

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

Management's Discussion and Analysis,
Financial Statements as of and
for the Years Ended June 30, 2018 and 2017,
and Independent Auditor's Report



Contents

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

Management's Discussion and Analysis	4 - 12
---	--------

Basic Financial Statements

Statements of Net Position	14
----------------------------	----

Statements of Revenues, Expenses, and Changes in Net Position	15
---	----

Statements of Cash Flows	16
--------------------------	----

Notes to the Financial Statements	17 - 35
-----------------------------------	---------

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>	36 - 37
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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, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise LSUHN's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of University Medical Group, LLC (UMG), a wholly-owned component unit, which statements reflect total assets constituting 17% and 23% of total assets as of June 30, 2018 and 2017, respectively, and total revenues constituting 15% of total operating revenues for the years ended June 30, 2018 and 2017, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UMG, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of UMG were not audited in accordance with *Government Auditing Standards*.

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.

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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.

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of LSUHN as of June 30, 2018 and 2017, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 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 August 24, 2018 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control 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

Covington, LA
August 24, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

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, 2018. 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 a different fiscal year end than LSUHN. While different, it does not adversely affect the timely and accurate presentation of the financial statements of LSUHN.

The *Statements 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 both the current year and the prior year. They also provide the basis for evaluating the capital structure of LSUHN and assessing the liquidity and financial flexibility of LSUHN.

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

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

The annual 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, 2018 and 2017

Management's Discussion and Analysis

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, and increase efficiency of staff.

There have been other changes in the facilities operated by LSUHN. The main clinic is still LSUHN's multi-specialty-flagship clinic located at 3700 St. Charles Avenue (St. Charles Clinic) near Touro Infirmary, however LSUHN is no longer the only tenant. Over the last year, clinics have moved reducing the footprint from 7 floors to only 4. Some of the clinics moved from the St. Charles Clinic to a new clinic location on the LSU Health Science Center Campus at 2025 Gravier 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 Clinic since LSUHN is no longer the only tenant.

LSUHN continued during FY17 to operate clinic sites in the New Orleans area in medical office buildings adjacent to Ochsner Kenner, Ochsner WestBank (in conjunction with PHN Primary Care Plus), East Jefferson Hospital, West Jefferson Hospital, as well as a private clinic in Baton Rouge. LSUHN's physicians provide services in hospital-based clinics at University Medical Center of New Orleans, Ochsner Kenner, East Jefferson, Our Lady of the Lake in Baton Rouge, and University Medical Center in Lafayette. LSUHN operated two suites in the Ochsner Kenner Medical Office building, but moved the Orthopedic clinic that was in one of the suites to a free standing medical office building in the Kenner area. The Multispecialty clinic still remains in the Ochsner Kenner building.

During FY18, LSUHN became a partial owner of Southlake Surgery Center, a surgical outpatient center in LaPlace, and certain 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 its efforts to where LSUHN can expand their existing services.

LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

Management's Discussion and Analysis

As noted earlier, net position may serve over time as a useful indicator of LSUHN's financial position. In 2018 and 2017, assets exceeded liabilities by \$30.2 million and \$30.7 million, respectively. LSUHN's investment in capital assets is the amount they have invested in equipment, leasehold improvements and license fees less any related accumulated depreciation and related debt used to acquire those assets that are still outstanding. LSUHN uses these capital assets to provide services; consequently, these assets are not available for future spending.

In 2018 and 2017, LSUHN's net position decreased by \$0.5 million and increased by \$2.2 million, respectively. The change in the amount of the decrease between current and prior year is discussed in the succeeding paragraphs.

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

	June 30,		
	2018	2017	2016
	(Dollars in Thousands)		
Assets			
Current and Other Assets	\$ 46,710	\$ 47,431	\$ 44,074
Capital Assets	1,094	887	1,092
Total Assets	\$ 47,804	\$ 48,318	\$ 45,166
Liabilities			
Other Liabilities	\$ 17,568	\$ 17,617	\$ 16,675
Total Liabilities	17,568	17,617	16,675
Net Position			
Net Investment in Capital Assets	1,094	887	1,092
Unrestricted	29,142	29,814	27,399
Total Net Position	30,236	30,701	28,491
Total Liabilities and Net Position	\$ 47,804	\$ 48,318	\$ 45,166

LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

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,		
	2018	2017	2016
	(Dollars in Thousands)		
Operating Revenues			
Net Patient Service Revenue	\$ 110,924	\$ 103,870	\$ 84,055
Capitation Revenue	19,101	18,485	20,143
Grant Revenue	-	195	278
Total Operating Revenues	130,025	122,550	104,476
Operating Expenses			
Operating and Administrative	111,244	104,622	81,195
Medical Claims Expense	17,743	17,525	17,962
Depreciation and Amortization	365	560	794
Total Operating Expenses	129,352	122,707	99,951
Income (Loss) from Operations	673	(157)	4,525
Non-Operating Income and Expenses			
Interest Income and Other Income and Expenses, Net	(1,138)	2,367	(134)
Change in Net Position	(465)	2,210	4,391
Net Position, Beginning of Year	30,701	28,491	24,100
Net Position, End of Year	\$ 30,236	\$ 30,701	\$ 28,491

