount rate) as of December 31 (in thousands):

	<u>2022</u>	<u>2021</u>
Weighted-average remaining lease term (years)		
Operating leases	6.01	7.12
Weighted average discount rate		
Operating leases	2.90%	2.99%
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 4,047	\$ 3,899
Cash paid for amounts included in the measurement of operating lease liabilities	3,800	3,643
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 6,065	\$ 1,566

As lessee, operating lease liabilities under non-cancellable leases (excluding short-term leases) are as follows (in thousands):

<u>Year ending December 31st,</u>	<u>Operating Lease Liabilities</u>
2023	\$ 1,319
2024	3,967
2025	4,018
2026	3,945
2027	3,310
Thereafter	2,445
Total lease payments(a)	19,004
Less: Interest	(1,638)
Present value of lease liabilities	<u>\$ 17,366</u>



**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**12. Functional allocation of expenses**

The following table approximates the functional allocation of operating expenses incurred during the year ended December 31, 2022 (in thousands):

	Health Care Services				Support Services		
	Acute	Ambulatory	Physician	Post-Acute	MG&A	Fundraising	Total
Salaries and wages	\$ 50,717	\$ 11,044	\$ 74,543	\$ 9,677	\$ 40,631	\$ -	\$ 186,612
Employee benefits	10,181	2,216	6,152	1,933	8,070	-	28,552
Contract labor	4,698	1,303	697	312	9,114	-	16,124
Supplies	84,077	2,893	3,270	345	8,740	20	99,345
Professional fees	1,841	2,311	2,039	-	1,484	-	7,675
Service contracts	3,258	1,247	245	31	4,934	-	9,715
Purchased services	8,218	1,158	2,327	150	25,212	60	37,125
Management fees	857	25	515	19	570	-	1,986
Depreciation	6,371	2,231	334	466	6,103	-	15,505
Interest expense	1,724	541	90	126	1,652	-	4,133
Insurance	-	2	2,377	-	4,453	-	6,832
Other	5,896	1,932	2,849	410	8,643	585	20,315
	<u>\$177,838</u>	<u>\$ 26,903</u>	<u>\$ 95,438</u>	<u>\$ 13,469</u>	<u>\$ 119,606</u>	<u>\$ 665</u>	<u>\$ 433,919</u>

The following table approximates the functional allocation of operating expenses incurred during the year ended December 31, 2021 (in thousands):

	Health Care Services				Support Services		
	Acute	Ambulatory	Physician	Post-Acute	MG&A	Fundraising	Total
Salaries and wages	\$ 47,382	\$ 10,264	\$ 69,281	\$ 8,994	\$ 37,571	\$ 334	\$ 173,826
Employee benefits	9,733	2,119	5,883	1,848	7,648	75	27,306
Contract labor	3,459	960	513	230	6,711	-	11,873
Supplies	86,869	2,901	3,279	346	8,763	20	102,178
Professional fees	964	1,211	1,068	-	1,468	-	4,711
Service contracts	2,831	1,083	213	27	4,288	-	8,442
Purchased services	8,505	1,198	2,409	155	26,067	62	38,396
Management fees	688	20	414	15	457	-	1,594
Depreciation	6,253	2,189	328	457	5,992	-	15,219
Interest expense	1,725	541	91	126	1,653	-	4,136
Insurance	-	2	2,201	-	4,124	-	6,327
Other	4,753	1,587	2,995	328	7,128	695	17,486
	<u>\$173,162</u>	<u>\$ 24,075</u>	<u>\$ 88,675</u>	<u>\$ 12,526</u>	<u>\$ 111,870</u>	<u>\$ 1,186</u>	<u>\$ 411,494</u>

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**13. Disclosures about the fair value of financial instruments**

In Accordance with the *Fair Value Measurements and Disclosure* topic of the FASB ASC, disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. Therefore, the aggregate fair value amounts presented do not represent the underlying value of the System.

