

**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, 2019,  
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

### **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 LSUHN Vascular Lab, LLC, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise LSUHN's basic financial statements as listed in the table of contents.

We have also audited the financial statements of University Medical Group, LLC (UMG), a blended component unit of LSUHN, which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the eighteen (18) months then ended, and the related notes to the financial statements which are included in LSUHN's financial statements.

### **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.

#### **LOUISIANA • TEXAS**

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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 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, 2019, and the respective changes in its financial position and its cash flows of LSUHN, its blended component units LSUHN Billing, LLC and LSU Vascular Lab, LLC for the year, and its blended component unit UMG for the eighteen months 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 12 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 3, 2019 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 3, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**LSU HEALTHCARE NETWORK**  
**For the Years Ended June 30, 2019 and 2018**

**Management's Discussion and Analysis**

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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, 2019. 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), has changed its fiscal year end in the current period to match that of LSUHN. Therefore, these financial statements include eighteen months of activity of UMG and are not comparable to previously presented financial statements in that respect.

The *Statement of Net Position* include all of LSUHN's and its blended component unit's 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 current year. It 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*, and also include the six month period of UMG's activities from January 1, 2018 to June 30, 2018. 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**  
**For the Years Ended June 30, 2019 and 2018**

**Management's Discussion and Analysis**

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**FINANCIAL ANALYSIS OF THE HEALTHCARE NETWORK**

During fiscal year 2016, Dr. J. Christian Winters was appointed the permanent Chief Executive Officer position, and other changes were made to the management team. New initiatives were put in place to increase access points to the clinics, reduce expenses to the clinical departments, and increase efficiency of staff.

During FY19, there have been some changes in the facilities operated by LSUHN. The main clinic is still LSUHN's multi-specialty-flagship clinic located on St. Charles Avenue near Touro Infirmary, however LSUHN is no longer the only tenant. During FY18, clinics moved, reducing the footprint from 7 floors to only 4. Some of the clinics moved from the St. Charles Clinic to the new clinic location on the LSUHSC Campus on Robertson Street. The final department being Oral Surgery moved to the Dental school in July 2018. These moves reduced the facility expenses with these clinics moving to less expensive space and reducing the additional operating expenses at St. Charles since LSUHN is no longer the only tenant.

LSUHN continued during FY19 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. LSUHN operated two suites in the Ochsner Kenner Medical Office building, but moved the Ortho clinic that was in one of the suites to a free standing medical office building just down the street. The Multispecialty clinic still remains in the Ochsner Kenner building.

The cardiology clinic that was at the Ochsner Westbank location moved into a new space with Plastic Surgery in the West Jefferson medical office building. The clinic near East Jefferson Hospital expanded adding a new suite. 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.

During FY18, LSUHN became a partial owner of a Surgical Outpatient Center in Laplace and a few of the providers started scheduling services there. In addition, other clinical space was leased in the Laplace area to provide needed clinical providers in that area.

A consulting firm that was originally hired to look at the feasibility of a new Ambulatory Clinic Building near the medical school campus has now focused their efforts to where LSUHN can expand their existing services. This analysis shows that Laplace area to be an area for opportunity. During FY19, LSUHN purchased a building in Laplace that will be turned into a medical office building to begin operations around the end of 2019.

The blended component unit, UMG, is no longer an owner of People's Health Network (PHN) since the sale by PHN to United Healthcare. UMG maintains its Independent Practice Association (IPA) and contracts for provider services with PHN and LSU and community physicians. The oversight formerly provided by PHN as a Manager ceased on December 31, 2018. With this change, we are aligning the fiscal year ends to June 30. Due to this, the numbers for UMG in the statements in this audit include 18 months of UMG to align these dates.