During fiscal years 2018 and 2017, the practice generated 85% of its total revenues from patient care, with the other 15% being derived primarily from capitation revenue from University Medical Group (UMG). There was an increase in total operating revenues of \$7.5 million from fiscal year 2017 to fiscal year 2018 and an increase in total operating revenues of \$18.1 million from fiscal year 2016 to fiscal year 2017. This is due primarily to an increase in services at University Medical Center New Orleans as a result of expanded Medicaid and insurance under the Affordable Care Act. During fiscal years 2018 and 2017, Net Patient Service Revenue for LSUHN, excluding revenue collected at Children's Hospital (Children's), Full Medicaid Payment revenues (FMP) and Upper Payment Limit revenues (UPL), increased by \$7.5 million and \$14.1 million, respectively. Visits at the LSUHN managed clinics increased from 143,526 to 144,911 from fiscal years 2017 to 2018.

LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

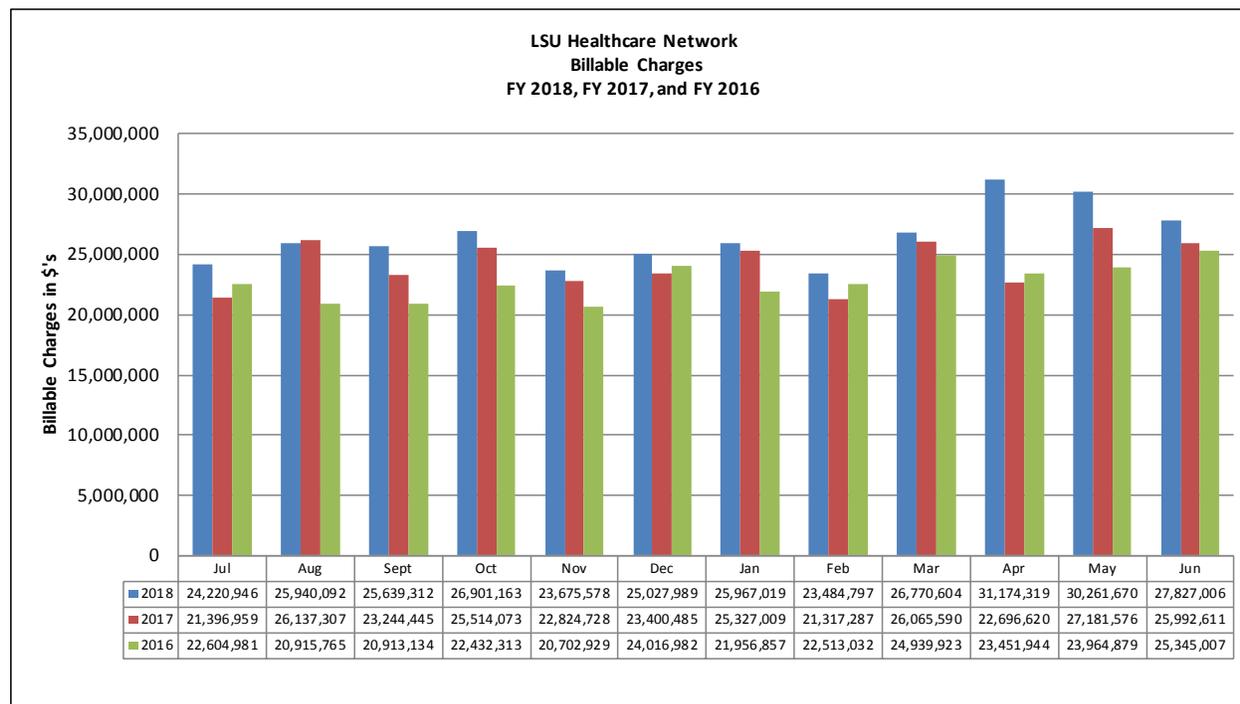
Management’s Discussion and Analysis

In fiscal year 2018, overall cash collections for Patient Services increased by 11% with a 4% decrease in the LSUHN managed clinics and an increase of 24% for business in the partner hospitals “contract business” (excluding UPL and FMP collections). Overall, cash collections increased by 2%. During fiscal year 2018, there was a large increase in cash collections due to the expanded insurance coverage mentioned in the previous paragraph on the contract business. Children’s revenue remained somewhat consistent with a 3% decrease in fiscal year 2018 compared to a 1% decrease in fiscal year 2017.

In fiscal year 2017, overall cash collections for Patient Services increased by 2.6% with a 2% increase in the LSUHN managed clinics and 5.6% on the contract business. During fiscal year 2017, there was a large increase in cash collections due to the added service lines mentioned in the previous paragraph.

Supplemental Medicaid payments, which include Upper Payment Limit and Full Medicaid Payment, UPL and FMP revenues, included in Net Patient Service Revenue, were \$11.8 million and \$11.7 million for fiscal years 2018 and 2017, respectively. Total Operating Revenue increased 6% for fiscal year 2018 compared to an increase of 17% in fiscal year 2017.

