

**LOUISIANA STATE UNIVERSITY SCHOOL
OF MEDICINE IN NEW ORLEANS
FACULTY GROUP PRACTICE d/b/a
LSU HEALTHCARE NETWORK**

Management's Discussion and Analysis,
Financial Statements as of and
for the Years Ended June 30, 2021, and 2020
and Independent Auditor's Report



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Independent Auditor's Report

To the Board of Directors of
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice
d/b/a LSU Healthcare Network

Report on the Financial Statements

We have audited the accompanying financial statements of Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network (LSUHN), and its blended component units LSU Billing, LLC and University Medical Group, LLC (UMG), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise LSUHN's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of LSUHN and its blended component units LSU Billing, LLC and UMG as of June 30, 2021 and 2020, and the respective changes in its financial position and its cash flows of LSUHN and its blended component units LSUHN Billing, LLC and UMG, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021 on our consideration of LSUHN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of LSUHN's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LSUHN's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA
September 29, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

This section of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network's (LSUHN), annual financial report presents management's discussion and analysis of financial performance during the fiscal year (FY) ended June 30, 2021. It should be read in conjunction with the financial statements in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of five components - Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Financial Statements, the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, and the Independent Auditor's Report on Compliance for Each Major Federal Program.

The *Financial Statements* of LSU Healthcare Network report the financial position of LSUHN and its blended component units and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about LSUHN's activities. It should be noted that one of LSUHN's blended component units, University Medical Group, LLC (UMG), changed its fiscal year end in 2019 to match that of LSUHN. Therefore, the fiscal year 2019 financial statements include eighteen months of activity of UMG and are not comparable to other fiscal year financial statements in that respect.

The *Statements of Net Position* include all of LSUHN's and its blended component units' assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to LSUHN's creditors (liabilities) for the year and also provide the basis for evaluating the capital structure of LSUHN and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses, and Changes in Net Position*. The statements measure the performance of LSUHN's operations and can be used to determine whether LSUHN has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the *Statements of Cash Flows* is to provide information about LSUHN's cash from operating, investing, and financing activities. The cash flow statements outline where the cash comes from, what the cash is used for, and the change in the cash balance during the reporting period.

The audit report also includes the *Notes to the Financial Statements* which are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE HEALTHCARE NETWORK

During FY2021, overall productivity (based on work Relative Value Units (RVU) as defined by Centers for Medicare and Medicaid Services (CMS)) was relatively consistent with FY2020, <1% variance. Revenue (not matched to those RVUs) was up slightly, about 2%. A third stimulus payment related to the COVID pandemic was recorded in January 2021 (\$3.5 million). For FY2022, revenue is budgeted to be consistent with FY2021.

During FY2021, there have been some changes in the facilities operated by LSUHN. In December 2020, the Kenner Multispecialty Clinic (which includes Orthopedics as of June 2020), was transitioned to Ochsner Kenner, with a contract directly between the LSU Health Science Center (LSUHSC) and Ochsner. Employees of that clinic became Ochsner employees and billing for services are done by Ochsner. There has been no LSUHN involvement in that clinic since the transition has been completed.

Additional business was added under LSUHN's billing umbrella during FY2021. In August 2020, LSUHN began billing for clinic-based professional services associated with a bariatric program at Pennington Biomedical Research Center in Baton Rouge. In May 2021, LSUHN began billing for professional services at the LSU Student Health clinic on LSU's main campus in Baton Rouge. In the first half of FY2022, we will begin billing for professional services for the LSU Allied Health Department on LSUHSC's downtown New Orleans campus.

LSUHN continued, during FY2021, to operate clinic sites in the New Orleans area in medical office buildings adjacent to Touro, East Jefferson Hospital, West Jefferson Hospital, as well as a private clinic in Baton Rouge.

LSUHN's physicians provide services in hospital-based clinics at University Medical Center of New Orleans, Ochsner Kenner, East Jefferson, Our Lady of the Lake in Baton Rouge, and University Medical Center in Lafayette.

An operating agreement with UMG was executed in January 2020 which renews automatically for successive terms of one year each unless either party notifies the other that it does not intend to renew no later than April 30th of the year that precedes a renewal term.

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

A summary of LSUHN's Statements of Net Position is presented in the following table:

Condensed Statements of Net Position June 30, 2021, 2020, and 2019

	June 30,		
	2021	2020	2019
	(Dollars in Thousands)		
Assets			
Current and Other Assets	\$ 102,514	\$ 80,982	\$ 84,223
Capital Assets	1,842	2,346	2,022
Total Assets	\$ 104,356	\$ 83,328	\$ 86,245
Liabilities			
Other Liabilities	\$ 17,830	\$ 16,440	\$ 20,163
Debt Outstanding	18,726	10,527	-
Total Liabilities	36,556	26,967	20,163
Net Position			
Net Investment in Capital Assets	1,842	2,346	2,022
Unrestricted	65,958	54,015	64,060
Total Net Position	67,800	56,361	66,082
Total Liabilities and Net Position	\$ 104,356	\$ 83,328	\$ 86,245

During FY2021, total liabilities were \$36.6 million which includes an increase of the accrual of the amount due to LSUHSC of \$1.7 million and an increase in the line of credit of \$10.2 million. The ratio of current assets to current liabilities is 0.65. During FY2020, total current liabilities were \$25.8 million which included a decrease of the accrual of the amount due to LSUHSC of \$2.4 million and an increase in the line of credit of \$8.5 million. The ratio of current assets to current liabilities was 0.91.

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

A summary of LSUHN's Statements of Revenues, Expenses, and Changes in Net Position is presented in the following table:

Condensed Statements of Revenues, Expenses, and Change in Net Position For the Years Ended June 30, 2021, 2020, and 2019

	Years Ended June 30,		
	2021	2020	2019
	(Dollars in Thousands)		
Operating Revenues			
Net Patient Service Revenue	\$ 132,357	\$ 112,829	\$ 124,825
Capitation Revenue	17,421	20,032	30,260
Total Operating Revenues	149,778	132,861	155,085
Operating Expenses			
Operating and Administrative	133,012	120,775	125,479
Medical Claims Expense	14,395	16,308	29,097
Depreciation and Amortization	471	450	390
Total Operating Expenses	147,878	137,533	154,966
Income (Loss) from Operations	1,900	(4,672)	119
Non-Operating Income (Expenses)			
Grant Revenue	3,779	3,526	-
Grant Distributions	(3,479)	(3,301)	-
Forgiveness of Paycheck Protection Program Loan	1,998	-	-
Contribution to LSU Health Science Center	(12,000)	(7,048)	-
Interest Income and Other Income and Expenses, Net	19,241	1,774	35,727
Change in Net Position	11,439	(9,721)	35,846
Net Position, Beginning of Year	56,361	66,082	30,236
Net Position, End of Year	\$ 67,800	\$ 56,361	\$ 66,082

