

LSU HEALTH SCIENCES CENTER-SHREVEPORT
FACULTY GROUP PRACTICE
A Component Unit of the
Louisiana State University System

FINANCIAL STATEMENTS

September 30, 2018



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LSU Health Sciences Center-Shreveport Faculty Group Practice
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September 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
LSU Health Sciences Center-Shreveport Faculty Group Practice

Report on the Financial Statements

We have audited the accompanying financial statements of LSU Health Sciences Center-Shreveport Faculty Group Practice ("FGP"), a Louisiana Nonprofit Corporation, a component unit of the Louisiana State University System, as of and for the three months ended September 30, 2018, and the related notes to the financial statements which collectively comprise LSU Health Sciences Center-Shreveport Faculty Group Practice'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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSU Health Sciences Center-Shreveport Faculty Group Practice as of September 30, 2018, and the changes in its financial position and its cash flows for the three 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 5 through 8 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 audit 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payments to Agency Head is presented for purposes of additional analysis, and is not a required part of the basic financial statements. The Schedule of Compensation, Benefits, and Other Payments to Agency Head is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Compensation, Benefits, and Other Payments to Agency Head is fairly stated in all material respects in relation to the financial statements as a whole.

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 LSU Health Sciences Center-Shreveport Faculty Group Practice'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 LSU Health Sciences Center-Shreveport Faculty Group Practice'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 the LSU Health Sciences Center-Shreveport Faculty Group Practice's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana
September 3, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

LSU Health Sciences Center-Shreveport Faculty Group Practice Management's Discussion and Analysis (Unaudited)

This section of the LSU Health Sciences Center-Shreveport Faculty Group Practice (the "FGP") annual financial report presents management's discussion and analysis of the FGP's financial performance during the three months that ended September 30, 2018. It should be read in conjunction with the financial statements in this report.

Financial Highlights

Following are some of the more important highlights of the financial results of the FGP for the three months ended September 30, 2018:

- The assets of the FGP exceeded its liabilities at the close of the three months ended September 30, 2018, by \$12,433,298 (net position) which is a \$2,390,863 increase over the prior year;
- Net patient service revenue was \$20,038,282 during the three month period;
- The cost of operating the FGP for the three month period was \$17,722,419.

Overview of the Financial Statements

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

The Basic Financial Statements of the FGP report the financial position of FGP and the results of its operations and its cash flows. The Basic Financial Statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about FGP's activities.

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

All of the current revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Change in Net Position. This statement measures the performance of the FGP's operations over the past year and can be used to determine whether FGP 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 the FGP'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.

LSU Health Sciences Center-Shreveport Faculty Group Practice Management's Discussion and Analysis (Unaudited)

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.

Analysis of Net Position

Net position may serve over time as a useful indicator of the FGP's financial position. The FGP's assets exceed liabilities by \$12,433,298 at the close of the three months ended September 30, 2018. Unrestricted net position can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. At September 30, 2018, the FGP had an unrestricted net position of \$11,888,525.

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

	September 30, 2018	June 30, 2018
Assets		
Current assets	\$ 17,332,571	\$ 14,892,956
Capital assets	544,773	586,821
Total assets	\$ 17,877,344	\$ 15,479,777
Liabilities		
Current liabilities	\$ 5,444,046	\$ 5,437,342
Total liabilities	5,444,046	5,437,342
Net Position		
Net investment in capital assets	544,773	586,821
Unrestricted	11,888,525	9,455,614
Total net position	12,433,298	10,042,435
Total liabilities and net position	\$ 17,877,344	\$ 15,479,777

LSU Health Sciences Center-Shreveport Faculty Group Practice Management's Discussion and Analysis (Unaudited)

Summary of Revenues, Expenses, and Change in Net Position

The following table presents a summary of the FGP's revenues and expenses in the form of summary Statement of Revenues, Expenses, and Change in Net Position:

	For the three months ended September 30, 2018	For the year ended June 30, 2018
Revenues		
Net patient service revenue	\$ 20,113,282	\$ 70,037,535
Total revenues	20,113,282	70,037,535
Expenses		
Operating expenses	17,722,419	69,040,739
Total expenses	17,722,419	69,040,739
Income from operations	2,390,863	996,796
Change in net position	2,390,863	996,796
Net position, beginning of period/year	10,042,435	9,045,639
Net position, end of period/year	\$ 12,433,298	\$ 10,042,435

Operating and Financial Performance

During the three month period ended September 30, 2018, the FGP's net patient service revenue was \$20,113,282. The revenue was comparable over those three months to the average monthly revenue from the prior year. One of the FGP's major operating expenses is related to third-party patient billing services which were \$1,900,963. In accordance with agreements the FGP has with LSU Health Sciences Center-Shreveport ("LSU HSC-S"), the FGP has recognized an expense for net revenues returned to LSU HSC-S of \$15,086,458. The amount is based on cash collections, and because of the timing of the collections, it was necessary to accrue a payable of \$4,768,155. The average monthly operating expenses in the three months ended September 30, 2018, held steady as compared to the prior year expenses.