**LSU HEALTHCARE NETWORK**  
**For the Years Ended June 30, 2019 and 2018**

**Management's Discussion and Analysis**

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

	June 30,		
	2019	2018	2017
	(Dollars in Thousands)		
<b>Assets</b>			
Current and Other Assets	\$ 84,223	\$ 46,710	\$ 47,431
Capital Assets	2,022	1,094	887
<b>Total Assets</b>	<b>\$ 86,245</b>	<b>\$ 47,804</b>	<b>\$ 48,318</b>
<b>Liabilities</b>			
Other Liabilities	\$ 20,163	\$ 17,568	\$ 17,617
<b>Total Liabilities</b>	<b>20,163</b>	<b>17,568</b>	<b>17,617</b>
<b>Net Position</b>			
Net Investment in Capital Assets	2,022	1,094	887
Unrestricted	64,060	29,142	29,814
<b>Total Net Position</b>	<b>66,082</b>	<b>30,236</b>	<b>30,701</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 86,245</b>	<b>\$ 47,804</b>	<b>\$ 48,318</b>

**LSU HEALTHCARE NETWORK**  
**For the Years Ended June 30, 2019 and 2018**

**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:

	Years Ended June 30,		
	2019	2018	2017
	(Dollars in Thousands)		
<b>Operating Revenues</b>			
Net Patient Service Revenue	\$ 124,825	\$ 110,924	\$ 103,870
Capitation Revenue	30,260	19,101	18,485
Grant Revenue	-	-	195
<b>Total Operating Revenues</b>	<b>155,085</b>	130,025	122,550
<b>Operating Expenses</b>			
Operating and Administrative	125,479	111,244	104,622
Medical Claims Expense	29,097	17,743	17,525
Depreciation and Amortization	390	365	560
<b>Total Operating Expenses</b>	<b>154,966</b>	129,352	122,707
<b>Income (Loss) from Operations</b>	<b>119</b>	673	(157)
<b>Non-Operating Income and Expenses</b>			
Interest Income and Other Income and Expenses, Net	35,727	(1,138)	2,367
<b>Change in Net Position</b>	<b>35,846</b>	(465)	2,210
<b>Net Position, Beginning of Year</b>	<b>30,236</b>	30,701	28,491
<b>Net Position, End of Year</b>	<b>\$ 66,082</b>	\$ 30,236	\$ 30,701

During fiscal year 2019, the practice generated 80% of its total revenues from patient care, with the other 20% being derived primarily from capitation revenue from UMG which includes the 18 months. Visits at the LSUHN managed clinics have remained flat over the years decreasing 1% and increasing 1% in fiscal years 2019 and 2018, respectively.

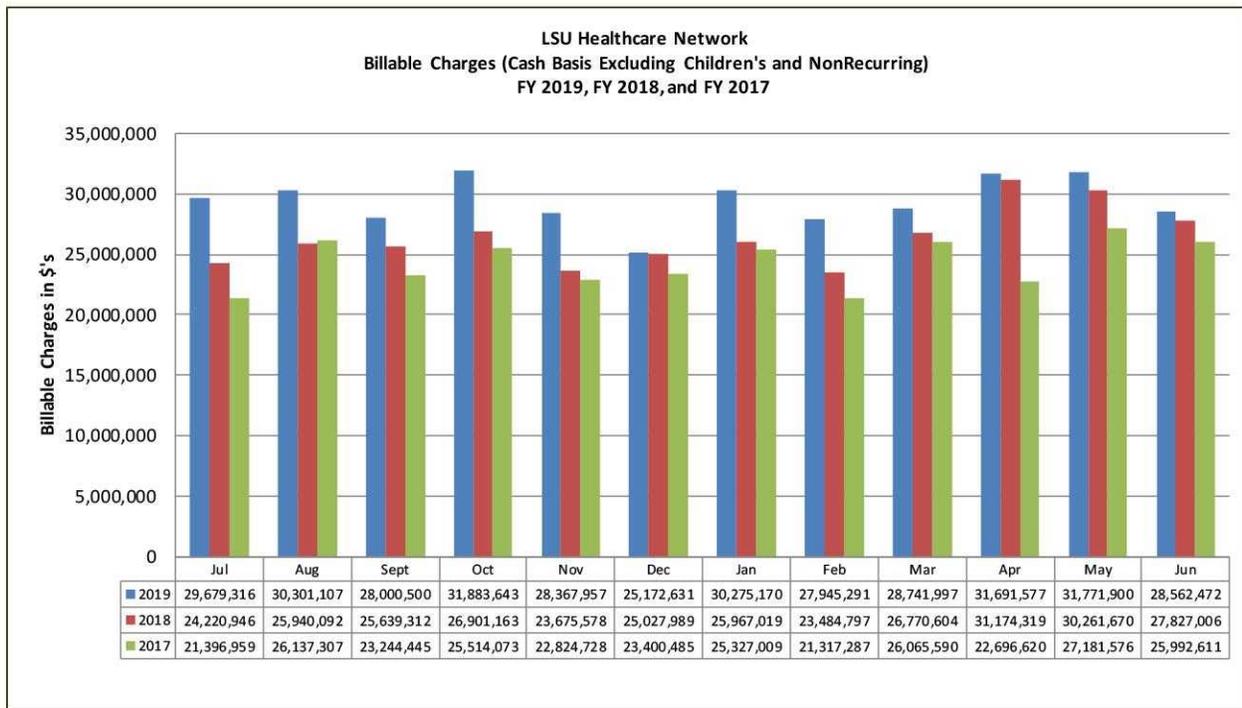
**LSU HEALTHCARE NETWORK**  
**For the Years Ended June 30, 2019 and 2018**