The fair value guidance provides a consistent definition of fair value. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

**Fair Value Hierarchy**

In accordance with this guidance, the System groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the System has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the System in estimating its fair value disclosures for financial instruments:

*Cash and cash equivalents* - the carrying amounts approximate fair values because of the short maturity of these instruments.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**13. Disclosures about the fair value of financial instruments (continued)**

*Assets limited as to use and short-term investments* - the carrying amounts reported on the consolidated balance sheets for assets limited as to use and stocks included in short-term investments are fair values based on quoted market prices. The carrying amounts reported on the consolidated balance sheets for certificates of deposit included in short-term investments is cost, which is deemed to approximate fair value because these assets are highly liquid.

*Long-term liabilities* - the fair value of the Hospital's revenue bonds is estimated based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The System's financial instruments whose estimated fair value differs from its carrying amount are summarized as follows at December 31<sup>st</sup>:

	<u>2022</u>		<u>2021</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Bonds Payable				
(in thousands)	\$ <u>110,111</u>	\$ <u>112,667</u>	\$ <u>114,183</u>	\$ <u>137,522</u>

For remaining long-term debt, the carrying value estimates fair value at December 31, 2022 and 2021.

*Limitations* - fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table presents for each fair-value hierarchy level the System's financial assets that are measured at fair value on a recurring basis as of (in thousands).

	<u>Level 1</u>
<u>December 31, 2022</u>	
Cash and Cash Equivalents	\$ 11,929
Mutual Fund Shares	<u>1,693</u>
Total	<u><u>13,622</u></u>
 <u>December 31, 2021</u>	
Cash and Cash Equivalents	\$ 13,708
Mutual Fund Shares	<u>1,909</u>
Total	<u><u>15,617</u></u>

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**14. Related party transactions**

The System has transactions with related parties for which the System believes the terms and conditions are comparable to terms that would have been available from a third party that was unaffiliated with the System.

**15. Commitments and contingencies**

The provision of health care services entails an inherent risk of liability. Participants in the health care industry are subject to lawsuits alleging malpractice, violations of false claims acts, product liability, or related legal theories, many of which involve large claims and significant defense costs. Like many other companies engaged in the health care industry in the United States, the System has the potential for liability claims, disputes and legal actions for professional liability and other related issues. It is expected that the System will continue to be subject to such suits as a result of the nature of the services provided. Further, as with all health care providers, the System is periodically subject to regulatory actions seeking fines and penalties for alleged violations of health care laws and are potentially subject to the increased scrutiny of regulators for issues related to compliance with health care fraud and abuse laws and with respect to the quality of care provided to patients.

Like other health care providers, in the ordinary course of business, the System is also subject to claims made by employees and other disputes and litigation arising from the conduct of business.

The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the System.

The System has disputes related to claims filed by two vendors. The claims by these two vendors are related to emergency mitigation for Hurricane Laura. As of the date of this report, liens have been filed against the System. However, the System has accrued an estimate of what the System believes to be owed to the vendors. The System's management is working with legal counsel to resolve the disputed claims.

As referred to in Note 6, the Hospital has begun a series of construction and renovation projects. Contracts related to these projects totaled approximately \$13,750,000 at December 31, 2022. Approximately \$2,500,000 has been paid on these contracts as of December 31, 2022, with approximately \$11,270,000 to be completed in future years.

The System identified suspicious activity on its network on October 21, 2022, subsequently determined to be an attempted ransomware attack. The System is working with outside legal counsel, Baker & Hostetler LLP, to investigate this incident and determine any legal obligations arising from such incident. There have been multiple class action lawsuits filed in relation to this event. The outcome of these lawsuits cannot be determined as of the date of this report.

**16. Subsequent events**

Management has evaluated events through the date that the consolidated financial statements were available to be issued, April 14, 2023, and determined that no additional disclosures are necessary. No events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**17. Community service (unaudited)**

As a non-profit, community based health system, the Hospital provides significant programs and health-related services for the indigent and medically underserved in Southwest Louisiana, which represents the Hospital's financial commitment to those in the community with inadequate resources or who are uninsured or underinsured. In addition, the Hospital operates an emergency room which is open to the public, 24 hours a day and seven days a week.