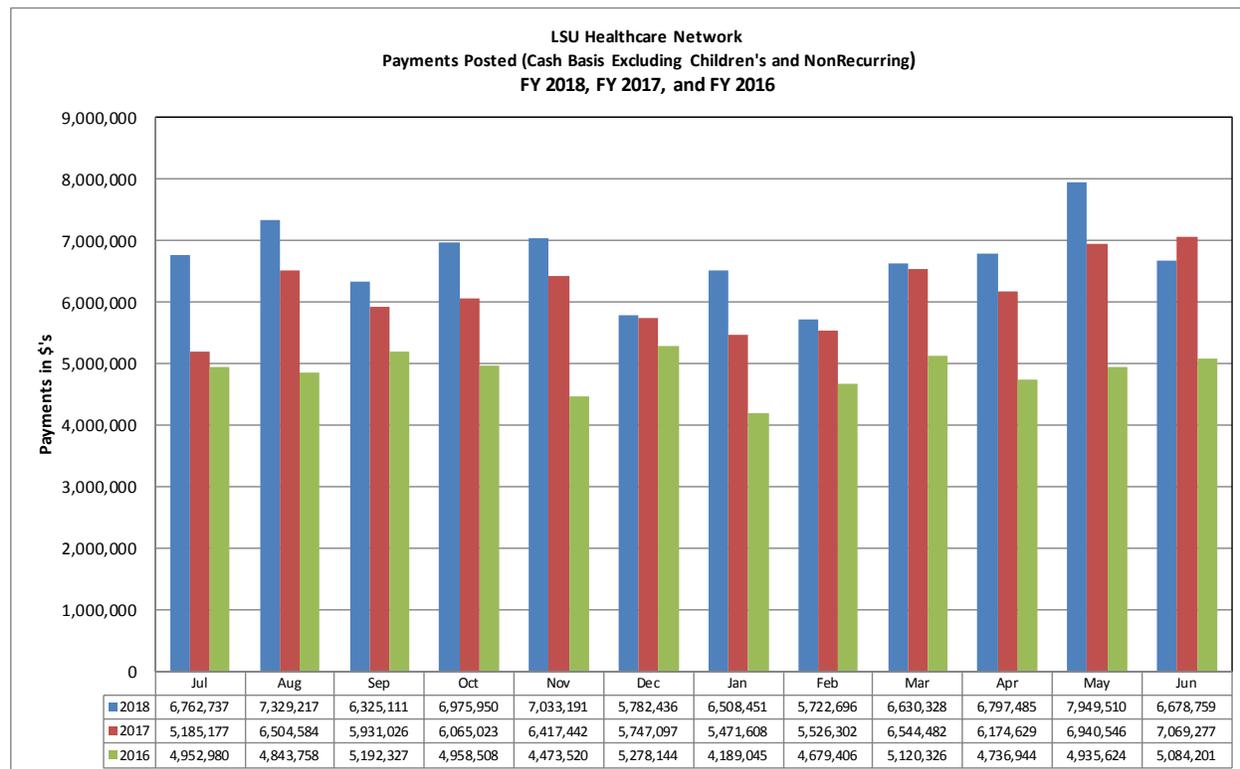
The following chart shows the trend in billable charges for fiscal years 2018, 2017, and 2016:



LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

Management's Discussion and Analysis

The following chart shows the trend in payments for patient services for fiscal years 2018, 2017, and 2016:



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 years ended June 30, 2018 and 2017, charity charges entered into the billing system and adjusted off were \$13.8 million and \$16.0 million, respectively, which is a decrease of \$2.2 million. The decrease is due to the continued affect of Medicaid expansion which took effect July 1, 2016 and the Affordable Care Act. This resulted in fewer individuals applying for charity care due to their ability to have full Medicaid coverage.

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 years ended June 30, 2018 and 2017:

	Fiscal Year 2018	Fiscal Year 2017
Medicaid	46 %	44 %
Free Care/Indigent	4	5
Medicare	26	28
Managed Care/Insurance	19	19
Self-Pay	5	4
Total Gross Charges	100 %	100 %

LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

Management's Discussion and Analysis

OPERATING AND FINANCIAL PERFORMANCE

In 2018, total expenses increased by \$6.6 million. This is due to an increase in contracted faculty from LSU Health Sciences Center (LSUHSC) of \$7 million.

In 2017, total practice expense increased by \$1.4 million. Personnel decreased by \$0.47 million since some budgeted positions were not filled. Medical drugs also decreased by \$0.1 million which is mostly due to decreased injectable drugs being administered. Medical supplies decreased by \$0.06 million mostly due to reduced supplies by radiology and oral surgery. Billing and collections fees increased by \$2.1 million primarily due to the decreased UPL cash payment.

In 2018, the net revenues returned to LSUHSC increased by \$7 million. This includes an increase to the accrual for future amounts payable to LSUHSC based on patient service accounts receivable of \$1.1 million. Therefore, the actual cash payment increased \$5.9 million.