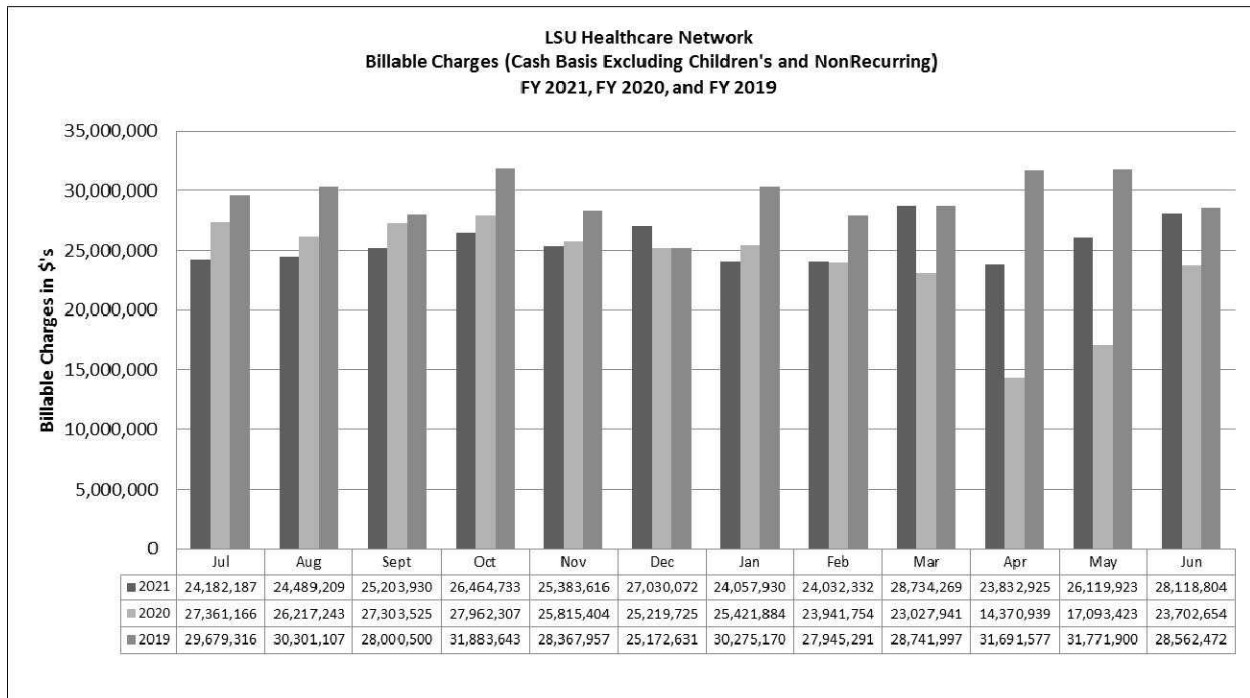
During FY2021, the practice generated 88% of its total revenues from patient care, with the other 12% being derived primarily from capitation revenue from UMG. Visits at the LSUHN-managed clinics have remained relatively flat over the years decreasing 6% and 4% in FY2021 and FY2020, respectively.

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

In FY2021, overall cash collections for Patient Services increased by 5% with a 2% increase in the LSUHN non-contract business and 8% on the contract business. Children's Hospital New Orleans (Children's) revenue remained consistent, with no material change in revenue for FY2021.

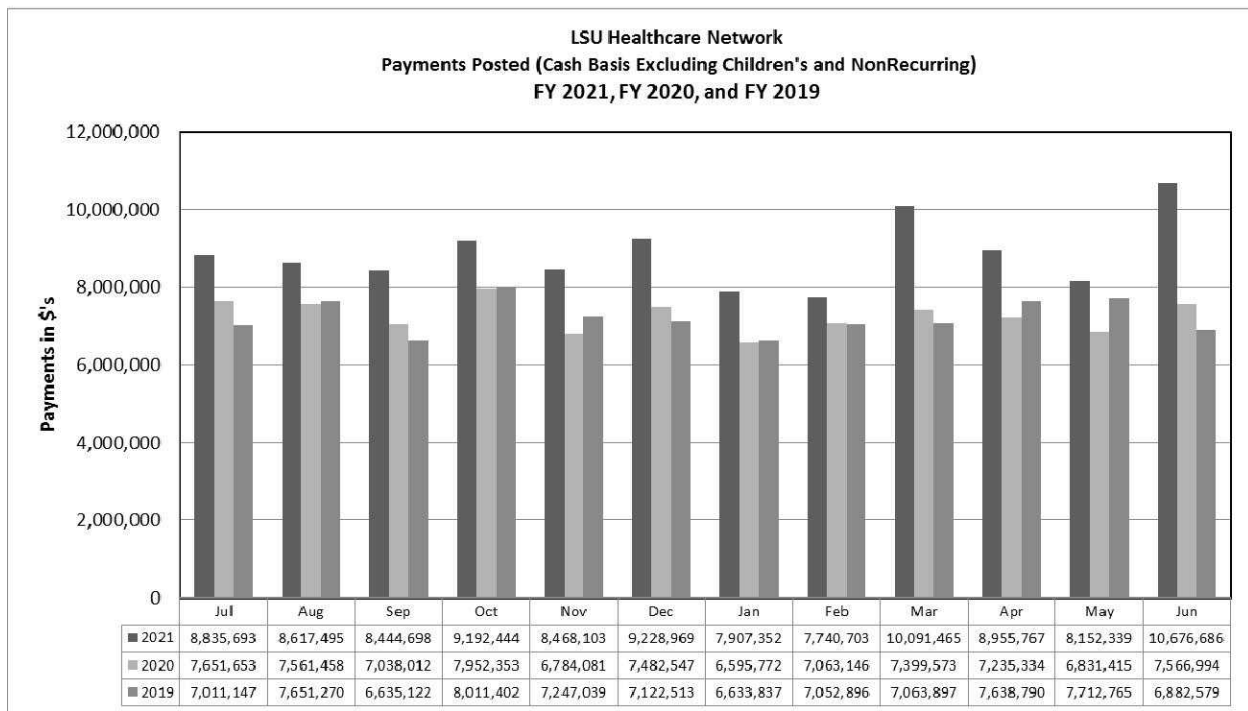
The following chart shows the trend in billable charges for fiscal years 2021, 2020, and 2019:



LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

The following chart shows the trend in payments for Patient Services for fiscal years 2021, 2020, and 2019:



LSUHN continues to provide care to patients formerly seen in the public hospital system in New Orleans, Baton Rouge, and Lafayette, without regard to their ability to pay for those services. During the fiscal years ended June 30, 2021 and 2020, charity charges entered into the billing system and adjusted off were \$8.7 million and \$10.4 million, respectively.

The following table represents the relative percentage of gross charges billed for Patient Services by payor, excluding activity for Medicare Advantage for UMG, for the fiscal years ended June 30, 2021 and 2020:

	FY2021	FY2020
Medicaid	50 %	43 %
Free Care/Indigent	2	4
Medicare	23	28
Managed Care/Insurance	22	21
Self-Pay	3	4
Total Gross Charges	100 %	100 %

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

OPERATING AND FINANCIAL PERFORMANCE

In FY2021, total operating expenses were \$151 million of which the largest component was the net revenue returned to LSU Health Sciences Center (LSUHSC) of \$108 million. The next largest expense was general and administrative expenses of \$18 million.

In FY2021, net capital assets decreased by \$0.5 million due primarily to the transition of the Kenner Multispecialty Clinic to Ochsner.

