

**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 Year Ended June 30, 2020,
and Independent Auditor's Report



Contents

Independent Auditor's Report	1 - 2
-------------------------------------	-------

Management's Discussion and Analysis	4 - 13
---	--------

Basic Financial Statements

Statement of Net Position	15
---------------------------	----

Statement of Revenues, Expenses, and Changes in Net Position	16
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Statement of Cash Flows	17 - 18
-------------------------	---------

Notes to the Financial Statements	19 - 36
-----------------------------------	---------

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37 - 38
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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 year ended June 30, 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 audit. We conducted our audit 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.

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

LOUISIANA • TEXAS

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of LSUHN and its blended component units as of June 30, 2020, and the respective changes in its financial position and its cash flows of LSUHN, its blended component units, LSUHN Billing, LLC, and UMG, for the year 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 February 13, 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
February 13, 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 ended June 30, 2020. It should be read in conjunction with the financial statements in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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 currently presented financial statements or fiscal year 2018 financial statements in that respect.

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

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Change in Net Position*. The statement measures 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 *Statement of Cash Flows* is to provide information about LSUHN's cash from operating, investing, and financing activities. The cash flow statement outlines 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* that 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 fiscal year (FY) 2020, in the fourth quarter of the fiscal year, LSUHN experienced a decrease in productivity due to the COVID-19 pandemic. Though productivity (based on work Relative Value Units as defined by Centers for Medicare and Medicaid Services (CMS)) was down nearly 10% for that period overall, payments received for the fiscal year overall ended on par with FY2019. The reasons for this were multifactorial: a natural lag in payments relative to charges; a change in the supplemental Medicaid program which resulted in both a final quarterly payment from 2019 service dates plus real time payments for FY2020; and two stimulus payments received from the CMS Provider Relief Fund (equating to 2% of the prior fiscal year's revenue). For FY2021, LSUHN budgeted revenue conservatively given the uncertainty still at play due to the pandemic; estimates (all as a function of FY2020 collections) were 70% for FY2021-Q1, 85% for FY2021-Q2 and 93% for FY2021-Q3 and Q4.

During FY2020, there have been some changes in the facilities operated by LSUHN. In December 2019, the inter-professional clinic offering both primary care and dental services on Florida Avenue transitioned to a dental-only clinic. That clinic is now operated solely by the LSU Dental School, with no LSUHN involvement. In January 2020, LSUHN opened a new multispecialty clinic in LaPlace, offering Ear Nose Throat (ENT), pain management, and general surgical services. Fifty percent (50%) of the clinic is leased to an outside health care entity, OrthoLA, offering orthopedic surgery and hand surgery services. Finally, in March 2020, LSUHN leased a third suite in the Metairie Multispecialty Clinic and moved the Plastic Surgery service to that suite from the St. Charles Avenue Clinic. The St. Charles Clinic decreased from 4 floors to operating now on 3 floors.

LSUHN continued, during FY2020, to operate clinic sites in the New Orleans area in medical office buildings adjacent to Ochsner Kenner Complex, East Jefferson Hospital, West Jefferson Hospital, as well as a private clinic in Baton Rouge. In June 2020, the Ortho clinic that had moved to a free-standing Kenner clinic relocated back to the multispecialty clinic in the Ochsner Medical Office Building.

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.

UMG operated in FY2020 under a new, one-year operating agreement executed in October 2019. The only material change for calendar year 2020 was that 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. This proved to be a favorable change for the UMG financial position.