In 2017, the Net Revenues returned to LSUHSC were \$80.0 million, which is an increase of \$21.8 million over the prior year. This includes a decrease to the accrual for future amounts payable to LSUHSC based on patient service accounts receivable of \$1.7 million. Therefore, the actual cash payment increased by \$23.5 million. During fiscal year 2017, collections were much higher than expenses which resulted in a larger transfer to the school.

In 2018, 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 2018	As of 2017	Dollar Change	Total % Change
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) %
Totals at Historical Cost	8,640	8,387	253	3 %
Less: Accumulated Depreciation and Amortization	(7,546)	(7,500)	(46)	1 %
Capital Assets - Net	\$ 1,094	\$ 887	\$ 207	23 %

LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

Management's Discussion and Analysis

In 2017, net capital assets decreased by \$0.2 million due primarily to the retirement of assets. Medical record licensing was the largest capital expenditure of \$140,000.

Capital Asset Summary
(In Thousands)

	As of 2017	As of 2016	Dollar Change	Total % Change
Office Furniture and Telephones	\$ 776	\$ 799	\$ (23)	(3) %
Computers and Related Equipment	1,422	1,435	(13)	(1) %
Medical Equipment	2,285	2,324	(39)	(2) %
Leasehold Improvements	825	735	90	12 %
License Fees	3,079	2,984	95	3 %
Totals at Historical Cost	8,387	8,277	110	1 %
Less: Accumulated Depreciation and Amortization	(7,500)	(7,186)	(314)	4 %
Capital Assets - Net	\$ 887	\$ 1,091	\$ (204)	(19) %

During fiscal year 2018, total current liabilities remained consistent with 2017. The ratio of current assets to current liabilities is 1.48. During fiscal year 2017, total current liabilities increased by \$0.9 million mainly due to the accrued future payable to LSUHSC. The ratio of current assets to current liabilities is 1.55.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A budget was presented and approved by the Finance Committee in June 2018 for fiscal year 2019. This budget was rolled out to all the practice managers and will be reviewed quarterly to compare actual expenses vs. budget.

LSUHN will continue to look for new space and markets to enter to increase revenue and provide services where there is a need. Currently, leasing a second floor at the Metairie clinic is in the works as well as a cardiology provider starting to provide services in the Slidell area. A consultant will be providing recommendations soon as to how and where to expand additional services.

PHH, Inc., the Holding company of Peoples Health Network, which manages UMG (and UMG is an owner of PHH, Inc.) is being bought by another commercial carrier. UMG should operate as is for the next year during the transition but unclear what will happen after that. As an owner of PHH, Inc., UMG is anticipated to receive significant proceeds from the sale of its stock in PHH, Inc. over the next 1 - 3 years. This will cause a taxable event for LSUHN as the sale of this asset will be considered unrelated business income.

LSU HEALTHCARE NETWORK
For the Years Ended June 30, 2018 and 2017

Management's Discussion and Analysis

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, 2025 Gravier Street, Suite 601, New Orleans, LA 70112.

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.

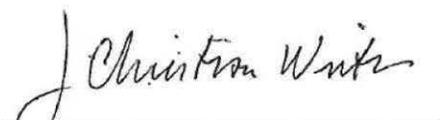
The Board of Directors, through its Executive Finance Committee (the Committee), provides oversight to the financial reporting process. Integral to this process is the Committee's review and discussion with management of the financial statements and the external auditors for the annual financial statements.

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 will monitor the operations and internal control system and report findings and recommendations to management and the Board of Directors as appropriate. Corrective actions are taken to address control deficiencies and other opportunities for improvement as they are identified.

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



J. Christian Winters, MD
Chief Executive Officer

BASIC FINANCIAL STATEMENTS

LSU HEALTHCARE NETWORK
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 9,317,188	\$ 12,578,241
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$5,761,514 in 2018 and \$5,503,798 in 2017)	15,600,518	13,494,449
Due from Related Party	182,091	-
Inventory	145,516	145,815
Prepaid Expenses	487,603	629,737
Other Receivables	303,453	432,590
Total Current Assets	26,036,369	27,280,832
Capital Assets, Net	1,093,935	886,789
Other Assets		
Due from Related Party - Other	-	182,091
Deposits	225,682	231,876
Investment in PH Holdings, LLC	2,531,213	2,531,213
Other Assets	388,507	-
Investments, at Fair Value	17,527,881	17,205,259
Total Other Assets	20,673,283	20,150,439
Total Assets	\$ 47,803,587	\$ 48,318,060
Liabilities and Net Position		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 2,163,622	\$ 2,817,702
Medical Claims Payable	1,265,324	1,048,990
Due to LSU Health Sciences Center	14,139,182	13,750,572
Total Current Liabilities	17,568,128	17,617,264
Net Position		
Net Investment in Capital Assets	1,093,935	886,789
Unrestricted	29,141,524	29,814,007
Total Net Position	30,235,459	30,700,796
Total Liabilities and Net Position	\$ 47,803,587	\$ 48,318,060