Capital Asset Summary (In Thousands)

	As of FY2021	As of FY2020	Dollar Change	Total % Change
Office Furniture and Telephones	\$ 669	\$ 668	\$ 1	0 %
Computers and Related Equipment	1,552	1,566	(14)	(1)
Medical Equipment	2,507	2,565	(58)	(2)
Leasehold Improvements	1,399	1,468	(69)	(5)
Buildings	786	786	-	0
License Fees	3,335	3,342	(7)	0
Total at Historical Cost	10,248	10,395	(147)	(1)
Less: Accumulated Depreciation and Amortization	(8,406)	(8,049)	(357)	4
Capital Assets, Net	\$ 1,842	\$ 2,346	\$ (504)	(21) %

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

In FY2020, net capital assets increased by \$0.3 million due primarily to the addition of buildings, medical equipment, and leasehold improvements.

Capital Asset Summary (In Thousands)

	As of FY2020	As of FY2019	Dollar Change	Total % Change
Office Furniture and Telephones	\$ 668	\$ 695	\$ (27)	(4) %
Computers and Related Equipment	1,566	1,526	40	3
Medical Equipment	2,565	2,310	255	11
Leasehold Improvements	1,468	1,040	428	41
Buildings	786	786	-	0
License Fees	3,342	3,287	55	2
Total at Historical Cost	10,395	9,644	751	8
Less: Accumulated Depreciation and Amortization	(8,049)	(7,622)	(427)	6
Capital Assets, Net	\$ 2,346	\$ 2,022	\$ 324	16 %

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A budget was presented and approved by the Finance Committee in June 2021 for FY2022. This budget was rolled out to all the practice managers and will be reviewed quarterly to compare actual expenses vs. budget.

LSUHN initiated a new three-year agreement with Acadiana Computer Services (ACS), who provides the majority of the professional billing services for LSUHN. Material changes from the former agreement include a reduction in the billing fee for contract services (from 9.75% to 8.75%), a removal of the cap on supplemental Medicaid payment fees (since those are no longer paid discretely from fee-for-service Medicaid payments), and a reduction in the monthly support services fee (from \$16,667 per month to \$6,000 per month). The new agreement should result in a reduction in billing expense to LSUHN.

LSUHN intends to replace its end-of-life phone system sometime in FY2022, the estimated expense of which was included in and approved as part of the FY2022 budget. LSUHN is coordinating selection of the phone system in collaboration with the LSUHSC IT team.

LSUHN intends to transition its electronic medical record in FY2022. LCMC Health will be hosting the version of EPIC, the electronic medical record to which we will transition. Timeframe for this project is expected to be November 2021 to May 2022. There is no implementation expense associated with this project and the ongoing expense will be favorable to the budget compared to current.

CONTACTING THE PRACTICE'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of LSUHN's finances. If you have questions about this report or need additional financial information, please contact the Director of Accounting, LSU Healthcare Network, 478 S. Johnson Street, Suite 601, New Orleans, LA 70112.

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

REPORT OF MANAGEMENT'S RESPONSIBILITY

The management of LSUHN is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board, and include amounts based on judgments and estimates made by management. Management also prepares the other information included in the report and is responsible for its accuracy and consistency with the financial statements. The financial statements have been audited by the independent accounting firm of LaPorte, A Professional Accounting Corporation (LaPorte), who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the Board of Directors.

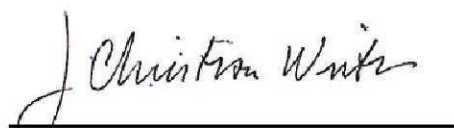
The Board of Directors, through its Executive Finance Committee (the Committee), provides oversight to the financial reporting process. Integral to this process is the Committee's review and discussion with management of the monthly financial statements and the external auditors for the annual financial statements.

LSUHN maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded and that assets are properly safeguarded, and also to provide reasonable assurance to our management and the Board of Directors regarding the reliability of our financial statements. The internal control system includes:

- A documented organizational structure and division of responsibility.
- Established policies and procedures that are regularly communicated and that demand high ethical conduct from all employees.

LSUHN's Executive Finance Committee monitors the operations and internal control system and reports findings and recommendations to management and the Board of Directors as appropriate. Corrective actions are taken to address control deficiencies and other opportunities for improvement as they are identified.

Louisiana State University School of Medicine in New Orleans Faculty Group Practice (d/b/a LSU Healthcare Network)



J. Christian Winters, MD
Chief Executive Officer

BASIC FINANCIAL STATEMENTS

LSU HEALTHCARE NETWORK
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 13,817,377	\$ 14,945,248
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$11,324,887 and \$3,978,925, Respectively)	9,125,920	7,407,443
Inventory	182,926	193,047
Prepaid Expenses	555,203	551,415
Other Receivables	83,563	321,583
Total Current Assets	23,764,989	23,418,736
Capital Assets, Net	1,841,946	2,345,793
Other Assets		
Deposits	221,190	222,547
Investment in PH Holdings, LLC	-	2,531,213
Other Assets	-	543,379
Investments, at Fair Value	78,528,350	54,266,440
Total Other Assets	78,749,540	57,563,579
Total Assets	\$ 104,356,475	\$ 83,328,108
Liabilities and Net Position		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 1,648,482	\$ 1,966,870
Medical Claims Payable	1,051,089	1,079,036
Due to LSU Health Sciences Center	15,130,876	13,393,739
Current Portion of Note Payable	-	770,582
Line of Credit	18,726,327	8,547,644
Total Current Liabilities	36,556,774	25,757,871
Notes Payable	-	1,209,215
Total Liabilities	36,556,774	26,967,086
Net Position		
Net Investment in Capital Assets	1,841,946	2,345,793
Unrestricted	65,957,755	54,015,229
Total Net Position	67,799,701	56,361,022
Total Liabilities and Net Position	\$ 104,356,475	\$ 83,328,108

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

LSU HEALTHCARE NETWORK
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating Revenues		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$13,317,885 and \$8,560,755, Respectively	\$ 132,356,729	\$ 112,829,142
Capitation Revenue	17,421,348	20,031,603
Total Operating Revenues	149,778,077	132,860,745
Operating Expenses		
Personnel - Salaries and Benefits	8,707,666	10,308,336
Leased Employees - Non-Faculty	1,029,823	953,688
Medical Drugs and Supplies	1,622,698	2,192,091
Medical Claims Expense	14,394,568	16,307,636
General and Administrative	17,523,751	15,652,354
Net Revenues Returned to LSU Health Science Center	104,128,760	91,669,261
Depreciation and Amortization	470,807	449,977
Total Operating Expenses	147,878,073	137,533,343
Income (Loss) from Operations	1,900,004	(4,672,598)
Non-Operating Income (Expenses)		
Grant Revenue	3,778,556	3,526,422
Forgiveness of Paycheck Protection Program Loan	1,997,925	-
Grant Distributions	(3,478,858)	(3,300,588)
Contribution to LSU Health Science Center	(12,000,000)	(7,047,644)
Investment Income and Other Expenses, Net	19,097,728	1,773,650
Other Income	143,324	-
Total Non-Operating Income (Expenses), Net	9,538,675	(5,048,160)
Change in Net Position	11,438,679	(9,720,758)
Net Position, Beginning of Year	56,361,022	66,081,780
Net Position, End of Year	\$ 67,799,701	\$ 56,361,022