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, 2020, 2019, and 2018

	June 30,		
	2020	2019	2018
	(Dollars in Thousands)		
Assets			
Current and Other Assets	\$ 80,982	\$ 84,223	\$ 46,710
Capital Assets	2,346	2,022	1,094
Total Assets	\$ 83,328	\$ 86,245	\$ 47,804
Liabilities			
Other Liabilities	\$ 16,440	\$ 20,163	\$ 17,568
Debt Outstanding	10,527	-	-
Total Liabilities	26,967	20,163	17,568
Net Position			
Net Investment in Capital Assets	2,346	2,022	1,094
Unrestricted	54,015	64,060	29,142
Total Net Position	56,361	66,082	30,236
Total Liabilities and Net Position	\$ 83,328	\$ 86,245	\$ 47,804

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, 2020, 2019, and 2018

	Years Ended June 30,		
	2020	2019	2018
	(Dollars in Thousands)		
Operating Revenues			
Net Patient Service Revenue	\$ 112,829	\$ 124,825	\$ 110,924
Capitation Revenue	20,032	30,260	19,101
Total Operating Revenues	132,861	155,085	130,025
Operating Expenses			
Operating and Administrative	120,775	125,479	111,244
Medical Claims Expense	16,308	29,097	17,743
Depreciation and Amortization	450	390	365
Total Operating Expenses	137,533	154,966	129,352
(Loss) Income from Operations	(4,672)	119	673
Non-Operating Income and (Expenses)			
Grant Revenue	3,526	-	-
Grant Distributions	(3,301)	-	-
Contribution to LSU Health Science Center	(7,048)	-	-
Interest Income and Other Income and Expenses, Net	1,774	35,727	(1,138)
Change in Net Position	(9,721)	35,846	(465)
Net Position, Beginning of Year	66,082	30,236	30,701
Net Position, End of Year	\$ 56,361	\$ 66,082	\$ 30,236

During fiscal year 2020, the practice generated 85% of its total revenues from patient care, with the other 15% being derived primarily from capitation revenue from UMG. Visits at the LSUHN managed clinics have remained relatively flat over the years decreasing 4% and 1% in fiscal years 2020 and 2019, respectively.

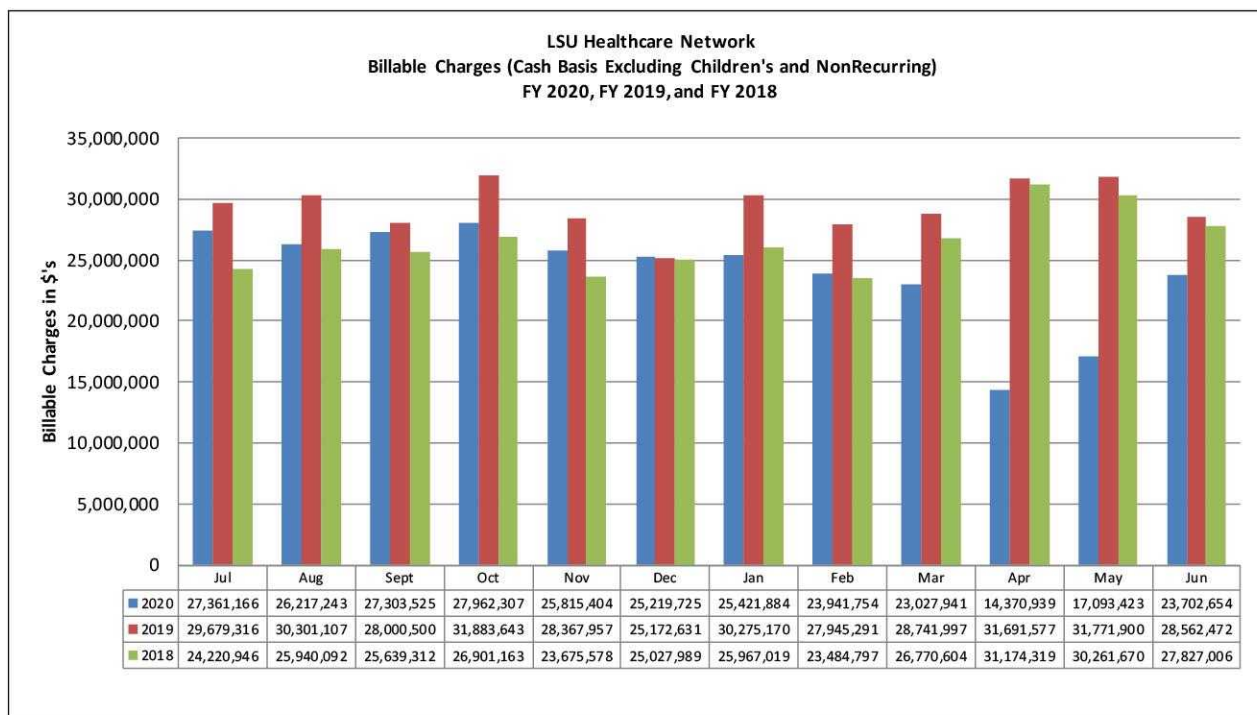
LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