**Management’s Discussion and Analysis**

In fiscal year 2019, overall cash collections for Patient Services increased by 11% with a 2% decrease in the LSUHN managed clinics and 13% on the contract business (excluding UPL and FMP collections). Children’s revenue remained somewhat consistent with a 1% increase in fiscal year 2019.

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 \$18.5 million for fiscal years 2019.

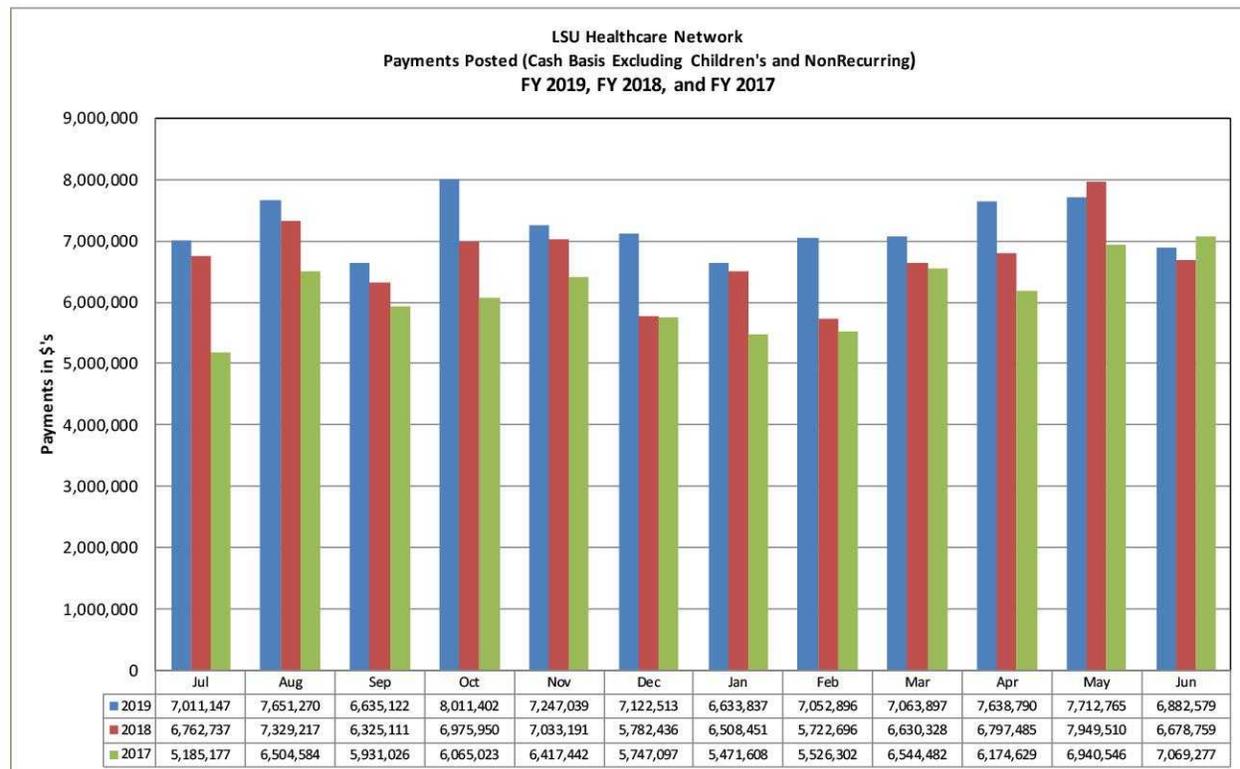
The following chart shows the trend in billable charges for fiscal years 2019, 2018, and 2017:



**LSU HEALTHCARE NETWORK**  
**For the Years Ended June 30, 2019 and 2018**

**Management's Discussion and Analysis**

The following chart shows the trend in payments for patient services for fiscal years 2019, 2018, and 2017:



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 year ending June 30, 2019, charity charges entered into the billing system and adjusted off were \$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 year ended June 30, 2019:

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>
Medicaid	<b>45 %</b>	46 %
Free Care/Indigent	<b>5</b>	4
Medicare	<b>27</b>	26
Managed Care/Insurance	<b>18</b>	19
Self-Pay	<b>5</b>	5
<b>Total Gross Charges</b>	<b>100 %</b>	100 %

**LSU HEALTHCARE NETWORK**  
**For the Years Ended June 30, 2019 and 2018**

**Management's Discussion and Analysis**

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**OPERATING AND FINANCIAL PERFORMANCE**

In 2019, total expenses are \$155 million of which the largest component is the net revenue returned to LSU Health Sciences Center (LSUHSC) of \$98 million. The next largest expense is the Medical Claims Expense of UMG which is for 18 months.

In 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 2019	As of 2018	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	<b>9,644</b>	8,640	1,004	12 %
Less: Accumulated Depreciation and Amortization	<b>(7,622)</b>	(7,546)	(76)	1 %
<b>Capital Assets - Net</b>	<b>\$ 2,022</b>	\$ 1,094	\$ 928	85 %

**LSU HEALTHCARE NETWORK**  
**For the Years Ended June 30, 2019 and 2018**

**Management's Discussion and Analysis**

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In 2018, net capital assets increased by \$0.2 million due primarily to the addition of medical equipment and leasehold improvements.

**Capital Asset Summary**  
**(In Thousands)**

	<b>As of 2018</b>	<b>As of 2017</b>	<b>Dollar Change</b>	<b>Total % Change</b>
Office Furniture and Telephones	\$ 727	\$ 776	\$ (49)	(6) %
Computers and Related Equipment	1,429	1,422	7	0 %
Medical Equipment	2,444	2,285	159	7 %
Leasehold Improvements	986	825	161	20 %
License Fees	3,054	3,079	(25)	(1) %
<b>Totals at Historical Cost</b>	<b>8,640</b>	<b>8,387</b>	<b>253</b>	<b>3 %</b>
Less: Accumulated Depreciation and Amortization	(7,546)	(7,500)	(46)	1 %
<b>Capital Assets - Net</b>	<b>\$ 1,094</b>	<b>\$ 887</b>	<b>\$ 207</b>	<b>23 %</b>

During fiscal year 2019, total current liabilities are \$20.2 million which included an increase of the accrual of the amount due to LSUHSC of \$1.7 million. The ratio of current liabilities to current assets is 1.40. During fiscal year 2018, total current liabilities remained consistent with 2017. The ratio of current assets to current liabilities is 1.48.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

A budget was presented and approved by the Finance Committee in June 2019 for fiscal year 2020. This budget was rolled out to all the practice managers and will be reviewed quarterly to compare actual expenses vs. budget.

LSUHN will build out the building purchased in LaPlace and open a medical office building by late 2019.

UMG should operate as is for the next contract year after the sale of Peoples Health Network but it is unclear what will happen after that.

**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**  
**For the Years Ended June 30, 2019 and 2018**

**Management's Discussion and Analysis**

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**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 the Financial 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.

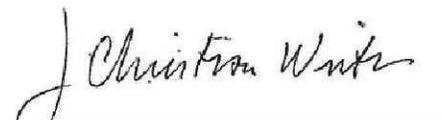
The Board of Directors, through its Executive Finance Committee (the Committee), provides oversight to the financial reporting process. Integral to this process is the Committee's review and discussion with management of the monthly financial statements and the external auditors for the annual financial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



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J. Christian Winters, MD  
Chief Executive Officer