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

LSU HEALTHCARE NETWORK
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Cash Received from Clinic Operations	\$ 130,638,252	\$ 125,662,134
Cash Received from Capitation Revenue	17,421,348	20,031,603
Cash Payments for Personnel	(9,783,553)	(11,288,416)
Cash Payments for Net Revenues Returned to LSU Health Science Center	(102,391,623)	(94,069,410)
Cash Payments for Supplies and General and Administrative	(19,031,096)	(18,339,348)
Cash Payments for Medical Claims	(14,422,515)	(17,028,749)
Net Cash Provided by Operating Activities	2,430,813	4,967,814
Cash Flows from Capital and Related Financing Activities		
Proceeds from Line of Credit	4,343,820	1,500,000
Payments on Line of Credit	(6,147,009)	-
Proceeds from Note Payable	-	1,979,797
Proceeds from Grants	3,778,556	3,526,422
Distribution of Grants	(3,478,858)	(3,300,588)
Purchase of Capital Assets	(70,568)	(791,732)
Net Cash (Used in) Provided by Capital and Related Financing Activities	(1,574,059)	2,913,899
Cash Flows from Investing Activities		
Cash Received from Deposits	3,474	500
Cash Paid for Deposits	(2,117)	(2,800)
Interest and Dividends, Net of Fees and Taxes Paid	5,625,955	1,506,577
Return of Capital for PHH	2,531,213	-
Proceeds from Sale of Investments	17,310,443	50,514,689
Purchase of Investments	(27,453,593)	(51,867,557)
Net Cash (Used in) Provided by Investing Activities	(1,984,625)	151,409
Net (Decrease) Increase in Cash and Cash Equivalents	(1,127,871)	8,033,122
Cash and Cash Equivalents, Beginning of Year	14,945,248	6,912,126
Cash and Cash Equivalents, End of Year	\$ 13,817,377	\$ 14,945,248

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

LSU HEALTHCARE NETWORK
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of Income (Loss) from Operations to		
Net Cash Provided by (Used in) Operating Activities		
Income (Loss) from Operations	\$ 1,900,004	\$ (4,672,598)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash (Used in) Provided by Operating Activities		
Depreciation and Amortization	470,807	449,977
Provision for Bad Debt	13,317,885	8,560,755
(Increase) Decrease in Operating Assets		
Patient Accounts Receivable, Net	(15,036,362)	4,272,237
Inventory	10,121	(42,612)
Prepaid Expenses	(3,788)	141,111
Other Receivables	238,020	(17,593)
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	(175,064)	(602,201)
Medical Claims Payable	(27,947)	(721,113)
Due to LSU Health Sciences Center	1,737,137	(2,400,149)
Net Cash Provided by Operating Activities	\$ 2,430,813	\$ 4,967,814

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

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network (LSUHN), supports the LSU Health Sciences Center (LSUHSC) in carrying out its medical, educational, and research functions. The Board of Directors consists of seven (7) members who are representatives of the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU), the LSUHSC, and the LSU School of Medicine in New Orleans, as well as eight (8) public or community members who are not employees of LSU and are nominated by either the Nominating Committee or any member of the Board of Directors. Upon dissolution of LSUHN, any remaining assets would be distributed to the Board of Supervisors of LSU or its successor for distribution to the LSU School of Medicine in New Orleans or to the Louisiana State University Health Foundation. LSUHN provides health care to the general public including, but not limited to, the delivery of physician medical services and other healthcare services to individuals. LSUHN receives compensation for these services from the Medicare and Medicaid programs, certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and directly from patients.

LSUHN's activities include billing for services provided at University Medical Center and University Hospital in Lafayette, both of which participate in cooperative endeavor agreements with the State of Louisiana, and the public clinics serviced by LSUHSC. In August 2011, LSUHN and LSUHSC (through the Board of Supervisors of LSU) entered into a restated and amended agreement pursuant to the Uniform Affiliation Agreement. The agreement establishes support of the Board of Supervisors of LSU and LSUHSC-NO in the attainment of its mission and goals, particularly as they relate to the LSUHSC-NO Schools of Medicine, Allied Health Professions, Dentistry, Nursing, and Public Health (collectively, the Health Professional Schools) in their clinical practices.

LSUHN remains a private entity under Louisiana Revised Statute (R.S.) 17:3390 but is combined with the Louisiana State University System for financial reporting purposes and is included in the basic financial statements of the Louisiana State University System together with its blended component units which are described below.

Basis of Accounting

The financial statements of LSUHN have been prepared using the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Accounting Standards

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Codification. The financial statements of LSUHN and its component units have been prepared on the accrual basis of accounting.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Accounting Standards (Continued)

Blended Component Units

LSUHN follows the requirements under GASB Codification 2600, *Reporting Entity and Component Unit Presentation and Disclosure*. The financial statements include the accounts of LSUHN and its blended component units: University Medical Group, LLC and LSUHN Billing, LLC. The significant intercompany transactions and balances have been eliminated. The activities of the blended component units of LSUHN are as follows:

University Medical Group, LLC - University Medical Group, LLC (UMG) is a wholly-owned component unit of LSUHN. UMG directly contracts with New Orleans Physician Hospital Organization, Inc. d/b/a People's Health, a Medicare Advantage Plan (PHN) under capitated arrangements to provide physician healthcare services to PHN members who select UMG physicians in the UMG network. UMG operates primarily in the New Orleans, Louisiana metropolitan area.

The purpose of UMG is to pursue risk contracts in which providers accept capitated payments, through People's Health Network, for healthcare services. UMG has two primary goals: (1) to gain and protect market share for its providers and (2) to generate and distribute surpluses in the event that capitation payments received exceed the cost of healthcare services provided.

LSUHN Billing, LLC - LSUHN is the sole member of LSUHN Billing, LLC (LSUHN Billing). LSUHN Billing was formed in December 2007 for use by the billing company that handles Baton Rouge and Lafayette billing.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements.

Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates which are significant for LSUHN include contractual and bad debt allowances and the liability for medical claims payable. Accordingly, actual results could differ from those estimates.

Income Taxes

LSUHN is a non-profit corporation organized under the laws of the State of Louisiana. It is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) of 1986, and qualifies as a support organization, as defined in Section 501(a) of the Code.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

LSUHN's blended component unit, University Medical Group, LLC, held a minority ownership investment in PH Holdings, LLC, which is a holding company formed in November 2011 that elected to be an S corporation effective January 1, 2012. As a result of this election, any net income derived from this investment will be subject to tax from unrelated business activities. LSUHN requested and received a private letter ruling from the Internal Revenue Service which confirmed its minority interest in this S corporation, through its blended component unit, will not affect its tax-exempt status. Effective September 2, 2020, University Medical Group, LLC's interest in PH Holdings, LLC was cancelled.

LSUHN and its blended component units believe they have appropriate support for any tax positions taken and, as such, do not have any uncertain tax positions that are material to the financial statements. Penalties and interest assessed by income taxing authorities, if any, would be included in operating expenses.

Cash and Cash Equivalents

LSUHN considers all highly liquid investments in money market funds and investments available for current use with an original maturity of three months or less to be cash equivalents. Amounts are recorded at fair value.