In fiscal year 2020, overall cash collections for Patient Services increased by 4% with a 6% decrease in the LSUHN managed clinics and 2% on the contract business (excluding UPL and FMP collections). Children's revenue remained somewhat consistent with a 2% decrease in fiscal year 2020.

Supplemental Medicaid payments, which include Upper Payment Limit (UPL) and Full Medicaid Payment (FMP), and Meaningful Use payments included in Net Patient Service Revenue, were \$8.6 million and \$18.5 million for fiscal years 2020 and 2019, respectively. This program transitioned in January 2020, from quarterly lump sum payments, paid in arrears, to real-time payments paid at the time of service. Going forward, these payments will no longer be accounted for discretely but as part of regular collections.

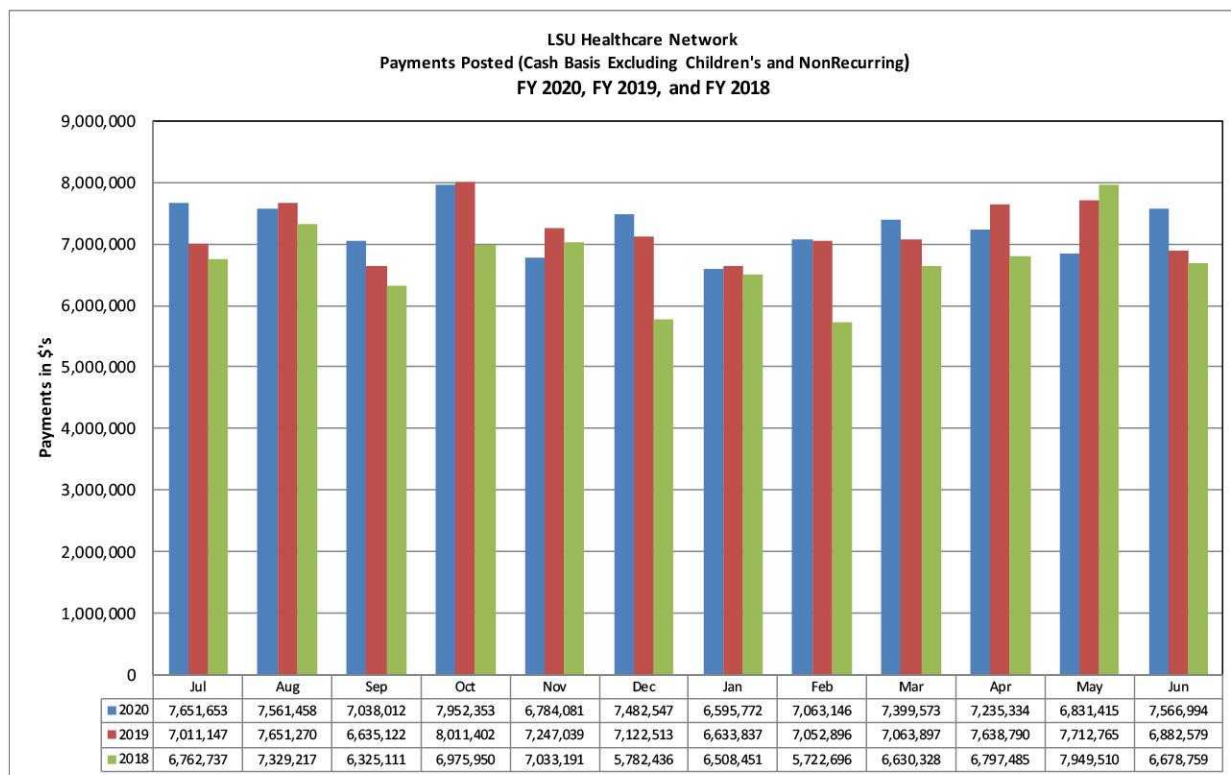
The following chart shows the trend in billable charges for fiscal years 2020, 2019, and 2018:



LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

The following chart shows the trend in payments for Patient Services for fiscal years 2020, 2019, and 2018:



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, 2020 and 2019, charity charges entered into the billing system and adjusted off were \$10.4 million and \$15.9 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:

	Fiscal Year 2020	Fiscal Year 2019
Medicaid	43 %	45 %
Free Care/Indigent	4	5
Medicare	28	27
Managed Care/Insurance	21	18
Self-Pay	4	5
Total Gross Charges	100 %	100 %

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

OPERATING AND FINANCIAL PERFORMANCE

In fiscal year 2020, total expenses were \$141 million of which the largest component was the net revenue returned to LSU Health Sciences Center (LSUHSC) of \$92 million. The next largest expense is the Medical Claims Expense of UMG.

In fiscal year 2020, net capital assets increased by \$0.3 million due primarily to the addition of 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
Totals 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

In fiscal year 2019, net capital assets increased by \$0.9 million due primarily to the addition of buildings, medical equipment, and leasehold improvements.

Capital Asset Summary (In Thousands)

	As of FY2019	As of FY2018	Dollar Change	Total % Change
Office Furniture and Telephones	\$ 695	\$ 727	\$ (32)	(4) %
Computers and Related Equipment	1,526	1,429	97	7
Medical Equipment	2,310	2,444	(134)	(5)
Leasehold Improvements	1,040	986	54	5
Buildings	786	-	786	100
License Fees	3,287	3,054	233	8
Totals at Historical Cost	9,644	8,640	1,004	12
Less: Accumulated Depreciation and Amortization	(7,622)	(7,546)	(76)	1
Capital Assets - Net	\$ 2,022	\$ 1,094	\$ 928	85 %

During fiscal year 2020, 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 is 0.91. During fiscal year 2019, total current liabilities were \$20.2 million which included an increase of the accrual of the amount due to LSUHSC of \$1.7 million. The ratio of current assets to current liabilities is 1.40.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A budget was presented and approved by the Finance Committee in June 2020 for fiscal year 2021. This budget was rolled out to all the practice managers and will be reviewed quarterly to compare actual expenses vs. budget.

In Q2 of FY2021, the Kenner Multispecialty Clinic (which now includes Orthopedics as of June 2020), will be transitioned to Ochsner Kenner, with a contract directly between the LSUHSC and Ochsner. Employees of that clinic will become Ochsner employees and billing for services will be done by Ochsner. There will be no LSUHN involvement in that clinic after the transition is complete. This transition was completed effective December 2, 2020.

LSU HEALTHCARE NETWORK

Management's Discussion and Analysis

UMG will continue to operate as is. An operating agreement 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 30 of the year that precedes a renewal term.

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.