Charity Care represents the cost of free or discounted health related services for those who cannot afford to pay for those services and who meet the Hospital's criteria for financial assistance. Under the Hospital's criteria for determining assistance, the Hospital provides full charity care for those whose income levels are at or below 200.99% of the Federal Poverty Guidelines (FPG). Discounted services are available to those people whose income is above 201% of the FPG up to and including to 500% of the FPG. Charity Care services provided to these people are reported as income in the consolidated statements of operations to the extent of the estimated cost recovery allowed under the Moss Cooperative Endeavor Agreement (Moss CEA). The Hospital also provides some services at a reduced rate that does not cover the costs. For example, the Hospital provides free or significantly discounted vaccinations for children and elderly patients. The unreimbursed Medicaid Costs reported below have been reduced by funds received that approximate the difference between Medicaid payments and the costs allowed under the Moss CEA.

Additionally, the Hospital provides the clinical and financial resources for the Memorial/LSUHSC Family Practice Residency Program, through an affiliation agreement with the Louisiana State University Health Sciences Center – New Orleans. The Hospital also provides the clinical and financial resources for a Radiology Technology and Medical Technology program in affiliation with other state universities. The Hospital is also involved in providing services to the community at large by supplementing professional medical staffing at community clinics and through the provision of support groups, community health education classes, staffing support at McNeese State University School of Nursing, and cash donations to local non-profit organizations.

The Hospital continues to fulfill its obligations under Internal Revenue Service guidelines to participate in Community Health Needs Assessment (CHNA) and has updated its CHNA in 2019. The Hospital has provided a CHNA update in 2020. This report is available on its website at [www.lcmh.com](http://www.lcmh.com).

The following is a summary of the Hospital's estimated costs of community benefits (in thousands):

	<u>2022</u>	<u>2021</u>
Programs for the Poor and Underserved:		
Charity Care, at cost	\$ 10,554	\$ 11,581
Direct Offsetting Revenue	<u>(10,416)</u>	<u>(8,734)</u>
Charity Care	<u>138</u>	<u>2,847</u>
Medicaid Patient Care, at cost	88,485	83,368
Direct Offsetting Revenue	<u>(87,970)</u>	<u>(73,510)</u>
Unreimbursed Medicaid	<u>515</u>	<u>9,858</u>
Community services for the community at large		
Education and research	5,529	4,617
Other	<u>799</u>	<u>828</u>
Total	<u>\$ 6,981</u>	<u>\$ 18,150</u>

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**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**

**REPORT ON STATEWIDE**  
**AGREED-UPON PROCEDURES on COMPLIANCE and CONTROL**  
**AREAS**

**FOR THE YEAR ENDED DECEMBER 31, 2022**

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INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Trustees and the Louisiana Legislative Auditor

We have performed the procedures enumerated in Schedule A on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2022 through December 31, 2022. Southwest Louisiana Health Care System, Inc. and its affiliates (the System), management is responsible for those C/C areas identified in the SAUPs.

The System has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA's SAUPs for the fiscal period January 1, 2022 through December 31, 2022. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed, and the associated findings are summarized in the attached Schedule A, which is an integral part of this report.

We were engaged by The System to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of The System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 30, 2023



**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2022**

Schedule A

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read “*no exception noted*” or for step 13 “*we performed the procedure and discussed the results with management*”. If not, then a description of the exception ensues.

***1) Written Policies and Procedures***

---

A. Obtain and inspect the System’s written policies and procedures and observe whether they address each of the following categories and subcategories (if applicable to public funds and the System’s operations):

i. ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

*The System has written policies for Budgeting; however, the policies do not contain attribute (4) regarding budget amendments.*

ii. ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes.

*The System has written policies for Purchasing; however, the policies do not contain attribute (2) regarding how vendors are added to the vendor list.*

iii. ***Disbursements***, including processing, reviewing, and approving

*No exceptions noted*

iv. ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management’s actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

*No exceptions noted*

v. ***Payroll/Personnel***, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee rates of pay or approval and maintenance of pay rate schedules.