Patient Receivables

Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payors. The estimated contractual allowance amounted to \$20,017,586 and \$18,294,470 as of June 30, 2021 and 2020, respectively.

Patient receivables due directly from the patients, net of any third-party payor responsibility, are carried at the net charge for the service provided less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. LSUHN does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Provision for bad debts was \$13,317,885 and \$8,560,755 for the years ended June 30, 2021 and 2020, respectively.

LSUHN participates in state Medicaid supplemental payment programs (Upper Payment Limit and Full Medicaid Payment) which are not subject to the allowances established by management. In January 2020, this program transitioned from quarterly lump sum payments, paid in arrears, to real-time payments paid at the time of service.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Patient Receivables (Continued)

UMG has stop-loss insurance coverage with an unaffiliated insurer for charges that exceed certain limits. Amounts recoverable from the unaffiliated insurer are included in patient accounts receivable on the accompanying statements of net position.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 - 5 years.

Other Assets

Effective January 1, 2018, LSUHN purchased a non-controlling interest in Insight Group, LLC d/b/a Southlake Surgery Center, LLC and Insight Holding Group, LLC, a physician-owned outpatient surgical center and a real estate holding company, respectively. At July 1, 2020, LSUHN had a 33% ownership in each entity which it accounted for under the equity method. On April 21, 2021, LSUHN sold its non-controlling interest in Insight Group LLC d/b/a Southlake Surgery Center, LLC and Insight Holding Group, LLC for \$60,529. A loss on sale of \$482,850 is presented as a component of non-operating income and expenses.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of net position. Unrealized gains and losses are included in the change in net position. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment earnings, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses, are included in non-operating income.

Medical Claims Payable

The unpaid medical claims liability of UMG represents management's best estimate of the ultimate net cost of all reported and unreported claims incurred, but not paid, during the reporting period. The estimate is based on actuarial projections of the historical development of claims incurred but not reported and case-basis estimates of claims reported prior to the end of the reporting period.

The estimate of the unpaid medical claims liability was based on the best data available to UMG; however, because of the limited number of members covered by UMG, the estimates are subject to a significant degree of inherent variability. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Medical Claims Payable (Continued)

Although management believes the estimate of the unpaid medical claims liability is reasonable under the circumstances, it is possible that UMG's actual incurred claims expense will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of the claims may vary significantly from the estimate included in the accompanying financial statements.

During the year ended June 30, 2021, UMG recognized favorable development of claims incurred but not reported of approximately \$142,000 due to changes in estimates of the unpaid medical claims liability. These changes in estimates resulted from the actual frequency and severity of claims differing from original estimates.

Net Position

Net position is reported in three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net assets that do not meet the definition of the other components of net position described above.

Operating versus Non-Operating Revenue and Expenses

LSUHN distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with LSUHN's principal ongoing operations. The principal operating revenue of LSUHN is for patient services. Operating expenses include patient services expense, general and administrative expenses, supply and other expenses, and depreciation and amortization expenses. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Patient Service Revenue Net of Contractual Adjustments and Allowances

LSUHN has agreements with third parties that provide payments at amounts different from its established rates. Net patient service revenue is reported in the financial statements at the estimated net amounts realizable from patients, third-party payors, and others for services rendered. Major third-party payor arrangements include the Medicaid and Medicare programs.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Patient Service Revenue Net of Contractual Adjustments and Allowances (Continued)

LSUHN has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and Coordinated Care Networks (CCN). The basis for payments to LSUHN under these agreements includes prospectively determined rates per office visit and discounts from established charges.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the CMS to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis no later than 2010. CMS uses RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to healthcare providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year in the past but not longer than three years. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

LSUHN will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated.

The Louisiana Medicaid agency currently contracts with five (5) private entities to manage care for most of the State's Medicaid enrollees. These entities contract with the Louisiana Department of Health and Hospitals and serve as CCNs. The CCNs coordinate care for Medicaid eligible adults with disabilities not enrolled in Medicare, children younger than 19, their parents, and pregnant women, allowing them to choose their own CCN. As better rates were negotiated with the CCNs, the Upper Payment Limit (UPL) will not be available for this portion of the Medicaid business.

Charity Care

LSUHN bills for services provided to patients in hospitals that participate in cooperative endeavor agreements with the State of Louisiana without regard to their ability to pay for those services. LSUHN does not pursue collection of charges generated from providing services to patients that are determined to qualify for charity care and, as a result, these charges are not reported as revenue. The hospital and clinic partners of LSUHN determine when the criteria are met for a patient to qualify for charity care, at which point the charges are written off. The records are maintained by each of these hospital and clinic partners. During the years ended June 30, 2021 and 2020, charity charges entered into the billing system and adjusted off were \$8,696,224 and \$10,351,673, respectively.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Capitation Revenue

UMG, the wholly-owned blended component unit of LSUHN, has entered into an agreement with PHN whereby UMG has authorized PHN to contract with purchasers of healthcare services for the delivery of healthcare services to covered members.

UMG receives capitated payments as compensation for a commitment to provide healthcare services to covered members. Capitation payments are recognized as revenue during the period in which UMG is obligated to provide healthcare services to these members.

Medical Claims Expense

UMG contracts with various physicians, physician groups, and other ancillary providers in its network under the terms of primary/specialty care physician agreements or other ancillary agreements for the purpose of providing healthcare services on behalf of PHN. Based on the terms of the agreements, medical expense is recognized either during the period in which UMG is obligated to provide medical services for members, or during the period in which medical services are incurred by members.

Medicare Part D Premiums and Expenses

UMG, through its contract with People's Health, Inc. (PHI), offers Medicare Part D prescription drug insurance coverage under a contract with CMS. The CMS premium, the member premium (where applicable), and the low-income premium subsidy represent payments or UMG's insurance risk coverage under the Medicare Part D program and, therefore, are recorded as capitation revenue on the statements of revenues, expenses, and changes in net position. Capitation revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. Pharmacy benefit costs and administrative costs under the contract are expensed as incurred as medical claims expense.

Note 2. Related-Party Transactions

In accordance with the Amended and Restated Uniform Affiliation Agreement with LSUHSC, LSUHN provides management services, nursing services, technical support services, clerical services, billing and collection services, and other support personnel as necessary to operate a healthcare delivery system. LSUHSC provides professional services of clinical faculty and, in exchange, LSUHN returns all net revenue, according to the formula in the agreement, to LSUHSC. Net revenues incurred to be returned to LSUHSC were \$107,607,618 and \$91,669,261 for the years ended June 30, 2021 and 2020, respectively. Amounts still due under the Amended and Restated Uniform Affiliation Agreement at June 30, 2021 and 2020 were \$15,130,876 and \$13,393,739, respectively.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 2. Related-Party Transactions (Continued)

In addition, LSUHSC provides general support services for LSUHN to operate, such as faculty for LSUHN senior management, computer network, and email accounts. LSUHN reimburses LSUHSC for these services. Amounts paid for general support services were \$4,342,104 and \$3,673,071 during the years ended June 30, 2021 and 2020, respectively. As of June 30, 2021 and 2020, \$130,596 and \$273,589, respectively, was due to LSUHSC for general support services. These amounts are included in accounts payable and accrued liabilities on the statements of net position.