## **BASIC FINANCIAL STATEMENTS**

**LSU HEALTHCARE NETWORK**  
**Statement of Net Position**  
**June 30, 2019**

<b>Assets</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 6,912,126
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$5,220,056)	20,240,435
Due from Related Party	-
Inventory	150,435
Prepaid Expenses	692,526
Other Receivables	303,990
	<hr/>
<b>Total Current Assets</b>	<b>28,299,512</b>
	<hr/>
<b>Capital Assets, Net</b>	<b>2,022,101</b>
	<hr/>
<b>Other Assets</b>	
Deposits	220,247
Investment in PH Holdings, LLC	2,531,213
Other Assets	452,189
Investments, at Fair Value	52,719,626
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<b>Total Other Assets</b>	<b>55,923,275</b>
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<b>Total Assets</b>	<b>\$ 86,244,888</b>
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<b>Liabilities and Net Position</b>	
<b>Current Liabilities</b>	
Accounts Payable and Accrued Liabilities	\$ 2,569,071
Medical Claims Payable	1,800,149
Due to LSU Health Sciences Center	15,793,888
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<b>Total Current Liabilities</b>	<b>20,163,108</b>
	<hr/>
<b>Net Position</b>	
Net Investment in Capital Assets	2,022,101
Unrestricted	64,059,679
	<hr/>
<b>Total Net Position</b>	<b>66,081,780</b>
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<b>Total Liabilities and Net Position</b>	<b>\$ 86,244,888</b>
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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, 2019 for all Components Other than UMG**  
**and for the Eighteen Months Ended June 30, 2019 for UMG**

<b>Operating Revenues</b>	
Net Patient Service Revenue, Net of Provision for Bad Debts of \$9,920,463	\$ 124,824,843
Capitation Revenue	<u>30,260,362</u>
<b>Total Operating Revenues</b>	<u>155,085,205</u>
<b>Operating Expenses</b>	
Personnel - Salaries and Benefits	9,334,072
Leased Employees - Non-Faculty	931,768
Medical Drugs and Supplies	2,097,074
Medical Claims Expense	29,097,349
General and Administrative	15,030,157
Net Revenues Returned to LSUHSC	98,085,960
Depreciation and Amortization	<u>389,784</u>
<b>Total Operating Expenses</b>	<u>154,966,164</u>
<b>Income from Operations</b>	<u>119,041</u>
<b>Non-Operating Income and Expenses</b>	
Investment Income and Other Expenses, Net	<u>35,727,280</u>
<b>Total Non-Operating Income, Net</b>	<u>35,727,280</u>
<b>Change in Net Position</b>	35,846,321
<b>Net Position, Beginning of Year</b>	<u>30,235,459</u>
<b>Net Position, End of Year</b>	<u>\$ 66,081,780</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, 2019 for all Components Other than UMG**  
**and for the Eighteen Months Ended June 30, 2019 for UMG**

<b>Cash Flows from Operating Activities</b>	
Cash Received from Clinic Operations	\$ 120,184,926
Cash Received from Capitation Revenue	30,442,453
Cash Payments for Personnel	(10,219,729)
Cash Payments for Net Revenues Returned to LSUHSC	(96,431,254)
Cash Payments for Supplies and General and Administrative	(16,978,272)
Cash Payments for Medical Claims	<u>(28,562,524)</u>
<b>Net Cash Used in Operating Activities</b>	<u>(1,564,400)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of Capital Assets	<u>(1,317,950)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(1,317,950)</u>
<b>Cash Flows from Investing Activities</b>	
Cash Received for Deposits	7,312
Cash Paid from Deposits	(1,877)
Interest and Dividends, Net of Fees and Taxes Paid	33,634,202
Cash Advances to Equity Investments	(66,666)
Proceeds from Sale of Investments	55,594,024
Purchase of Investments	<u>(88,689,707)</u>
<b>Net Cash Provided by Investing Activities</b>	<u>477,288</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(2,405,062)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>9,317,188</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 6,912,126</u></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, 2019 for all Components Other than UMG**  
**and for the Eighteen Months Ended June 30, 2019 for UMG**

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<b>Reconciliation of Operating Income to Net Cash</b>	
<b>Used in Operating Activities</b>	
Income from Operations	\$ 119,041
Adjustments to Reconcile Income from Operations to	
Net Cash Used in Operating Activities	
Depreciation and Amortization	389,784
Provision for Bad Debt	9,920,463
(Increase) Decrease in Operating Assets	
Patient Accounts Receivable, Net	(14,560,380)
Amounts Due from Related Party	182,091
Inventory	(4,919)
Prepaid Expenses	(204,923)
Other Receivables	(537)
Increase (Decrease) in Operating Liabilities	
Accounts Payable and Accrued Expenses	405,449
Medical Claims Payable	534,825
Due to LSU Health Sciences Center	1,654,706
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<b>Net Cash Used in Operating Activities</b>	<b><u>\$ (1,564,400)</u></b>

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

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### 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 LSUHSC 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 services provided in both the hospitals that participate in cooperative endeavor agreements with the State of Louisiana and the private 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 (LRS) 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.