The following table shows the relative percentage of gross charges billed for patient services by payor, excluding charity care provided to certain qualifying self-pay individuals. See Note 6 to the financial statements for a summary of net patient revenue by primary payor type.

LSU Health Sciences Center-Shreveport Faculty Group Practice Management's Discussion and Analysis (Unaudited)

	For the three months ended September 30, 2018	For the year ended June 30, 2018
Commercial	29%	29%
Medicaid	41%	41%
Medicare	19%	20%
Self-pay	11%	10%
Total gross charges net of charity care	100%	100%

Capital Assets

The FGP's investment in capital assets as of September 30, 2018 totaled \$544,773, net of accumulated depreciation. This investment included leasehold improvements, medical and surgical equipment, office furniture and fixtures, and computers and related software. There were no capital assets acquired in the three months ended September 30, 2018; however, significant capital assets were acquired during the year ended June 30, 2018, related to leasehold improvements and medical and surgical equipment for a new orthopedic clinic. More information about the FGP's capital assets can be found in Note 4 to the financial statements.

Future Economic Factors

Legislation and regulation at all levels of government are likely to continue to affect the operations of FGP. 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 FGP's principal payors.

It is not possible at this time to determine the impact on FGP 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 FGP in future years.

Contacting the FGP's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of LSU Health Sciences Center-Shreveport Faculty Group Practice's finances. If you have questions about this report or need additional financial information, please contact the Director of Accounting, LSU Health Sciences Center-Shreveport Faculty Group Practice, P.O. Box 33932, Shreveport, LA 71130-3932.

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Statement of Net Position**

September 30, 2018

Assets	
Current assets	
Cash and cash equivalents	\$ 7,036,810
Patient accounts receivable, <i>net</i>	10,189,945
Due from LSU Health Sciences Center-Shreveport	29,663
Other receivables	76,153
Total current assets	17,332,571
Capital assets, <i>net</i>	544,773
Total assets	\$ 17,877,344

Liabilities and Net Position

Current liabilities	
Accounts payable	\$ 675,891
Due to LSU Health Sciences Center-Shreveport	4,768,155
Total current liabilities	5,444,046
Total liabilities	5,444,046
Net position	
Net investment in capital assets	544,773
Unrestricted	11,888,525
Total net position	12,433,298
Total liabilities and net position	\$ 17,877,344

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

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Statement of Revenues, Expenses, and Change in Net Position**

<i>For the three months ended September 30,</i>	2018
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Operating revenues	
Net patient service revenue, net of provision for bad debts of \$4,946,435	\$ 20,038,282
Other revenue	75,000
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Total operating revenues	20,113,282
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Operating expenses	
Patient billing services	1,990,963
Consultant fees	338,850
Supplies and minor equipment	21,971
Building rent	41,862
Utilities	9,391
Professional fees	79,500
General and administrative	52,914
Net revenue returned to LSU Health Sciences Center-Shreveport	15,086,458
Expenses reimbursed to LSU Health Sciences Center-Shreveport	58,462
Depreciation and amortization	42,048
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Total operating expenses	17,722,419
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Income from operations	2,390,863
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Change in net position	2,390,863
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Net position, beginning of three month period	10,042,435
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Net position, end of three month period	\$ 12,433,298
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The accompanying notes are an integral part of these financial statements.

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Statement of Cash Flows**

For the three months ended September 30,

2018

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Cash flows from operating activities	
Cash from clinic operations	\$ 18,063,968
Cash payments for personnel	75,000
Cash payments for net revenues returned to LSU HSC-S	(15,055,046)
Cash payments to suppliers	(2,680,820)
Net cash from operating activities	403,102
Net increase in cash and cash equivalents	403,102
Cash and cash equivalents - beginning of the three month period	6,633,708
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Cash and cash equivalents - end of the three month period	\$ 7,036,810
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Reconciliation of Operating Income to Net Cash Used in Operating Activities

Income from operations	\$ 2,390,863
Adjustments to reconcile income from operations to net cash used in operating activities	
Depreciation and amortization	42,048
Provision for bad debt	4,946,435
(Increase) decrease in operating assets	
Patient accounts receivable, <i>net</i>	(6,977,320)
Due from LSU Health Sciences Center-Shreveport	56,571
Other receivables	(76,153)
Prepaid expenses	13,954
Increase (decrease) in operating liabilities	
Accounts payable	(24,708)
Due to LSU Health Sciences Center-Shreveport	31,412
Net cash used in operating activities	\$ 403,102
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The accompanying notes are an integral part of these financial statements.



LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

LSU Health Sciences Center-Shreveport Faculty Group Practice (the “FGP”), a Louisiana nonprofit corporation, assists the LSU Health Sciences Center-Shreveport (“LSU HSC-S”) in carrying out its medical, educational, and research functions. The Board of Directors consists of six (6) members, who are representatives of the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (“LSU”) and LSU HSC-S, as well as seven (7) 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.

LSU Health Sciences Center-Shreveport Faculty Group Practice provides health care to the general public including, but not limited to, the delivery of physician medical services and other healthcare services to individuals. The FGP 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.

LSU Health Sciences Center-Shreveport Faculty Group Practice’s activities include services provided in both the public hospital and the private clinics serviced by LSU HSC-S. The FGP and LSU HSC-S (through the Board of Supervisors of LSU) have entered into a Uniform Affiliation Agreement (“UAA”) and Memorandum of Understanding (“MoU”) that permit the two entities to work together on a mutually beneficial basis. The agreements delineate the obligations and responsibilities of both the FGP and LSU HSC-S.

LSU Health Sciences Center-Shreveport Faculty Group Practice is a component unit of the Louisiana State University System for financial reporting purposes and is included in the basic financial statements of the Louisiana State University System.

Basis of Accounting

The financial statements of LSU Health Sciences Center-Shreveport Faculty Group Practice have been prepared using the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Accounting Standards

These financial statements have been prepared in accordance with the Governmental Accounting Standards Board (“GASB”) Codification. The financial statements of the FGP have been prepared on the accrual basis of accounting.

LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

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 the FGP include contractual and bad debt allowances. Accordingly, actual results could differ from those estimates.

Income Taxes

LSU Health Sciences Center-Shreveport Faculty Group Practice is a nonprofit corporation organized under the laws of the State of Louisiana. The FGP is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Unrelated business income, of which the FGP had none for the three months ended September 30, 2018, would be subject to federal income taxes. Consequently, the accompanying financial statements do not reflect a provision for income taxes.

Cash and Cash Equivalents

The FGP considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents.

Patient Receivables

Patient receivables 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 payors, and less an allowance for doubtful accounts. The estimated contractual allowance was \$36,788,458 at September 30, 2018. The estimated allowance for doubtful accounts was \$604,790 at September 30, 2018.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for losses charged to earnings. Credit receivable losses, which may be for all or part of a particular receivable, are deducted from the allowance when management believes a receivable balance is confirmed not collectible. Subsequent recoveries of receivables previously charged off are recorded in income when received. The allowance for doubtful accounts was \$604,790 at September 30, 2018, and the provision for bad debts was \$4,946,435 for the three months ended September 30, 2018.

LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are defined by the FGP as assets with an initial individual cost of \$2,500 or more and an estimated life in excess of one year. 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 as follows:

Leasehold improvements	4 years
Office furniture and fixtures	3 years
Telephone system	10 years
Medical and surgical equipment	7 years
Computers and related software	3 years

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

The FGP distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the FGP's principal ongoing operations. The principal operating revenue of the FGP is patient services. Operating expenses include net revenue returned to LSU Health Sciences Center-Shreveport, expenses reimbursed to LSU Health Sciences Center-Shreveport, patient billing services, consultant fees, supplies and minor equipment, building rent, utilities, professional fees, general and administrative expenses, and depreciation and amortization expenses. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Revenue Due to LSU HSC-S

The FGP's agreement with LSU HSC-S, under its Memorandum of Understanding calls for the FGP to pay all net revenues to LSU HSC-S, as a supporting organization. Under the agreement, Net Revenue is defined as Gross Revenue less Approved Expenses. Gross Revenues are further defined as all revenue collected or received by FGP after allowances for (i) bad debt, (ii) insurance rebates, and (iii) charitable write-offs, plus any other revenues. Approved expenses shall mean all expenses incurred by the FGP and which have been mutually approved in writing by both FGP and LSU HSC-S pursuant to Sections V and VI of the MoU, including, but not limited to (i) all capital expenses, (ii) all operating expenses, and (iii) all amounts set aside as reserves by the FGP Board. Payments of Net Revenue are to be made monthly.

Patient Service Revenue Net of Contractual Adjustments and Allowances

The FGP 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.

The FGP 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 the FGP under these agreements includes prospectively determined rates per office visit and discounts from established charges.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the 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.

The FGP 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.

LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In July 2011, the Louisiana Medicaid agency selected five private entities to manage care for most of the State's Medicaid enrollees in a new program beginning January 2012. These entities contracting with the Louisiana Department of Health and Hospitals serve as Coordinated Care Networks. The CCNs will coordinate care for adults with disabilities not enrolled in Medicare, children younger than 19, their parents, and pregnant women, allowing them to choose their own CCN. The FGP contracted with the five entities and negotiated favorable fee schedules.