On December 13, 2018, the Board of Directors resolved to provide the LSU School of Medicine \$20,500,000 for the renovation and development of faculty offices in the renovated Interim Louisiana Hospital. LSUHN paid the LSU School of Medicine, \$12,000,000 for the year ended June 30, 2021, with a remaining commitment of \$452,356 as of June 30, 2021.

Note 3. Capitation Revenue

UMG recognizes an accrual for retroactive changes from CMS for revenue resulting from changes in risk score adjustments for prior periods. UMG estimates \$32,677 of risk score adjustments for the year ended June 30, 2021 which PHI expects to receive in fiscal year 2022 from CMS.

The covered members' plans provide prescription drug benefits to members under the Medicare Part D contract. The capitation revenue is subject to risk corridor adjustment, which permits the plans and CMS to share the risk associated with the ultimate costs of the Part D benefit. The adjustment may be positive or negative, based on the application of risk corridors that compare a plan's actual prescription drug costs to its targeted costs, as reflected in the Medicare Part D bid. The plans also receive subsidies from CMS for all or a portion of the deductible, co-insurance, and co-payment amounts for low-income beneficiaries, subsidies for coverage gap costs, and reinsurance subsidies for catastrophic costs. Amounts received for these subsidies are not reflected as premium revenue, but rather are accounted for as deposits. A settlement with CMS of the prospective subsidies based on actual prescription drug costs paid by the plans is made after the plans' year-end. Starting in January 2020, UMG pharmacy risk was transferred to United Healthcare. Pharmacy risk is the risk that actual pharmacy expenses exceed the capitation receipts related to pharmacy services.

UMG estimates and recognizes an adjustment to capitation revenue related to the risk corridor adjustment based upon prescription drug claims experience to date. UMG recorded an asset of \$-0- and \$93,701 for the years ended June 30, 2021 and 2020, respectively, which is included in the statements of net position.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 3. Capitation Revenue (Continued)

The difference between the recorded estimate and the final determination of the amount to be received or paid will be recorded when such determinations are made, and the final settlement amount could vary significantly from the amounts included in the June 30, 2021 and 2020 financial statements.

Note 4. Deposits, Investments, and Investment Income

Investments

LSUHN's investment policy allows for investing available funds in cash and cash equivalents, marketable securities (including publicly traded equity and fixed income securities), and mutual funds. LSUHN invested in hedging instruments which are included in alternative assets in the schedules below. At June 30, 2021 and 2020, LSUHN's investments included equities and debt securities with maturity dates ranging from 0 - 10 years. The cost and fair value of investments at June 30, 2021 and 2020 were as follows:

June 30, 2021	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Short-Term	\$ 708,752	\$ 692,313	\$ 16,439
Equities	55,699,373	41,466,088	14,233,285
Mutual Funds	11,651,393	11,522,978	128,415
Fixed Income	6,637,058	6,249,198	387,860
Alternative Assets	3,831,774	3,728,002	103,772
Total	\$ 78,528,350	\$ 63,658,579	\$ 14,869,771

June 30, 2020	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Short Term	\$ 665,873	\$ 654,516	\$ 11,357
Equities	36,026,831	34,534,235	1,492,596
Mutual Funds	5,264,423	5,127,246	137,177
Fixed Income	9,411,129	8,653,335	757,794
Alternative Assets	2,898,184	3,056,832	(158,648)
Total	\$ 54,266,440	\$ 52,026,164	\$ 2,240,276

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 4. Deposits, Investments, and Investment Income (Continued)

Investments (Continued)

Concentration of Credit Risk: LSUHN invests in money market funds which are not insured or guaranteed by the U.S. Government; however, management believes the credit risk related to these investments is minimal. LSUHN's investment policy is to maintain a reasonable diversification of investment assets between asset classes and investment categories at all times using a conservative-moderate approach to the allocation. LSUHN places no limits on the amount that may be invested with one issuer. Issuers comprising 5% or more of LSUHN's investments at June 30, 2021 and 2020 were as follows:

June 30, 2021	Percent
Fidelity 500 Index-Inst Prm	14%
Fidelity Intl Indx-Inst Prm	7%
Ishares Core MSCI Emerging	6%
Invesco QQQ Trust Series 1	5%
Vanguard Mid-Cap ETF	5%
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June 30, 2020	Percent
Fidelity 500 Index-Inst Prm	15%
Fidelity Intl Indx-Inst Prm	9%
Vanguard Mid-Cap ETF	6%

LSUHN categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. LSUHN has the following recurring fair value measurements as of June 30, 2021 and 2020:

June 30, 2021	Level 1	Level 2	Level 3	Net Balance
Cash and Short-Term	\$ 708,752	\$ -	\$ -	\$ 708,752
Equities	55,699,373	-	-	55,699,373
Mutual Funds	11,651,393	-	-	11,651,393
Fixed Income	5,903,899	733,159	-	6,637,058
Alternative Assets	3,831,774	-	-	3,831,774
Total	\$ 77,795,191	\$ 733,159	\$ -	\$ 78,528,350
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June 30, 2020	Level 1	Level 2	Level 3	Net Balance
Cash and Short-Term	\$ 665,873	\$ -	\$ -	\$ 665,873
Equities	36,026,831	-	-	36,026,831
Mutual Funds	5,264,423	-	-	5,264,423
Fixed Income	8,302,427	1,108,702	-	9,411,129
Alternative Assets	2,898,184	-	-	2,898,184
Total	\$ 53,157,738	\$ 1,108,702	\$ -	\$ 54,266,440

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 5. Capital Assets

Capital asset activity for fiscal years ended June 30, 2021 and 2020 was as follows:

June 30, 2021	Beginning Balance	Additions	Deletions	Ending Balance
Office Furniture and Fixtures	\$ 667,601	\$ 1,850	\$ -	\$ 669,451
Computers and Related Equipment	1,566,412	6,629	(21,077)	1,551,964
Medical Equipment	2,564,427	35,470	(92,979)	2,506,918
Leasehold Improvements	1,468,285	12,180	(81,832)	1,398,633
Building	785,862	-	-	785,862
License Fees	3,342,348	14,439	(21,377)	3,335,410
Total at Historical Cost	10,394,935	70,568	(217,265)	10,248,238
Less: Accumulated Depreciation and Amortization	(8,049,142)	(470,807)	113,657	(8,406,292)
Capital Assets, Net	\$ 2,345,793	\$ (400,239)	\$ (103,608)	\$ 1,841,946

June 30, 2020	Beginning Balance	Additions	Deletions	Ending Balance
Office Furniture and Fixtures	\$ 695,312	\$ 12,962	\$ (40,673)	\$ 667,601
Computers and Related Equipment	1,525,673	40,739	-	1,566,412
Medical Equipment	2,310,083	254,344	-	2,564,427
Leasehold Improvements	1,040,080	428,205	-	1,468,285
Building	785,862	-	-	785,862
License Fees	3,286,866	55,482	-	3,342,348
Total at Historical Cost	9,643,876	791,732	(40,673)	10,394,935
Less: Accumulated Depreciation and Amortization	(7,621,775)	(449,977)	22,610	(8,049,142)
Capital Assets, Net	\$ 2,022,101	\$ 341,755	\$ (18,063)	\$ 2,345,793

Depreciation and amortization expense amounted to \$470,807 and \$449,977 for the years ended June 30, 2021 and 2020, respectively.