*No exceptions noted*

vi. ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2022**

Schedule A

*The System has written policies for Contracting; however, the policies do not contain attribute (3) regarding legal review or attribute (5) regarding how contracts are monitored.*

- vii. **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

*No exceptions noted*

- viii. **Credit Cards (and debit cards, fuel cards, purchase cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

*The System does not have a written policy for its credit cards.*

- ix. **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the System's ethics policy.

*This C/C areas is not applicable for the System as it is a nonprofit entity.*

- x. **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

*We performed this procedure and discussed the results with management.*

- xi. **Prevention of Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

*This C/C areas is not applicable for the System as it is a nonprofit entity.*

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2022**

Schedule A

***2) Board or Finance Committee***

---

A. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

- i. Observe whether the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

*No exception noted.*

- ii. For those entities reporting on the not-for-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the System's collections during the fiscal period.

*Not applicable for the System as public funds did not comprise more than 10% of the System's collections during the fiscal year.*

- iii. For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

*Not applicable for the System as it is a nonprofit entity.*

- iv. Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

*Not applicable – there were no Agreed Upon Procedures performed in the prior year.*

***3) Bank Reconciliations***

---

A. Obtain a listing of System bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the System's main operating account. Select the System's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

*A listing of bank accounts was provided and included a total of 21 bank accounts. Management identified the System's main operating account. No exceptions were noted as a result of performing this procedure.*

**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2022**

Schedule A

*From the listing provided, we selected 5 bank accounts (1 main operating and 4 randomly) and obtained the bank reconciliations for the month ending December 31, 2022 resulting in 5 bank reconciliations obtained and subjected to the below procedures.*

- i. Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

*No exceptions noted.*

- ii. Bank reconciliations include written evidence that a member of management or a board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

*No exceptions noted.*

- iii. Management has documentation reflecting it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

*No exceptions noted.*

**4) Collections (excluding electronic funds transfers)**

---

- A. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- B. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (e.g. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if there are no written policies or procedures, then inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- i. Employees responsible for cash collections do not share cash drawers/registers;

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

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- ii. Each employee responsible for collecting cash is not also responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit;

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- iii. Each employee responsible for collecting cash is not also responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit; and

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- iv. The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, is (are) not also responsible for collecting cash, unless another employee verifies the reconciliation.

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- C. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe that the bond or insurance policy for theft was in force during the fiscal period.

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- D. Randomly select two deposit dates for each of the 5 bank accounts selected for Bank Reconciliations procedure #3A (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternatively, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- i. Observe that receipts are sequentially pre-numbered.

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- ii. Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

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*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- iii. Trace the deposit slip total to the actual deposit per the bank statement.

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- iv. Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

- v. Trace the actual deposit per the bank statement to the general ledger.

*This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site.*

**5) Non-payroll Disbursements (excluding card purchases, travel reimbursements, and petty cash purchases)**

---

- A. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

*The listing of locations that process payments for the fiscal period was provided. No exceptions were noted as a result of performing this procedure.*

*From the listing provided, we selected 1 locations and performed the procedures below.*

- B. For each location selected under #5A above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, then inquire of employees about their job duties), and observe that job duties are properly segregated such that:

*The listing of employees involved with non-payroll purchasing and payment functions for each payment processing location selected in procedure #8 was provided. No exceptions were noted as a result of performing this procedure.*

*Review of the System's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.*

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- i. At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order or making the purchase;

*For the sample of five non-payroll disbursements selected, we were unable to identify who initiated the purchase on all five items selected.*

- ii. At least two employees are involved in processing and approving payments to vendors;

*No exceptions noted.*

- iii. The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files;

*No exceptions noted.*

- iv. Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments; and

*No exceptions noted.*

- v. Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means.

*No exceptions noted.*

- C. For each location selected under #5A above, obtain the System's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and

*A listing of non-payroll disbursements for each payment processing location selected in procedures #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.*

*From each of the listings provided, we randomly selected 5 disbursements and performed the procedures below.*

- i. Observe whether the disbursement, whether by paper or electronic means, matched the related original itemized invoice, and that supporting documentation indicates that deliverables included on the invoice were received by the System, and

*No exceptions noted.*

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- ii. Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under procedure #5B above, as applicable.