# LSU HEALTHCARE NETWORK

## Notes to the Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### **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.

#### **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, LSUHN Vascular Lab, 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.

*LSUHN Vascular Lab, LLC* - LSUHN was the sole member of LSUHN Vascular Lab, LLC (LSUHN Vascular). LSUHN Vascular was formed in October 2009 for the purpose of owning and operating an independent vascular laboratory to provide vascular ultrasound testing to patients from the community. There was no activity in fiscal years 2019 or 2018. On January 31, 2019, LSUHN Vascular was dissolved.

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 presented reflect activity for UMG for the eighteen months ended June 30, 2019 to adjust UMG's year end to that of LSUHN. Due to the inconsistent presentation of UMG for the current period, the activities of this period are not comparative with previously reported financial statements.

# LSU HEALTHCARE NETWORK

## Notes to the Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### Use of Estimates

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

For the year ended June 30, 2019, LSUHN's share in the earnings of PH Holdings, LLC was income. Unrelated business income was generated and taxes were paid in the amount of \$13,585,240 which has been recorded in investment income and other expenses, net on the statement of revenues, expenses, and changes in net position. 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.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **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 \$29,521,740 as of June 30, 2019.

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 \$9,920,463 for the period ended June 30, 2019.

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 2019, LSUHN included in patient receivables a receivable of \$7,893,649, related to supplemental payment programs.

UMG has stop-loss insurance coverage with an unaffiliated insurer for charges that exceed certain limits. Amounts recoverable from the unaffiliated insurer, including pharmacy rebate receivables, 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.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Investment in PH Holdings, LLC**

At June 30, 2019, 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 they 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 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

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### 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 eighteen month period ended June 30, 2019, blended component unit UMG recognized favorable development of claims incurred but not reported of approximately \$59,000 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

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#### 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 (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 statements of revenues, expenses, and changes in net position for the period ended June 30, 2019 is \$18,483,451 of anticipated supplemental Medicaid payments.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare and Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis no later than 2010. The program 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 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. LSUHN contracts with these entities and negotiated favorable fee schedules. 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

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Charity Care**

LSUHN provides care 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 period ended June 30, 2019, charity charges entered into the billing system and adjusted off were \$15,934,601.

##### **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 PHN, offers Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare and Medicaid Services (CMS). The CMS premium, the member premium (where applicable), and the low-income premium subsidy represent payments for 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 and included in medical claims expense.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### 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 \$98,085,960 for the period ended June 30, 2019. Amounts still due under the Amended and Restated Uniform Affiliation Agreement at June 30, 2019 were \$15,793,888.

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 \$1,423,855 during the period ended June 30, 2019. As of June 30, 2019, \$478,583 was due to LSUHSC for general support services. These amounts are included in accounts payable and accrued liabilities on the statements of net position.

UMG operates in the Network for PHN. The Network operates under a master operating agreement with PHN, a Medicare Advantage Plan. PHN owns Peoples Health, Inc. (PHI), which is licensed as an HMO under the Louisiana Department of Insurance. Both organizations were acquired by United Healthcare in 2018. The Network provides covered medical services under certain Medicare Advantage HMO, POS, PPO, and prescription drug plans to covered members located in southeast Louisiana.

PHN provides all administrative services necessary for the operation of the Network, including, but not limited to, financial services, medical management, claims processing, member services, and provider relations. This agreement will end on December 31, 2019.

As discussed in Note 1, UMG, the 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, 2019.

The results of UMG's operations could differ from the amounts reported on the accompanying statements of revenues, expenses, and changes in net position if UMG were required to secure all services directly with an unrelated party.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 3. Major Payor

Currently, all contracts between UMG and third-party payors are executed through PHN. UMG, the blended component unit of LSUHN, 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, and 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, 2019. 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.

#### Note 4. 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 \$259,120 of risk score adjustments for the period ended June 30, 2019 which PHN expects to receive in fiscal year 2020 from CMS.

The 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.

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 \$80,850 for the period ended June 30, 2019, which is included in the statements of net position as of June 30, 2019.