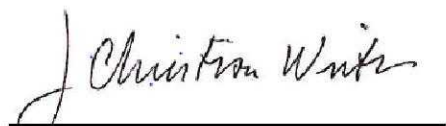
The Board of Directors, through its Executive Finance Committee (the Committee), provides oversight to the financial reporting process. Integral to this process is the Committee's review and discussion with management of the monthly financial statements and the external auditors for the annual financial 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
Statement of Net Position
June 30, 2020

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 14,945,248
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$3,978,925)	7,407,443
Inventory	193,047
Prepaid Expenses	551,415
Other Receivables	321,583
	<hr/>
Total Current Assets	23,418,736
	<hr/>
Capital Assets, Net	2,345,793
	<hr/>
Other Assets	
Deposits	222,547
Investment in PH Holdings, LLC	2,531,213
Other Assets	543,379
Investments, at Fair Value	54,266,440
	<hr/>
Total Other Assets	57,563,579
	<hr/>
Total Assets	\$ 83,328,108
	<hr/> <hr/>
Liabilities and Net Position	
Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ 1,966,870
Medical Claims Payable	1,079,036
Due to LSU Health Sciences Center	13,393,739
Current Portion of Note Payable	770,582
Line of Credit	8,547,644
	<hr/>
Total Current Liabilities	25,757,871
	<hr/>
Note Payable	1,209,215
	<hr/>
Total Liabilities	26,967,086
	<hr/>
Net Position	
Net Investment in Capital Assets	2,345,793
Unrestricted	54,015,229
	<hr/>
Total Net Position	56,361,022
	<hr/>
Total Liabilities and Net Position	\$ 83,328,108
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The accompanying notes are an integral part of these financial statements.

LSU HEALTHCARE NETWORK
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

Operating Revenues	
Net Patient Service Revenue, Net of Provision for Bad Debts of \$8,560,755	\$ 112,829,142
Capitation Revenue	20,031,603
Total Operating Revenues	<u>132,860,745</u>
Operating Expenses	
Personnel - Salaries and Benefits	10,308,336
Leased Employees - Non-Faculty	953,688
Medical Drugs and Supplies	2,192,091
Medical Claims Expense	16,307,636
General and Administrative	15,652,354
Net Revenues Returned to LSU Health Science Center	91,669,261
Depreciation and Amortization	449,977
Total Operating Expenses	<u>137,533,343</u>
Loss from Operations	<u>(4,672,598)</u>
Non-Operating Income and (Expenses)	
Grant Revenue	3,526,422
Grant Distributions	(3,300,588)
Contribution to LSU Health Science Center	(7,047,644)
Investment Income and Other Expenses, Net	1,773,650
Total Non-Operating Expense, Net	<u>(5,048,160)</u>
Change in Net Position	(9,720,758)
Net Position, Beginning of Year	<u>66,081,780</u>
Net Position, End of Year	<u>\$ 56,361,022</u>

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

LSU HEALTHCARE NETWORK
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash Flows from Operating Activities	
Cash Received from Clinic Operations	\$ 125,662,134
Cash Received from Capitation Revenue	20,031,603
Cash Payments for Personnel	(11,288,416)
Cash Payments for Net Revenues Returned to LSU Health Science Center	(94,069,410)
Cash Payments for Supplies and General and Administrative	(18,339,348)
Cash Payments for Medical Claims	<u>(17,028,749)</u>
Net Cash Provided by Operating Activities	<u>4,967,814</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from Line of Credit	1,500,000
Proceeds from Note Payable	1,979,797
Proceeds from Grants	3,526,422
Distribution of Grants	(3,300,588)
Purchase of Capital Assets	<u>(791,732)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>2,913,899</u>
Cash Flows from Investing Activities	
Cash Received from Deposits	500
Cash Paid for Deposits	(2,800)
Interest and Dividends, Net of Fees and Taxes Paid	1,506,577
Proceeds from Sale of Investments	50,514,689
Purchase of Investments	<u>(51,867,557)</u>
Net Cash Provided by Investing Activities	<u>151,409</u>
Net Increase in Cash and Cash Equivalents	8,033,122
Cash and Cash Equivalents, Beginning of Year	<u>6,912,126</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 14,945,248</u></u>