*For the sample of five non-payroll disbursements selected for testing, it was not possible to test segregation of duties as there was no documentation supporting who initiated the purchase process.*

- D. Using the System's main operating account and the month selected in Bank Reconciliations procedure #3A, randomly select 5 non-payroll-related electronic disbursements (or all electronic disbursements if less than 5) and observe that each electronic disbursement was (a) approved by only those persons authorized to disburse funds (e.g., sign checks) per the System's policy, and (b) approved by the required number of authorized signers per the System's policy. Note: If no electronic payments were made from the main operating account during the month selected the practitioner should select an alternative month and/or account for testing that does include electronic disbursements.

*A listing of non-payroll disbursements for each payment processing location selected in procedures #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.*

*From each of the listings provided, we randomly selected 5 disbursements and performed the procedures below.*

**6) Credit Cards/Debit Cards/Fuel Cards/Purchase Cards (Cards)**

---

- A. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and purchase cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

*A listing of cards was provided. No exceptions were noted as a result of performing this procedure.*

- B. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement). Obtain supporting documentation, and

*From the listing provided, we randomly selected 5 cards (5 credit cards) used in the fiscal period. We randomly selected one monthly statement for each of the 5 cards selected and performed the procedures noted below.*

- i. Observe whether there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) were reviewed and approved, in writing (or electronically approved) by someone other than the authorized card holder (those instances requiring such approval that may constrain the legal authority of certain public officials, such as the mayor of a Lawrason Act municipality, should not be reported; and



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*For 1 of the 5 credit cards tested, the monthly statement provided did not contain evidence of review by someone other than the card holder.*

- ii. Observe that finance charges and late fees were not assessed on the selected statements.

*No exceptions noted.*

- C. Using the monthly statements or combined statements selected under procedure #7B above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (e.g., each card should have 10 transactions subject to inspection). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and observe whether management had a compensating control to address missing receipts, such as a “missing receipt statement” that is subject to increased scrutiny.

*We randomly selected 18 transactions for 5 of the 5 cards selected in procedure #12 and performed the specified procedures. No exceptions noted.*

**7) Travel and Travel-Related Expense Reimbursements (excluding card transactions)**

- A. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management’s representation that the listing or general ledger is complete. Randomly select 5 reimbursements, and obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

*The listing of travel and travel-related expense reimbursements was provided for the fiscal period. No exceptions were noted as a result of performing this procedure.*

*From the listing provided, we randomly selected 5 reimbursements and performed the procedures below.*

- i. If reimbursed using a per diem, observe that the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov));

*No exceptions noted.*

- ii. If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased;

*No exceptions noted*

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- iii. Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by “Written Policies and Procedures”, procedure #1A(vii); and

*No exception noted*

- iv. Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

*No exceptions noted.*

**8) Contracts**

---

- A. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternatively, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management’s representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner’s contract, and

*An active vendor list for the fiscal period was provided. No exceptions were noted as a result of performing this procedure.*

*From the listing provided, we randomly selected 5 contracts and performed the procedures below.*

- i. Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law;

*Not applicable – The System is a not for profit.*

- ii. Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter);

*Not applicable – The System is a not for profit.*

- iii. If the contract was amended (e.g., change order), observe that the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, the documented approval); and

*No exceptions noted.*

- iv. Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

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*We randomly selected 1 payment for the 5 contracts selected and performed the specified procedures. No exceptions noted.*

**9) Payroll and Personnel**

---

- A. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

*A listing of employees/elected officials employed during the fiscal year was provided. No exceptions were noted as a result of performing this procedure.*

*From the listing provided, we randomly selected 5 employees/officials and performed the specified procedures. No exceptions noted.*

- B. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under procedure #9A above, obtain attendance records and leave documentation for the pay period, and

*We randomly selected 1 pay period during the fiscal period and performed the procedures below for the 5 employees/officials selected in procedure #16.*

- i. Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory);

*No Exceptions noted*

- ii. Observe whether supervisors approved the attendance and leave of the selected employees or officials;

*No Exceptions noted*

- iii. Observe that any leave accrued or taken during the pay period is reflected in the System's cumulative leave records; and

*No exceptions noted.*

- iv. Observe the rate paid to the employees or officials agrees to the authorized salary/pay rate found within the personnel file.