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

LSU HEALTHCARE NETWORK
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$9,852,261 in 2018 and \$9,154,882 in 2017	\$ 110,924,311	\$ 103,870,498
Capitation Revenue	19,101,178	18,485,054
Grant Revenue	-	195,216
	<hr/>	<hr/>
Total Operating Revenues	130,025,489	122,550,768
Operating Expenses		
Personnel - Salaries and Benefits	8,703,695	8,575,132
Leased Employees - Non-Faculty	466,352	402,895
Medical Drugs and Supplies	1,617,930	1,566,802
Medical Claims Expense	17,743,479	17,525,464
General and Administrative	13,644,365	14,121,860
Net Revenues Returned to LSUHSC	86,811,691	79,955,093
Depreciation and Amortization	364,866	560,348
	<hr/>	<hr/>
Total Operating Expenses	129,352,378	122,707,594
Income (Loss) from Operations	673,111	(156,826)
Non-Operating Income and Expenses		
Investment Income and Other Expenses, Net	(1,138,448)	2,367,240
	<hr/>	<hr/>
Total Non-Operating (Expenses) Income, Net	(1,138,448)	2,367,240
Change in Net Position	(465,337)	2,210,414
Net Position, Beginning of Year	30,700,796	28,490,382
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Net Position, End of Year	\$ 30,235,459	\$ 30,700,796
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The accompanying notes are an integral part of these financial statements.

LSU HEALTHCARE NETWORK
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash Received from Clinic Operations	\$ 108,818,242	\$ 107,439,841
Cash Received from Grant Revenue	229,586	145,473
Cash Received from Capitation Revenue	19,101,178	18,578,742
Cash Payments for Personnel	(9,122,252)	(8,892,510)
Cash Payments for Net Revenues Returned to LSUHSC	(86,423,081)	(79,338,652)
Cash Payments for Supplies and General and Administrative	(15,922,186)	(15,253,271)
Cash Payments for Medical Claims	(17,527,145)	(17,929,226)
Net Cash (Used in) Provided by Operating Activities	(845,658)	4,750,397
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(574,551)	(366,261)
Net Cash Used in Capital and Related Financing Activities	(574,551)	(366,261)
Cash Flows from Investing Activities		
Cash Received from Deposits	6,194	1,500
Interest, Dividend, and Settlement Income Received	741,161	1,993,335
Purchase of Investment in Other Assets	(453,312)	-
Proceeds from Sale of Investments	7,971,377	5,560,483
Purchase of Investments	(10,106,264)	(17,528,262)
Net Cash Used in Investing Activities	(1,840,844)	(9,972,944)
Net Decrease in Cash and Cash Equivalents	(3,261,053)	(5,588,808)
Cash and Cash Equivalents, Beginning of Year	12,578,241	18,167,049
Cash and Cash Equivalents, End of Year	\$ 9,317,188	\$ 12,578,241
Reconciliation of Operating Income to Net Cash (Used in) Provided by Operating Activities		
Income (Loss) from Operations	\$ 673,111	\$ (156,826)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash (Used in) Provided by Operating Activities		
Depreciation and Amortization	364,866	560,348
Provision for Bad Debt	9,852,261	9,154,882
(Increase) Decrease in Operating Assets		
Patient Accounts Receivable, Net	(11,958,330)	(5,585,539)
Amounts Due from Related Party	-	93,688
Inventory	299	(40,815)
Prepaid Expenses	142,134	(93,901)
Other Receivables	129,137	(123,423)
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	(654,080)	729,304
Medical Claims Payable	216,334	(403,762)
Due to LSU Health Sciences Center	388,610	616,441
Net Cash (Used in) Provided by Operating Activities	\$ (845,658)	\$ 4,750,397

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 LSUHSC or to the Louisiana State University Medical Center 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 public hospitals 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

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 is 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 2018 or 2017.

LSUHN and its blended component unit UMG do not share common fiscal year ends. For the years ended June 30, 2018 and 2017, the financial statements presented reflect activity for UMG for the years ended December 31, 2017 and 2016, respectively. Due to the consistent operations of UMG, the presentation of different fiscal year ends does not cause inconsistencies with any comparative financial statement presentations or note disclosures. For the year ended December 31, 2017, UMG paid dividends to LSUHN in the amount of \$5,000,000. Of this amount, \$2,400,000 of dividends was received by LSUHN in fiscal year ended June 30, 2017.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

Due to the timing difference as a result of different fiscal year ends, this dividend was not eliminated and is presented as non operating income (expense) on the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017.

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, 2018, LSUHN's share in the earnings of PH Holdings, LLC was income. However, there were sufficient passive activity losses to offset any taxes owed. For the year ended June 30, 2017, LSUHN's share in the earnings of PH Holdings, LLC was a loss; therefore, no unrelated business income was generated and no taxes were paid or accrued. 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

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 \$31,372,733 and \$30,324,845, as of June 30, 2018 and 2017, respectively.

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 \$9,852,261 and \$9,154,882, for the years ended June 30, 2018 and 2017, respectively.