Note 6. Investment in PH Holdings, LLC

At July 1, 2020, UMG held less than a 20% investment interest in PH Holdings, LLC, which amounted to \$2,531,213, and accounted for the investment under the cost method. In September 2020, UMG received \$9,105,688 for the distribution of the indemnity escrow related to the 2018 sale of PH Holdings, LLC's interest in certain entities to UnitedHealthcare and cancellation of UMG's interest in PH Holdings, LLC, reducing UMG's investment interest to \$- as of June 30, 2021.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 7. Lease Commitments

Operating Leases

LSUHN leases office space and equipment under operating leases that expire at various dates through 2026. Certain of the lease agreements provide for escalations based on cost of operations. Minimum annual lease payments as of June 30, 2021 are as follows:

Year Ending June 30,	Amount
2022	\$ 1,791,973
2023	1,439,905
2024	1,296,194
2025	945,591
2026	<u>171,858</u>
Total	<u>\$ 5,645,521</u>

Total rent expense for the years ended June 30, 2021 and 2020 was \$1,968,473 and \$2,310,767, respectively, and is included in general and administrative expenses on the statements of revenues, expenses, and changes in net position.

Note 8. 401(k) Plan

Beginning January 2012, LSUHN transitioned to a safe-harbor plan, whereby each year, participants may elect to contribute a percentage of their annual compensation to the plan, up to the maximum allowed by the Internal Revenue Code. Participants who have attained age 50 before the end of the plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. The safe harbor matching contribution provides for an employer match equal to 100% of the participant's contribution to a maximum of 6% of the participant's compensation. At its discretion, LSUHN may make additional contributions up to 5% of the participant's compensation to the 401(k) plan for the benefit of participating employees. For the years ended June 30, 2021 and 2020, 401(k) plan expenses were \$283,319 and \$317,760, respectively.

Note 9. Concentrations

LSUHN provides services in New Orleans, Metairie, LaPlace, Baton Rouge, and Lafayette. LSUHN grants credit to its patients, some of whom are insured under third-party payor agreements. LSUHN routinely obtains assignment of, or is otherwise entitled to receive patients' benefits from Medicare, Medicaid, and other third-party payors.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 9. Concentrations (Continued)

The mix of receivables from its patients and third-party payors at June 30, 2021 and 2020 was as follows:

	2021	2020
Medicaid	44 %	38 %
Commercial	21	25
Medicare	24	24
Self-Pay	11	13
Total	100 %	100 %

UMG operates in the network for PHN, which is the manager for PHI, a Medicare Advantage HMO. PHN and PHI were acquired by United Healthcare in 2018. The network provides covered medical services under certain Medicare Advantage HMO, POS, and PPO plans; and it provides prescription drug plans to covered members located in southeast Louisiana.

As discussed in Note 1, UMG operates under a management services agreement with PHN. The management service and participation agreements require payments from PHN equivalent to the percentage of capitation revenue actuarially determined for the payment of medical claims, with no charges for management fees. The agreements stipulate that PHN is responsible for management services for the network. The amended agreements have been renewed through December 31, 2021.

Currently, all contracts between UMG and third-party payors are executed through PHN. UMG earned 100% of capitation revenue from PHI. PHI and PHN contract with LSUHN for Medicare and Medicaid Services under a Medicare Advantage contract.

Under the terms of the Medicare Advantage contract, PHN has agreed to provide medical services to Medicare enrollees in return for capitated payments. UMG offers membership under the products Choices 65, Choices Plus, Secure Health, Choices Platinum, and Choices Premium. The contract automatically renews for successive periods of one year unless written notice of intention not to renew is given. The contract has been renewed through December 31, 2021. Approximately 100% of PHN's revenue is earned under contracts for these products. A significant modification to, or termination of, this arrangement could have a material effect on UMG's results of operations and financial condition.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 10. Malpractice Insurance Coverage

The physicians contracted to LSUHN by LSUHSC are provided professional liability coverage by LSUHSC in accordance with the provisions of R.S. 40:1299.39 et seq. for the services provided under the Uniform Affiliation Agreement. These provisions provide the physician with coverage on malpractice claims up to \$500,000 per occurrence, which is the limit on medical malpractice claims under current state law. LSUHN maintains its own malpractice insurance with an outside third party to cover its licensed professionals not covered by LSUHSC. LSUHN also participates in the Louisiana Patient Compensation Fund.

Note 11. Commitments and Contingencies

LSUHN has certain other pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed LSUHN's insurance coverage, and will not materially affect the financial position of LSUHN or the results of its operations.

LSUHN contracts with Acadiana Computer Systems (ACS) as a third-party billing company. The contract rate for net cash collections for ACS is 9.75% for contracted business and 5.0% for private business. Medicaid supplemental payments (UPL/FMP) are billed at the same rates but only up to \$500,000 during the contract's annual term.

On December 13, 2018, the Board of Directors resolved to provide the LSU School of Medicine \$20,500,000 for the renovation and development of faculty offices in the renovated Interim Louisiana Hospital. As of June 30, 2021, \$12,000,000 has been paid to LSU School of Medicine to satisfy this commitment.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern", and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public spaces and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which LSUHN operates.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 11. Commitments and Contingencies (Continued)

In response to the coronavirus outbreak, the United States government passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020. The CARES Act provides resources for various programs including the Provider Relief Fund (PRF) and the Paycheck Protection Program (PPP). For the years ended June 30, 2021 and 2020, LSUHN received \$3,778,556 and \$3,526,422, respectively, in Provider Relief Funds, of which it distributed \$3,478,858 and \$3,300,588, respectively, to LSU Health Science Center.

LSUHN obtained a \$1,979,797 loan from a bank under the PPP in April 2020. Under the terms of the PPP, up to 100% of the loan (and related interest) may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. LSUHN applied for forgiveness with the lender and received forgiveness of \$1,979,797 in principal and \$18,128 in interest from the Small Business Administration (SBA) in March 2021. The amount of loan forgiveness is reported as a component of non-operating income in 2021.

The SBA may undertake a review of a loan of any size during the six-year period following forgiveness or repayment of the loan. The review may include the loan forgiveness application, as well as whether LSUHN received the proper loan amount.