*No exceptions noted.*

- C. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials and obtain related documentation of the hours and pay rates used in management's termination payment calculations and the System's policy on termination payments. Agree the hours to the employee's or official's cumulative leave records, agree the pay rates to the employee's or official's

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authorized pay rates in the employee's or official's personnel files, and agree the termination payment to System policy.

*No exceptions noted.*

- D. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

*No exceptions noted.*

**10) Ethics**

---

- A. Using the 5 randomly selected employees/officials from procedure "Payroll and Personnel" procedure #9A, above obtain ethics documentation from management, and

- i. Observe whether the documentation demonstrates that each employee/official completed one hour of ethics training during the calendar year as required by R.S. 42:1170; and

*This C/C area is not applicable for the System, as it is a nonprofit entity*

- ii. Observe whether the System maintains documentation which demonstrates that each employee and official were notified of any changes to the System's ethics policy during the fiscal period, as applicable.

*This C/C area is not applicable for the System, as it is a nonprofit entity*

- B. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170.

*This C/C area is not applicable for the System, as it is a nonprofit entity*

**11) Debt Service**

---

- A. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued as required by Article VII, Section 8 of the Louisiana Constitution.

*This C/C area is not applicable for the System, as it is a nonprofit entity*

- B. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants,

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obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

*This C/C area is not applicable for the System, as it is a nonprofit entity*

***12) Fraud Notice***

---

- A. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the System reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the System is domiciled as required by R.S. 24:523.

*No misappropriation of funds were noted during 2022*

- B. Observe that the System has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

*The notice was not posted on the System's website.*

***13) Information Technology Disaster Recovery/Business Continuity***

---

- A. Perform the following procedures, **verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."**
- i. Obtain and inspect the System's most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government's local server or network, and (c) was encrypted.

*We performed the procedure and discussed the results with management.*

- ii. Obtain and inspect the System's most recent documentation that it has tested/verified that its backups can be restored (if there is no written documentation, then inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

*We performed the procedure and discussed the results with management.*

- iii. Obtain a listing of the System's computers currently in use and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

*We performed the procedure and discussed the results with management.*

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- B. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in procedure #9C. Observe evidenced that the selected terminated employees have been removed or disabled from the network.

*We performed the procedure and discussed the results with management.*

***14) Prevention of Sexual Harassment***

---

- A. Using the 5 randomly selected employees/officials from “Payroll and Personnel” procedure #9A, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year as required by R.S. 42:343.

*This C/C area is not applicable for the System, as it is a nonprofit entity and has not agreed to comply with the provisions of the prevention of Sexual Harassment Law as a condition for the receipt of public funds.*

- B. Observe that the System has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the System’s premises if the System does not have a website).

*This C/C area is not applicable for the System, as it is a nonprofit entity and has not agreed to comply with the provisions of the prevention of Sexual Harassment Law as a condition for the receipt of public funds.*

- C. Obtain the System’s annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that the report includes the applicable requirements of R.S. 42:344:

- i. Number and percentage of public servants in the agency who have completed the training requirements;

*This C/C area is not applicable for the System, as it is a nonprofit entity and has not agreed to comply with the provisions of the prevention of Sexual Harassment Law as a condition for the receipt of public funds.*

- ii. Number of sexual harassment complaints received by the agency;

*This C/C area is not applicable for the System, as it is a nonprofit entity and has not agreed to comply with the provisions of the prevention of Sexual Harassment Law as a condition for the receipt of public funds.*

- iii. Number of complaints which resulted in a finding that sexual harassment occurred;

*This C/C area is not applicable for the System, as it is a nonprofit entity and has not agreed to comply with the provisions of the prevention of Sexual Harassment Law as a condition for the receipt of public funds.*

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- iv. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and

*This C/C area is not applicable for the System, as it is a nonprofit entity and has not agreed to comply with the provisions of the prevention of Sexual Harassment Law as a condition for the receipt of public funds.*

- v. Amount of time it took to resolve each complaint.