LSUHN participates in state Medicaid supplemental payment programs (Upper Payment Limit and Full Medicaid Payment) which are not subject to the allowances established by management. In 2018 and 2017, LSUHN included in patient receivables a receivable of \$5,713,187 and \$4,169,889, respectively, 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 statements of net position.

Due from Related Party - Other

This amount represents premium withheld from UMG by New Orleans Regional Physician Hospital Organization, Inc. (NORPHO) to allow the Louisiana Department of Insurance (PHI) to hold an amount to satisfy regulatory requirements at PHI. The amount or a portion thereof will be paid to UMG if the Network is dissolved, if UMG ceases operations and satisfies all obligations, if the regulatory requirements change, or when UMG experiences a significant change in its operations. During 2017, the regulatory requirement for the withhold was lifted and UMG received the funds in early 2018.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Investment in PH Holdings, LLC

At June 30, 2018 and 2017, 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. During 2018 and 2017, the net increase in the fair value of LSUHN's marketable securities was \$338,357 and \$195,551, respectively.

Medical Claims Payable

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

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

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Medical Claims Payable (Continued)

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

During the years ended December 31, 2017 and 2016, blended component unit UMG recognized adverse development of claims incurred but not reported of approximately \$97,000 and \$82,000, respectively, due to changes in estimates of the unpaid medical claims liability. These changes in estimates resulted from the actual frequency and severity of claims differing from original estimates.

Net Position

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

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

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

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

Operating versus Non-Operating Revenue and Expenses

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

Patient Service Revenue Net of Contractual Adjustments and Allowances

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

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

LSUHN has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and Coordinated Care Networks (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 years ended June 30, 2018 and 2017, are \$11,793,357 and \$11,672,422, respectively, 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 three (3) 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

Note 1. Summary of Significant Accounting Policies (Continued)

Charity Care

LSUHN provides care to patients in the Louisiana public hospital system without regard to their ability to pay for those services. LSUHN does not pursue collection of charges generated from providing services to patients that are determined to qualify for charity care and, as a result, these charges are not reported as revenue. The hospital and clinic partners of LSUHN determine when the criteria are met for a patient to qualify for charity care, at which point the charges are written off. The records are maintained by each of these hospital and clinic partners. During the years ended June 30, 2018 and 2017, charity charges entered into the billing system and adjusted off were \$13,834,596 and \$16,000,970, respectively.

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.

Grant Revenue

LSUHN was a subrecipient of a federal grant awarded to LSUHSC to provide a nurse practitioners clinic to serve the under-privileged population. This grant ended on June 30, 2017. As of June 30, 2017, \$195,216 was included as revenue on the statements of revenues, expenses, and changes in net position. As of June 30, 2017, \$229,586 of these grant revenues was included in other receivables on the statements of net position.

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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

New Accounting Pronouncements Adopted

During the year ended June 30, 2018, LSUHN adopted GASB Statement No. 85, *Omnibus 2017*. The objective of this Standard is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post employment benefits. There was no impact on LSUHN's 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 \$86,811,691 and \$79,955,093, respectively, for the years ended June 30, 2018 and 2017. Amounts still due under the Amended and Restated Uniform Affiliation Agreement at June 30, 2018 and 2017, were \$14,139,182 and \$13,750,572, respectively.

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 \$876,366 and \$551,171, during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, \$73,549 and \$48,792, respectively, was due to LSUHSC for general support services. These amounts are included in accounts payable and accrued liabilities on the statements of net position.

Several independent physician associations, including UMG, operate as 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. The Network provides covered medical services under certain Medicare Advantage HMO, POS, PPO, and prescription drug plans to covered members located in southeast Louisiana.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 2. Related Party Transactions (Continued)

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.

Prior to December 9, 2011, UMG held less than a 20% investment interest in PHN and accounted for the investment under the cost method. On December 9, 2011, UMG redeemed its shares in PHN and invested in PH Holdings, LLC, a Louisiana limited liability company established on November 15, 2011. As a result of these transactions, PHN became a wholly-owned subsidiary of PH Holdings, LLC. UMG holds less than a 20% investment interest in PH Holdings, LLC.

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, 2018.

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.

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 for 2018. 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 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 \$48,785 of risk score adjustments for 2017, which PHN expects to receive in 2018 from CMS. During 2017, PHN advanced \$63,743 of this amount to UMG, with a payable of \$14,959 remaining at December 31, 2017, on the accompanying statements of net position. At December 31, 2016, UMG recorded a receivable of \$22,669 for estimated risk score adjustments to 2016 revenue. During 2017, UMG received payment for the final settlement of 2016 revenue, which resulted in an increase to premium revenue of \$14,351. During 2016, UMG received payment for the final settlement of 2015 revenue, which resulted in an increase to premium revenue of \$28,682.

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 a liability of \$109,946 for the 2017 plan year, which is included in the statements of net position as of June 30, 2018. UMG recorded a liability of \$481,774 for the 2016 plan year, for its share of the Network's plan settlements with CMS. In 2017, the Network received notification from CMS related to the reconciliation and final settlement of the 2016 Network Part D plan. UMG's share of the 2016 final settlement liability resulted in a decrease to premium revenue of \$31,413. In 2016, the Network received notification from CMS related to the reconciliation and final settlement of the 2015 Network Part D plan. UMG's share of the 2015 final settlement liability resulted in a decrease to premium revenue of \$33,143.