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

LSU HEALTHCARE NETWORK
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2020

**Reconciliation of Loss from Operations to Net Cash
Provided by Operating Activities**

Loss from Operations	\$ (4,672,598)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities	
Depreciation and Amortization	449,977
Provision for Bad Debt	8,560,755
(Increase) Decrease in Operating Assets	
Patient Accounts Receivable, Net	4,272,237
Inventory	(42,612)
Prepaid Expenses	141,111
Other Receivables	(17,593)
Increase (Decrease) in Operating Liabilities	
Accounts Payable and Accrued Expenses	(602,201)
Medical Claims Payable	(721,113)
Due to LSU Health Sciences Center	<u>(2,400,149)</u>
 Net Cash Provided by Operating Activities	 <u>\$ 4,967,814</u>

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)

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 three primary goals: (1) to gain and protect market share for its providers, (2) to generate and distribute surpluses in the event that capitation payments received exceed the cost of healthcare services provided, and (3) to maintain an ownership interest in PH Holdings, LLC.

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.

Historically, LSUHN and its blended component unit UMG did not share common fiscal year ends as UMG reported on a calendar year end. For the year ended June 30, 2019, the financial statements reflected activity for UMG for the eighteen months ended June 30, 2019 so as to adjust UMG's year end to that of LSUHN. Due to the inconsistent presentation of UMG for the prior period, the activities of this period are not comparative with previously reported financial statements.

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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

LSUHN's blended component unit, University Medical Group, LLC, holds 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.

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 \$18,294,470 as of June 30, 2020.

Patient receivables due directly from the patients, net of any third-party payor responsibility, are carried at the original 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 \$8,560,755 for the year ended June 30, 2020.

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 statement 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.

Investment in PH Holdings, LLC

At June 30, 2020, LSUHN, through its blended component unit, UMG, held less than a 20% investment in PH Holdings, LLC, which it accounted for under the cost method. The cost method is used to account for the investment in the common stock of PH Holdings, LLC because UMG does not have the ability to exercise significant influence over the investee's operating and financial policies. The fair value of the investment is not disclosed, as there is no readily determinable fair value of the investment. Additionally, there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

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. LSUHN has a 33% ownership in each entity which it accounted for under the equity method. Under the equity method, the investment is recorded at cost but subsequently adjusted for LSUHN's share of the profits and losses.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of 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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Medical Claims Payable (Continued)

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.

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, 2020, blended component unit UMG recognized unfavorable development of claims incurred but not reported of approximately \$385,000 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.

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

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.

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

Included as a component of net patient service revenue on the statement of revenues, expenses, and changes in net position for the year ended June 30, 2020 is \$8,539,870 of supplemental Medicaid payments.

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 Coordinated Care Networks (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. While better rates were negotiated with the CCNs, the Upper Payment Limit (UPL) will not be available for this portion of the Medicaid business.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 year ended June 30, 2020, charity charges entered into the billing system and adjusted off were \$10,351,673.

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 statement 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. 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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

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 \$91,669,261 for the year ended June 30, 2020. Amounts still due under the Amended and Restated Uniform Affiliation Agreement at June 30, 2020 were \$13,393,739.

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 \$3,673,071 during the year ended June 30, 2020. As of June 30, 2020, \$273,589 was due to LSUHSC for general support services. These amounts are included in accounts payable and accrued liabilities on the statement 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, payable based on an agreed-upon schedule. As of June 30, 2020, \$8,047,644 has been paid to LSU School of Medicine to satisfy this commitment.

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 \$223,009 of risk score adjustments for the year ended June 30, 2020 which PHI expects to receive in fiscal year 2021 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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 3. Capitation Revenue (Continued)

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 \$93,701 for the year ended June 30, 2020, which is included in the statement of net position as of June 30, 2020.

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 amount included in the June 30, 2020 financial statements.