*This C/C area is not applicable for the System, as it is a nonprofit entity and has not agreed to comply with the provisions of the prevention of Sexual Harassment Law as a condition for the receipt of public funds.*



Lake Charles  
Memorial Hospital

Postlethwaite & Netterville  
8550 United Plaza Blvd,  
Suite 1001 Baton Rouge, LA  
70809

Subject: Corrective Action Plan

The following is System Management's response and corrective action plan to the exceptions issued as part of the Statewide Agreed Upon Procedures for the year ended December 31, 2022.

System Management concurs with the exceptions noted in the Statewide Agreed Upon Procedures report. The System will evaluate each exception and implement policies and procedures where appropriate and necessary to strengthen internal controls over financial operations of the System.

Please let us know if you need any additional information.

Steven "Matt" Gillespie, Controller



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**SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**  
**REPORTS UNDER GOVERNMENTAL AUDITING STANDARDS**  
**AND UNIFORM GUIDANCE**

**DECEMBER 31, 2022**

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SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC  
REPORTS UNDER GOVERNMENTAL AUDITING STANDARDS AND UNIFORM  
GUIDANCE REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE  
AND OTHER MATTERS

DECEMBER 31, 2022

**Southwest Louisiana Health Care System, Inc.**

**December 31, 2022**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Trustees  
Southwest Louisiana Health Care System, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Southwest Louisiana Health Care System, Inc. and its affiliates (the System) (a not for profit organization), as of and for the year ended December 31, 2022 which comprise the consolidated balance sheet as of December 31, 2022, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 30, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE AND THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

The Board of Trustees  
Southwest Louisiana Health Care System, Inc.

**Report on Compliance for each Major Federal Program**

***Opinion on each Major Federal Program***

We have audited Southwest Louisiana Health Care System, Inc. and its affiliates (the System) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2022. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Southwest Louisiana Health Care System, Inc. and its affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the System's federal programs.

## Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matter***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which has been described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



## **Report on Internal Control over Compliance**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of the System as of and for the year ended December 31, 2022 and have issued our report thereon dated April 14, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Postlethwaite ; Netterville*

Baton Rouge, Louisiana  
June 30, 2023



**Southwest Louisiana Health Care System, Inc.**

**Schedule of Expenditures of Federal Awards**

**For the year ended December 31, 2022**

<b>Federal Grantor/Pass-Through Grantor/ Program Title/Grant Name</b>	<b>Federal Assistance Listing Number</b>	<b>Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services:</b>			
Direct Program			
COVID-19 Provider Relief Fund	93.498	N/A	\$ 3,377,061
Total			<u>3,377,061</u>
Total Department of Health and Human Services			<u>3,377,061</u>
<b>U.S. Department of Homeland Security</b>			
Passed Through the Louisiana Governors Office of Homeland Security and Emergency Preparedness:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4559-DR	10,152,226
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4570-DR	1,744,415
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4590-DR	1,354,383
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4606-DR	<u>1,037,769</u>
Total Department of Homeland Security			<u>14,288,793</u>
<b>Total Federal Assistance Expended</b>			<b><u>\$ 17,665,854</u></b>

The Organization did not pass through any amounts to sub-recipients.

See accompanying notes to the schedule of expenditures of federal awards.

**Southwest Louisiana Health Care System, Inc.**

**Notes to Schedule of Expenditures of Federal Awards**

**December 31, 2022**

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Southwest Louisiana Health Care System, Inc. and its affiliates (the System) under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System. The System's reporting entity is defined in Note 1 to the financial statements for the year ended December 31, 2022.