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, 2018 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

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, 2018 and 2017 were \$5,400,372 and \$5,145,527, respectively. 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 publically 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, 2018 and 2017, 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, 2018 and 2017, are as follows:

June 30, 2018	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Short-Term	\$ 1,697,740	\$ 1,708,354	\$ (10,614)
Equities	7,574,061	7,059,247	514,814
Fixed Income	7,759,849	7,925,707	(165,858)
Alternative Assets	496,231	496,216	15
Total	\$ 17,527,881	\$ 17,189,524	\$ 338,357

June 30, 2017	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Short-Term	\$ 6,304,582	\$ 6,269,603	\$ 34,979
Equities	4,801,090	4,642,348	158,742
Fixed Income	5,856,881	5,855,668	1,213
Mutual Funds	242,706	242,089	617
Total	\$ 17,205,259	\$ 17,009,708	\$ 195,551

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

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

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

Investments (Continued)

Concentration of Credit Risk: LSUHN invests in money market funds which are not insured or guaranteed by the U.S. Government; however, management believes the credit risk related to these investments is minimal. 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, 2018 and 2017, were as follows:

Issuer	2018	2017
SPDR S&P 500 Trust ETF	13%	11%
ISHARES MSCI INDEX	7%	-
FIDELITY 500 INDEX	5%	-

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, 2018 and 2017:

June 30, 2018	Level 1	Level 2	Level 3	Net Balance
Cash and Short-Term	\$ 1,491,046	\$ 206,694	\$ -	\$ 1,697,740
Equities	7,574,061	-	-	7,574,061
Fixed Income	7,360,629	399,220	-	7,759,849
Alternative Assets	496,231	-	-	496,231
Total	\$ 16,921,967	\$ 605,914	\$ -	\$ 17,527,881

June 30, 2017	Level 1	Level 2	Level 3	Net Balance
Cash and Short-Term	\$ 6,304,582	\$ -	\$ -	\$ 6,304,582
Equities	4,801,090	-	-	4,801,090
Fixed Income	5,087,015	769,866	-	5,856,881
Mutual Funds	242,706	-	-	242,706
Total	\$ 16,435,393	\$ 769,866	\$ -	\$ 17,205,259

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 6. Capital Assets

Capital asset activity for fiscal year ended June 30, 2018 and 2017, was as follows:

	Balance 2017	Additions	Deletions	Balance 2018
Office Furniture and Fixtures	\$ 776,287	\$ 4,001	\$ (52,976)	\$ 727,312
Computers and Related Equipment	1,422,255	6,684	-	1,428,939
Medical Equipment	2,284,429	265,864	(106,313)	2,443,980
Leasehold Improvements	824,935	161,543	(162,062)	824,416
License Fees	3,078,825	136,459	-	3,215,284
Total at Historical Cost	8,386,731	574,551	(321,351)	8,639,931
Less: Accumulated Depreciation and Amortization	(7,499,942)	(364,866)	318,812	(7,545,996)
Capital Assets, Net	\$ 886,789	\$ 209,685	\$ (2,539)	\$ 1,093,935

	Balance 2016	Additions	Deletions	Balance 2017
Office Furniture and Fixtures	\$ 799,040	\$ -	\$ (22,753)	\$ 776,287
Computers and Related Equipment	1,434,562	11,319	(23,626)	1,422,255
Medical Equipment	2,323,866	139,563	(179,000)	2,284,429
Leasehold Improvements	735,346	101,106	(11,517)	824,935
License Fees	2,984,402	114,273	(19,850)	3,078,825
Total at Historical Cost	8,277,216	366,261	(256,746)	8,386,731
Less: Accumulated Depreciation and Amortization	(7,185,626)	(560,348)	246,032	(7,499,942)
Capital Assets, Net	\$ 1,091,590	\$ (194,087)	\$ (10,714)	\$ 886,789

Depreciation and amortization expense amounted to \$364,866 and \$560,348, for the fiscal years ended June 30, 2018 and 2017, respectively.

Note 7. Other Assets

Investment in PH Holdings, LLC

As mentioned in Note 2, UMG held less than a 20% investment in PHN. On December 9, 2011, UMG redeemed its shares in PHN and invested in PH Holdings, LLC, a limited liability corporation established on November 15, 2011. As a result of these transactions, PHN became a wholly-owned subsidiary of PH Holdings, LLC. As of June 30, 2018 and 2017, 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. In 2018 and 2017, UMG did not receive distributions from PH Holdings, LLC.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 7. Other Assets (Continued)

Investment in PH Holdings, LLC (Continued)

As mentioned in Note 1, LSUHN has a 33% investment in Insight Holding Group, LLC and Southlake Surgery Center, LLC which amounted to \$388,507 for the year ended June 30, 2018.