Note 4. Deposits, Investments, and Investment Income

Deposits

LSUHN maintains bank balances in financial institutions that at times exceed the insured amounts of \$250,000 provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The excess amounts at June 30, 2020 were \$14,523,435. LSUHN believes it is not exposed to any significant credit risk to cash.

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 schedule below. At June 30, 2020, LSUHN's investments were in equities and debt securities with maturity dates ranging from 0 - 10 years. The cost and fair value of investments at June 30, 2020 are as follows:

	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Short-Term	\$ 36,026,831	\$ 34,534,235	\$ 1,492,596
Equities	2,898,184	3,056,832	(158,648)
Fixed Income	665,873	654,516	11,357
Alternative Assets	14,675,552	13,780,581	894,971
Total	\$ 54,266,440	\$ 52,026,164	\$ 2,240,276

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

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

Investments (Continued)

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.

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, 2020 were as follows:

Issuer	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; Level 3 inputs are significant unobservable inputs. LSUHN has the following recurring fair value measurements as of June 30, 2020:

	Level 1	Level 2	Level 3	Net Balance
Cash and Short-Term	\$ 36,026,831	\$ -	\$ -	\$ 36,026,831
Equities	2,898,184	-	-	2,898,184
Fixed Income	665,873	-	-	665,873
Alternative Assets	13,566,850	1,108,702	-	14,675,552
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 year ended June 30, 2020 was as follows:

	Balance 2019	Additions	Deletions	Balance 2020
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 \$449,977 for the year ended June 30, 2020.

Note 6. Investment in PH Holdings, LLC

As of June 30, 2020, UMG holds less than a 20% investment interest in PH Holdings, LLC, which amounted to \$2,531,213, and accounts for the investment under the cost method.

Note 7. Other Assets

As mentioned in Note 1, LSUHN has a 33% investment in Insight Holding Group, LLC and Southlake Surgery Center, LLC, which amounted to \$543,379 for the year ended June 30, 2020.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 8. Lease Commitments

Operating Leases

LSUHN leases office space and equipment under operating leases that expire at various dates through 2025. Certain of the lease agreements provide for escalations based on cost of operations. Minimum annual lease payments as of June 30, 2020, are as follows:

Year Ending June 30,	Amount
2021	\$ 1,887,358
2022	1,160,481
2023	1,001,898
2024	1,021,309
2025	588,636
Total	<u>\$ 5,659,682</u>

Total rent expense for the year ended June 30, 2020 was \$2,310,767 and is included in general and administrative expenses on the statement of revenues, expenses, and changes in net position.

Note 9. 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 year ended June 30, 2020, 401(k) plan expenses were \$317,760.

Note 10. 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 10. Concentrations (Continued)

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

Medicaid	38 %
Commercial	25
Medicare	24
Self-Pay	<u>13</u>
Total	<u><u>100 %</u></u>

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, a blended component unit of LSUHN, operates under a management services agreement with PHN. Prior to January 2015, management fees were paid by UMG to PHN for expenses incurred up to 15% of capitation revenue. Effective January 1, 2015, the management service and participation agreements were amended to allow 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 amended agreements stipulate that PHN is responsible for management services for the network. The amended agreements have been renewed through December 31, 2020.

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 the Centers 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 11. 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 12. Government Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Recently, government oversight has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Office of the Inspector General of the Department of Health and Human Services has undertaken a project to audit Medicare billings of certain academic medical institutions.

The government has stated that it believes that a significant amount of Medicare claims filed by teaching physicians are not properly documented as required by current interpretations of Medicare standards. If a provider is found to be in violation of these documentation standards, the government may require repayment of any overcharges and may impose a penalty of treble damages plus up to \$10,000 per false claim.