**2. Summary of Significant Accounting Policies**

Except as noted in Note 3, expenditures on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the System's financial statements for the year ended December 31, 2022. Such expenditures are recognized following the cost principles contained in accordance with the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

**3. Relationship to Financial Statements**

For the HHS awards related to the Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution program, HHS has indicated the amounts on the Schedule be reported corresponding to reporting requirements of the HRSA PRF Reporting Portal. Payments from HHS for PRF are assigned to 'Payment Received Periods' (each, a Period) based upon the date each payment from the PRF was received. Each Period has a specified Period of Availability and timing of reporting requirements. Entities report into the HRSA PRF Reporting Portal after each Period's deadline to use the funds (i.e., after the end of the Period of Availability).

**Southwest Louisiana Health Care System, Inc.**

**Notes to Schedule of Expenditures of Federal Awards**

**December 31, 2022**

**3. Relationship to Financial Statements (continued)**

Provider Relief Funds (PRF) of \$3,377,061 were received during the period of January 1, 2021, to December 31, 2021. Such amounts were recognized as revenue in the System's financial statements in other operating revenue for the year ended December 31, 2021. Provider Relief Funds are required to be reported on Southwest's December 31, 2022 Schedule, based on guidance in the 2022 Compliance Supplement.

FEMA funds obligated of \$14,288,793 were received during the period of January 1, 2022, to December 31, 2022. Such amounts were recognized as revenue in the System's financial statements in other operating revenue for the year ended December 31, 2022. FEMA Funds are required to be reported on Southwest's December 31, 2022 Schedule, based on guidance in the 2022 Compliance Supplement.

**4. De Minimis Cost Rate**

During the year ended December 31, 2022, the System did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

Southwest Louisiana Health Care System, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended December 30, 2022

(1) Summary of Independent Auditors' Results

*Financial Statements*

The type of report issued on the financial statements: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None noted

Noncompliance material to the financial statements noted? No

*Federal Awards*

Internal controls over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? No

Type of auditors' report issued on compliance for major programs: Unmodified opinion

Any audit findings which are required to be reported under the Uniform Guidance? Yes

Identification of major programs:

- 93.498 - American Rescue Plan (COVID-19)
- 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee under Section 530 of The Uniform Guidance: No

**Southwest Louisiana Health Care System Inc.**

**Schedule of Findings and Questioned Costs**

**For the Year Ended December 31, 2022**

**Findings– Financial Statements**

- None

**Findings and Questioned Costs – Major Federal Awards Programs**

**2022-001 Timely Reporting**

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
• 97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

**Questioned Costs: N/A**

*Criteria:* Quarterly Performance Reports for large projects are required to be submitted within 30 days after the end of each calendar quarter.

Universe/  
Population Size: 16

Sample size: 7

*Condition:* During the assessment of compliance over the reporting requirement, we identified non-compliance over the timely submission of quarterly performance reports. In one out of seven reports tested a report was not filed within the 30 day period following the end of the quarter as is required in the applicable compliance supplement.

*Cause:* The System experienced staffing turnover with respect to the position in-charge of this reporting requirement resulting in a delay in submission of this quarterly report.

*Effect:* The system was non-compliant in one reporting period by 16 days.

*Recommendation:* Proper procedures should be established to ensure performance reports are submitted within 30 days of the end of each quarter by cross-training personnel in the performance of this reporting.

*View of Responsible Official:* Management concurs with the finding.

**Southwest Louisiana Health Care System Inc.**

**Summary Schedule of Prior Audit Findings**

**Findings– Financial Statements**

- None

**Findings and Questioned Costs – Major Federal Awards Programs**

- None



Postlethwaite & Netterville  
8550 United Plaza Blvd, Suite 1001  
Baton Rouge, LA 70809

Subject: Corrective Action Plan

The following is System Management's response and corrective action plan to the finding issued as part of the governmental auditing standards and uniform guidance report for the year ended December 31, 2022.

**2022-001 Timely Reporting**

System Management concurs with the finding. The System experienced staffing turnover with respect to the position in-charge of this reporting requirement and has since delegated and implemented procedures to ensure future timely submissions. The person responsible for this corrective action is:

Steven "Matt" Gillespie, Controller  
Southwest Louisiana Health Care System, Inc.  
1701 Oak Park Blvd  
Lake Charles, LA 70605

Please let us know if you need any additional information.

Steven "Matt" Gillespie, Controller