Note 8. 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, 2018, are as follows:

Year Ending June 30,	Amount
2019	\$ 2,083,956
2020	569,238
2021	376,122
2022	259,530
2023	<u>106,024</u>
Total	<u><u>\$ 3,394,870</u></u>

Total rent expense for all of the above leases for the years ended June 30, 2018 and 2017, was \$2,229,655 and \$2,239,515, respectively.

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 years ended June 30, 2018 and 2017, 401(k) plan expenses were \$281,583 and \$266,246, respectively.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 10. 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, 2018 and 2017, was as follows:

	2018	2017
Medicaid	39 %	40 %
Commercial	30	28
Medicare	21	22
Self-Pay	10	10
Total	100 %	100 %

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 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.

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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 12. Government Regulations (Continued)

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.

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 ACS as the sole 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.

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 14. 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 years ended June 30, 2018 and 2017:

	2018				
	LSUHN	LSUHN Billing	UMG as of December 31, 2017	Eliminations	Total
Current Assets	\$ 16,037,429	\$ 4,627,501	\$ 5,371,439	\$ -	\$ 26,036,369
Capital Assets, Net	1,084,067	9,868	-	-	1,093,935
Other Assets	24,556,244	-	2,531,213	(6,414,174)	20,673,283
Total Assets	\$ 41,677,740	\$ 4,637,369	\$ 7,902,652	\$ (6,414,174)	\$ 47,803,587
Total Liabilities	\$ 16,079,650	\$ -	\$ 1,488,478	\$ -	\$ 17,568,128
Net Position	25,598,090	4,637,369	6,414,174	(6,414,174)	30,235,459
Total Liabilities and Net Position	\$ 41,677,740	\$ 4,637,369	\$ 7,902,652	\$ (6,414,174)	\$ 47,803,587
Operating Revenues	\$ 108,194,018	\$ 2,730,293	\$ 19,101,178	\$ -	\$ 130,025,489
Depreciation and Amortization	363,785	1,081	-	-	364,866
Other Operating Expenses	109,164,465	2,006,433	17,816,614	-	128,987,512
Operating Income (Loss)	(1,334,232)	722,779	1,284,564	-	673,111
Non-Operating Revenues (Expenses)	146,116	-	-	(1,284,564)	(1,138,448)
Change in Net Position	\$ (1,188,116)	\$ 722,779	\$ 1,284,564	\$ (1,284,564)	\$ (465,337)

	2017				
	LSUHN	LSUHN Billing	UMG as of December 31, 2016	Eliminations	Total
Current Assets	\$ 14,835,877	\$ 3,904,722	\$ 8,540,233	\$ -	\$ 27,280,832
Capital Assets, Net	876,921	9,868	-	-	886,789
Other Assets	27,566,745	-	2,713,304	(10,129,610)	20,150,439
Total Assets	\$ 43,279,543	\$ 3,914,590	\$ 11,253,537	\$ (10,129,610)	\$ 48,318,060
Total Liabilities	\$ 16,493,337	\$ -	\$ 1,123,927	\$ -	\$ 17,617,264
Net Position	26,786,206	3,914,590	10,129,610	(10,129,610)	30,700,796
Total Liabilities and Net Position	\$ 43,279,543	\$ 3,914,590	\$ 11,253,537	\$ (10,129,610)	\$ 48,318,060
Operating Revenues	\$ 104,306,600	\$ (240,886)	\$ 18,485,054	\$ -	\$ 122,550,768
Depreciation and Amortization	558,808	1,540	-	-	560,348
Other Operating Expenses	102,227,028	2,286,820	17,633,398	-	122,147,246
Operating Income (Loss)	1,520,764	(2,529,246)	851,656	-	(156,826)
Non-Operating Revenues (Expenses)	3,218,896	-	-	(851,656)	2,367,240
Change in Net Position	\$ 4,739,660	\$ (2,529,246)	\$ 851,656	\$ (851,656)	\$ 2,210,414

LSU HEALTHCARE NETWORK

Notes to the Financial Statements

Note 15. Recent Reporting and Disclosure Developments

As of June 30, 2018, 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 16. Subsequent Events

Management has evaluated subsequent events through August 24, 2018, the date that the financial statements were available to be issued, and have determined that certain events may occur that require disclosure. In particular, these events include the sale by LSUHN's wholly owned subsidiary, UMG, of its interest in PH Holdings, LLC as it pertains to the sale of all the interests of a Medicare Advantage Plan known as Peoples Health, to United Healthcare. The event has not occurred by this report date but is anticipated to occur within the next fiscal quarter. This will result in a taxable event for LSUHN and will require an estimated federal and state tax payment.

**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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise LSUHN's basic statements, and have issued our report thereon dated August 24, 2018. We did not audit the financial statements of University Medical Group, LLC (a wholly-owned blended component unit) (UMG), which statements reflect total assets constituting 17% and 23% of total assets as of June 30, 2018 and 2017, respectively, and total revenues constituting 15% of total operating revenues for the years ended June 30, 2018 and 2017, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UMG, is based solely on the report of the other auditors.

The financial statements of UMG were not audited in accordance with *Government Auditing Standards*.

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.

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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

Covington, LA
August 24, 2018