Note 12. Line of Credit

On May 1, 2019, LSUHN executed an agreement allowing LSUHN to borrow up to \$20,500,000 collateralized by investments held by LSUHN. Any borrowings under this agreement bear interest at a variable rate unless LSUHN specifically requests a fixed rate. As of June 30, 2021, the outstanding balance was \$18,726,327, at an interest rate of 1.175%. This agreement expires April 30, 2023 but may be terminated by either party at any time.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 13. Combining Schedules

The following tables include condensed combining statements of net position and revenues, expenses, and changes in net position information for LSUHN and its active blended component units as of and for the years ended June 30, 2021 and 2020:

June 30, 2021	LSUHN and LSUHN Billing	UMG	Eliminations	Total
Current Assets	\$ 17,399,243	\$ 6,365,746	\$ -	\$ 23,764,989
Capital Assets, Net	1,841,946	-	-	1,841,946
Other Assets	84,361,002	-	(5,611,462)	78,749,540
Total Assets	\$ 103,602,191	\$ 6,365,746	\$ (5,611,462)	\$ 104,356,475
Total Liabilities	\$ 35,802,490	\$ 754,284	\$ -	\$ 36,556,774
Net Position	67,799,701	5,611,462	(5,611,462)	67,799,701
Total Liabilities and Net Position	\$ 103,602,191	\$ 6,365,746	\$ (5,611,462)	\$ 104,356,475
Operating Revenues	\$ 132,356,729	\$ 17,421,348	\$ -	\$ 149,778,077
Depreciation and Amortization	470,807	-	-	470,807
Other Operating Expenses	132,930,271	14,476,995	-	147,407,266
Operating Income (Loss)	(1,044,349)	2,944,353	-	1,900,004
Non-Operating Revenues (Expenses)	12,483,028	6,575,710	(9,520,063)	9,538,675
Change in Net Position	\$ 11,438,679	\$ 9,520,063	\$ (9,520,063)	\$ 11,438,679

June 30, 2020	LSUHN and LSUHN Billing	UMG	Eliminations	Total
Current Assets	\$ 13,933,986	\$ 9,484,750	\$ -	\$ 23,418,736
Capital Assets, Net	2,345,793	-	-	2,345,793
Other Assets	66,229,452	2,531,213	(11,197,086)	57,563,579
Total Assets	\$ 82,509,231	\$ 12,015,963	\$ (11,197,086)	\$ 83,328,108
Total Liabilities	\$ 26,148,209	\$ 818,877	\$ -	\$ 26,967,086
Net Position	56,361,022	11,197,086	(11,197,086)	56,361,022
Total Liabilities and Net Position	\$ 82,509,231	\$ 12,015,963	\$ (11,197,086)	\$ 83,328,108
Operating Revenues	\$ 112,829,142	\$ 20,031,603	\$ -	\$ 132,860,745
Depreciation and Amortization	449,977	-	-	449,977
Other Operating Expenses	120,773,106	16,310,260	-	137,083,366
Operating Income (Loss)	(8,393,941)	3,721,343	-	(4,672,598)
Non-Operating Revenues (Expenses)	(1,326,817)	23,705	(3,745,048)	(5,048,160)
Change in Net Position	\$ (9,720,758)	\$ 3,745,048	\$ (3,745,048)	\$ (9,720,758)

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 14. Recent Reporting and Disclosure Developments

As of June 30, 2021, the Governmental Accounting Standards Board has issued several statements not yet implemented by LSUHN. The statements which might impact LSUHN are as follows:

Governmental Accounting Standards Board Statement No. 87 (GASB 87)

The objective of GASB Statement No. 87, *Leases*, is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021. Management is currently evaluating the impact that GASB Statement No. 87 will have on the financial statements.

Note 15. Subsequent Events

Management has evaluated subsequent events through September 29, 2021, the date that the financial statements were available to be issued, and has determined that no events have occurred that require disclosure except for the following.

LSUHN clinics were closed for a two week period following Hurricane Ida which made landfall in the region on August 29, 2021. As of September 29, 2021, LSUHN has not identified any significant damage to any of its properties as a result of Hurricane Ida.

**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**

Independent Auditor's Report

To the Board of Directors of
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice
d/b/a LSU Healthcare Network

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 financial statements of Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network (LSUHN), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise LSUHN's basic statements, and have issued our report thereon dated September 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered LSUHN'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LSUHN's internal control. Accordingly, we do not express an opinion on the effectiveness of LSUHN'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LSUHN's 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits 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 entity'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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
September 29, 2021

**REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Board of Directors
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice
d/b/a LSU Healthcare Network

Report on Compliance for Each Major Federal Program

We have audited Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network's (LSUHN) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on LSUHN's major federal programs for the year ended June 30, 2021. LSUHN's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for LSUHN's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LSUHN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of LSUHN's compliance.

Opinion on Each Major Federal Program

In our opinion, LSUHN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of LSUHN is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LSUHN's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LSUHN's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



A Professional Accounting Corporation

Metairie, LA
September 29, 2021

LSU HEALTHCARE NETWORK
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor Program Title	Assistance Listing Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>		
COVID-19 - Provider Relief Fund	93.498	\$ 3,526,422
Total U.S. Department of Health and Human Services		<u>3,526,422</u>
<u>U.S. Department of Homeland Security</u>		
COVID-19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>301,725</u>
Total U.S. Department of Homeland Security		<u>301,725</u>
Total Expenditures and Federal Awards		<u><u>\$ 3,828,147</u></u>

LSU HEALTHCARE NETWORK
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network (LSUHN) under programs of the federal government for the year ended June 30, 2021, and is presented on the full accrual basis of accounting. 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 LSUHN, it is not intended to and does not present the financial position, changes in net assets, or cash flows of LSUHN.

Note 2. Relationship to Financial Statements

Grant revenues are included in the statement of revenues, expenses, and changes in net position for the year ended June 30, 2021 as follows:

Schedule of Expenditures of Federal Awards (SEFA)	\$ 3,828,147
2020 COVID-19 - Provider Relief Funds (Reported on SEFA)	(3,526,422)
2021 COVID-19 - Provider Relief Funds (Not Reported on SEFA)	<u>3,476,831</u>
Total Grant Revenue, as reported on the Statement of Revenues, Expenses, and Changes in Net Position	<u>\$ 3,778,556</u>

LSUHN received COVID-19 Provider Relief Funds during the years ended June 30, 2021 and 2020, in the amounts of \$3,476,831 and \$3,526,422, respectively. Based on compliance requirements by the U.S. Department of Health and Human Services, payments received from April 10, 2020 to June 30, 2020 have a deadline to use funds as of June 30, 2021 and are reported on the SEFA for the year ended June 30, 2021. Payments received subsequent to June 30, 2020 have subsequent deadlines to use funds, and will be reported on future SEFAs, as applicable.

LSU HEALTHCARE NETWORK
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

A. Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1) Type of auditor's report | Unmodified |
| 2) Internal control over financial reporting and compliance and other matters | |
| a) Material weaknesses identified? | No |
| b) Significant deficiencies identified not considered to be material weaknesses? | None reported |
| 3) Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 4) Internal control over major programs | |
| a) Material weaknesses identified? | No |
| b) Significant deficiencies identified not considered to be material weaknesses? | None reported |
| 5) Type of auditor's report issued on compliance for major programs | Unmodified |
| 6) Audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? | No |
| 7) Identification of major programs: | |
| 93.498 - Provider Relief Fund | |
| 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | |
| 8) Dollar threshold used to distinguish between Type A and B programs | \$750,000 |
| 9) Auditee qualified as a low-risk auditee? | No |

B. Findings Related to the Financial Statements

None.

C. Findings and Questioned Costs Related to Major Federal Award Programs

None.

LSU HEALTHCARE NETWORK
Schedule of Prior Audit Findings and Questioned Costs
For the Year Ended June 30, 2020

Findings Related to the Financial Statements

None.

Findings and Questioned Costs Related to Major Federal Award Programs

None.