Management believes that LSUHN is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations, and with the Medicare documentation standards. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operations of LSUHN. Federal healthcare reform legislation proposals debated in Congress in recent years have included proposals for the imposition of price controls and/or healthcare spending budgets or targets, significant reductions in Medicare and Medicaid program reimbursement to healthcare providers, and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of LSUHN's principal payors.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 12. Government Regulations (Continued)

It is not possible at this time to determine the impact on LSUHN of government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system, and/or payment methodology changes. However, such changes could have an adverse impact on operating results and cash flows of LSUHN in future years.

Note 13. 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 payable based on an agreed-upon schedule. As of June 30, 2020, \$8,047,644 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.

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). As of June 30, 2020, LSUHN obtained a PPP loan as described in Note 15 and had also received \$3,526,422 in Provider Relief Funds, of which it distributed \$3,300,588 to LSU Health Science Center.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 14. 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, 2020, the outstanding balance was \$8,547,644. \$1,500,000 and \$7,047,644 bear variable rates of 1.23% and 1.05%, respectively. This agreement expires April 30, 2021 but may be terminated by either party at any time.

Note 15. Note Payable

On May 5, 2020, LSUHN obtained a loan totaling \$1,979,797 from a financial institution pursuant to the terms of the PPP authorized by the CARES Act. At June 30, 2020, the loan has a fixed interest rate of 1% and matures on May 15, 2022. No payments are due for the first six months and, after taking into account any loan forgiveness applicable to the loan pursuant to the Program, any remaining principal and accrued interest will be payable in equal monthly installments on the first day of each month for the remaining 18-month term of the loan. The current portion of this note payable and not yet forgiven at June 30, 2020 is \$770,582.

On June 5, 2020, the Paycheck Protection Flexibility Act was signed into law which extended the deferral period for loan payments, but it did not specify whether lenders and borrowers had to modify promissory notes used for PPP loans already issued. Therefore, LSUHN reported its PPP loan as described above.

Subsequent to June 30, 2020, in October 2020, additional guidance was released clarifying that the deferral extension applies to all PPP loans. This deferral changes LSUHN's first required payment date to approximately August 21, 2021. The maturity date of the loan was extended to approximately January 21, 2023. As of the date this report was ready for issuance, this loan was still outstanding, and no payments have been required or been made by LSUHN.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 16. 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 year ended 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	<u>\$ 82,509,231</u>	<u>\$ 12,015,963</u>	<u>\$ (11,197,086)</u>	<u>\$ 83,328,108</u>
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	<u>\$ 82,509,231</u>	<u>\$ 12,015,963</u>	<u>\$ (11,197,086)</u>	<u>\$ 83,328,108</u>
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)	<u>(8,393,941)</u>	<u>3,721,343</u>	<u>-</u>	<u>(4,672,598)</u>
Non-Operating Revenues (Expenses)	<u>(1,326,817)</u>	<u>23,705</u>	<u>(3,745,048)</u>	<u>(5,048,160)</u>
Change in Net Position	<u>\$ (9,720,758)</u>	<u>\$ 3,745,048</u>	<u>\$ (3,745,048)</u>	<u>\$ (9,720,758)</u>

Note 17. Recent Reporting and Disclosure Developments

As of June 30, 2020, 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 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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 18. Subsequent Events

Management has evaluated subsequent events through February 13, 2021, the date that the financial statements were available to be issued, and has determined that no events have occurred that require disclosure, except the following:

Subsequent to June 30, 2020, in October 2020, additional guidance was released clarifying that the deferral extension applies to all PPP loans. This deferral changes LSUHN's first required payment date to approximately August 21, 2021. The maturity date of the loan was extended to approximately January 21, 2023. As of the date this report was ready for issuance, this loan was still outstanding, and no payments have been required or been made by LSUHN. See Note 15 for additional information.

**INDEPENDENT AUDITOR'S 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**

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, d/b/a LSU Healthcare Network (a Louisiana non-profit corporation) (LSUHN), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise LSUHN's basic statements, and have issued our report thereon dated February 13, 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.

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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 determination of financial statement amounts. 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 Professional Accounting Corporation

Metairie, LA
February 13, 2021