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, 2019 financial statements. Assets and liabilities related to the settlement of balances with CMS are included in amounts due from PHN on the statements of net position.

# LSU HEALTHCARE NETWORK

## Notes to the Financial Statements

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### Note 5. 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, 2019 were \$6,779,066. 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, 2019, LSUHN's investments were in equities and debt securities with a maturity dates ranging from 0 - 10 years. The cost and fair value of investments at June 30, 2019 are as follows:

	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Short-Term	\$ 2,440,945	\$ 2,398,552	\$ 42,393
Equities	25,414,770	23,789,128	1,625,642
Fixed Income	24,274,308	23,639,892	634,416
Alternative Assets	589,603	596,718	(7,115)
<b>Total</b>	<b>\$ 52,719,626</b>	<b>\$ 50,424,290</b>	<b>\$ 2,295,336</b>

*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. The Network'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. The Network 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, 2019 were as follows:

Issuer	
FIDELITY 500 INDEX	21%
JPM MANAGED INCOME FD	7%
SIX CIRCLES U.S. UNCONSTRAINED EQUITY FUND	6%

# LSU HEALTHCARE NETWORK

## Notes to the Financial Statements

### Note 5. Deposits, Investments, and Investment Income (Continued)

#### Investments (Continued)

LSUHN categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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, 2019:

	Level 1	Level 2	Level 3	Net Balance
Cash and Short-Term	\$ 2,440,945	\$ -	\$ -	\$ 2,440,945
Equities	25,414,770	-	-	25,414,770
Fixed Income	22,310,911	1,963,397	-	24,274,308
Alternative Assets	589,603	-	-	589,603
<b>Total</b>	<b>\$ 50,756,229</b>	<b>\$ 1,963,397</b>	<b>\$ -</b>	<b>\$ 52,719,626</b>

### Note 6. Capital Assets

Capital asset activity for fiscal year ended June 30, 2019 was as follows:

	Balance 2018	Additions	Deletions	Balance 2019
Office Furniture and Fixtures	\$ 727,312	\$ 41,031	\$ (73,031)	\$ 695,312
Computers and Related Equipment	1,428,939	96,734	-	1,525,673
Medical Equipment	2,443,980	107,077	(240,974)	2,310,083
Leasehold Improvements	824,416	215,664	-	1,040,080
Building	-	785,862	-	785,862
License Fees	3,215,284	71,582	-	3,286,866
<b>Total at Historical Cost</b>	<b>8,639,931</b>	<b>1,317,950</b>	<b>(314,005)</b>	<b>9,643,876</b>
Less: Accumulated Depreciation and Amortization	(7,545,996)	(389,784)	314,005	(7,621,775)
<b>Capital Assets, Net</b>	<b>\$ 1,093,935</b>	<b>\$ 928,166</b>	<b>\$ -</b>	<b>\$ 2,022,101</b>

Depreciation and amortization expense amounted to \$389,784 for the period ended June 30, 2019.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 7. Investment in PH Holdings, LLC

As of June 30, 2019, UMG holds less than a 20% investment interest in PH Holdings, LLC (PHH), which amounted to \$2,531,213, and accounts for the investment under the cost method.

On May 23, 2018, at a special meeting of the Board of Managers of PHH determined to sell PHH's interests in PHN, Capital City Medical Group, L.L.C. (CCMG), and PHI to UnitedHealthcare, Inc. (United). Following that meeting, PHH provided to all of the Unitholders of PHH a notice of a special meeting on June 2, 2018 to consider and vote on the approval of the transaction. Ultimately, this sale was agreed to and was completed on or about September 1, 2018.

Certain proceeds from the sale were distributed to LSUHN in the form of dividends. Those dividends and the unrelated business income taxes incurred on those dividends are recorded as investment income and other expenses, net on the statement of revenues, expenses, and changes in net position. Additional payments may be received on or about September 1, 2020 dependent upon uncertain future events.

#### Note 8. 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 \$452,189 for the year ended June 30, 2019.

#### Note 9. Lease Commitments

##### Operating Leases

LSUHN leases office space and equipment under operating leases that expire at various dates through 2023. Certain of the lease agreements provide for escalations based on cost of operations. Minimum annual lease payments as of June 30, 2019, are as follows:

Year Ending June 30,	Amount
2020	\$ 956,710
2021	447,180
2022	251,650
2023	7,832
2024	-
<b>Total</b>	<b><u>\$ 1,663,372</u></b>

Total rent expense for the period ended June 30, 2019 was \$2,262,954 and is included in general and administrative expenses on the statement of revenues, expenses, and changes in net position.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 10. 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 period ended June 30, 2019, 401(k) plan expenses were \$291,720.

#### Note 11. Concentrations of Credit Risk

LSUHN provides services in New Orleans, 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. The mix of receivables from its patients and third-party payors at June 30, 2019 was as follows:

Medicaid	38 %
Commercial	27
Medicare	25
Self-Pay	10
	<hr/>
<b>Total</b>	<b>100 %</b>
	<hr/> <hr/>

#### Note 12. Malpractice Insurance Coverage

The physicians contracted to LSUHN by LSUHSC are provided professional liability coverage by LSUHSC in accordance with the provisions of LA. 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.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 13. 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.

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.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 14. 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.

LSUHN has a management services agreement with Diagnostic Imaging Services (DIS) to manage and operate the low-modality imaging center in the St. Charles Clinic. LSUHN reimburses DIS for wages and fringes of the DIS employees and an additional 15% fee for overhead as set in the agreement. The agreement extends through May 31, 2020.

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 upon an agreed upon schedule. As of June 30, 2019, \$1,000,000 has been paid to LSU School of Medicine to satisfy this commitment.

#### Note 15. Line of Credit

On May 1, 2019, LSUHN executed an agreement allowing LSUHN to borrow up to \$20,500,000. Any borrowings under this agreement bear interest at a variable rate unless LSUHN specifically requests a fixed rate. The variable rate or fixed rate would be determined at the time of the borrowing and would include an additional margin rate of 1.05%. This agreement expires April 30, 2021 but may be terminated by either party at any time. As of June 30, 2019, no amounts had been borrowed under this agreement.

## LSU HEALTHCARE NETWORK

### Notes to the Financial Statements

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#### Note 16. Combining Schedules

The following tables include condensed combining statements of net position and condensed combining statements of revenues, expenses, and changes in net position information for LSUHN and its active blended component units as of and for the period ended June 30, 2019:

	LSUHN, LSUHN Billing, LSUHN Vascular			UMG	Eliminations	Total
Current Assets	\$ 21,431,605	\$ 6,867,907	\$ -	\$ -	\$ 28,299,512	
Capital Assets, Net	2,022,101	-	-	-	2,022,101	
Other Assets	60,844,100	2,531,213	(7,452,038)		55,923,275	
Total Assets	<u>\$ 84,297,806</u>	<u>\$ 9,399,120</u>	<u>\$ (7,452,038)</u>		<u>\$ 86,244,888</u>	
Total Liabilities	\$ 18,216,026	\$ 1,947,082	\$ -	\$ -	\$ 20,163,108	
Net Position	66,081,780	7,452,038	(7,452,038)		66,081,780	
Total Liabilities and Net Position	<u>\$ 84,297,806</u>	<u>\$ 9,399,120</u>	<u>\$ (7,452,038)</u>		<u>\$ 86,244,888</u>	
Operating Revenues	\$ 124,824,843	\$ 30,260,362	\$ -	\$ -	\$ 155,085,205	
Depreciation and Amortization	389,784	-	-	-	389,784	
Other Operating Expenses	125,353,880	29,222,500	-	-	154,576,380	
Operating Income (Loss)	(918,821)	1,037,862	-	-	119,041	
Non-Operating Revenues (Expenses)	36,765,142	-	(1,037,862)		35,727,280	
Change in Net Position	<u>\$ 35,846,321</u>	<u>\$ 1,037,862</u>	<u>\$ (1,037,862)</u>		<u>\$ 35,846,321</u>	

#### Note 17. Recent Reporting and Disclosure Developments

As of June 30, 2019, 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 December 15, 2019. Management is currently evaluating the impact that GASB Statement No. 87 will have on the financial statements.

#### Note 18. Subsequent Events

Management has evaluated subsequent events through September 3, 2019, the date that the financial statements were available to be issued, and have determined that no events have occurred that require disclosure.

**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

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 years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise LSUHN's basic statements, and have issued our report thereon dated September 3, 2019.

**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) to determine the 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 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 handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA  
September 3, 2019