Charity Care

The FGP provides care to patients in the Louisiana public hospital system without regard to their ability to pay for those services. The FGP 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 the FGP 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 three months ended September 30, 2018, charity charges entered into the billing system and adjusted off were approximately \$4,150,000. As noted above, for those charity care charges entered into the billing system and adjusted off, accounts classified as charity care are written off immediately.

Future Pronouncements

In June 2017, the GASB issued Statement No. 87 - Leases. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this Statement are effective for fiscal years beginning after December 15, 2019, and management is currently assessing the impact on the financial statements.

LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

NOTE 2: RELATED PARTY TRANSACTIONS

In accordance with the Memorandum of Understanding with LSU HSC-S, LSU HSC-S 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. LSU HSC-S provides professional services of clinical faculty and in exchange, FGP returns all net revenue collected or received, according to the formula in the agreement, to LSU HSC-S. Net revenues that are to be returned by the FGP to LSU HSC-S were \$15,086,458 for the three months ended September 30, 2018. Amounts still due to LSU HSC-S under the MoU at September 30, 2018 were \$4,747,766.

LSU HSC-S provides general support services for the FGP to operate. The FGP reimburses LSU HSC-S a portion of these expenses, including salaries and benefits of the employees who provide these services. Included in operating expenses for the three months ended September 30, 2018, were \$64,122 in reimbursable expenses. Reimbursable expenses due to LSU HSC-S as of September 30, 2018, were \$20,389.

LSU HSC-S collects certain patient receivables on behalf of the FGP. Amounts owed to the FGP by LSU HSC-S for amounts collected as of September 30, 2018, were \$29,663.

NOTE 3: DEPOSITS

The FGP maintains bank balances in excess of the FDIC insured limits. The FGP has not experienced any losses on these amounts in excess of insured limits and management believes the related risk is minimal. At September 30, 2018, the FGP had \$6,858,403 in uninsured cash balances.

NOTE 4: CAPITAL ASSETS

A summary of changes in capital assets follows:

	June 30, 2018	Additions	Deletions / Transfers	September 30, 2018
Capital assets being depreciated				
Leasehold improvements	\$ 514,153	\$ -	\$ -	\$ 514,153
Office furniture and fixtures	10,971	-	-	10,971
Telephone system	27,560	-	-	27,560
Medical and surgical equipment	123,720	-	-	123,720
Computers and related software	27,720	-	-	27,720
Total capital assets being depreciated	704,124	-	-	704,124
Less: accumulated depreciation and amortization	(117,303)	(42,048)	-	(159,351)
Capital assets, net	\$ 586,821	\$ (42,048)	\$ -	\$ 544,773

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Notes to the Financial Statements**

NOTE 4: CAPITAL ASSETS (Continued)

Depreciation and amortization expense was \$42,048 for the three months ended September 30, 2018.

NOTE 5: LEASE COMMITMENTS

Operating Leases

Effective September 1, 2017, the FGP began leasing office space at 950 Olive St. in Shreveport, LA under a 48 month operating lease that calls for monthly rent of \$11,066. Effective March 1, 2018, the FGP began leasing additional office space at 1801 Fairfield Ave. in Shreveport, LA under a 60 month operating lease that calls for monthly rent of \$2,888 through February 2020, at which time rent increases to \$2,988 for the duration of the lease. Rent expense for the three months ended September 30, 2018 was \$41,862. Future noncancelable minimum rental payments required by the leases for fiscal periods ended September 30, are as follows:

<i>Fiscal periods ended September 30,</i>	Amount
2019	\$ 167,447
2020	168,144
2021	157,576
2022	35,850
2023	14,938
Total minimum rental payments	\$ 543,955

NOTE 6: CONCENTRATIONS OF CREDIT RISK

The FGP provides services in Shreveport, Louisiana and surrounding areas. The FGP grants credit to its patients, some of whom are insured under third-party payor agreements. FGP routinely obtains assignment of, or is otherwise entitled to receive patients' benefits from Medicare, Medicaid, and other third-party payors.

The following is a summary of patient accounts receivable:

<i>September 30,</i>	2018
Medicaid, Medicare, commercial, and self-pay	\$ 47,583,193
Less contractual adjustments	(36,788,458)
Patient accounts receivable	10,794,735
Less allowance for doubtful accounts	(604,790)
Total patient accounts receivable, net	\$ 10,189,945

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Notes to the Financial Statements**

NOTE 6: CONCENTRATIONS OF CREDIT RISK (Continued)

The mix of receivables from patients and third-party payors at September 30, 2018, was as follows:

<i>For the three months ended September 30,</i>	2018
Commercial	44.23%
Medicaid	32.83%
Medicare	14.02%
Self-pay	8.92%
<hr/>	
Total patient accounts receivable	100.00%

The following is a summary of net revenue by primary payor type:

<i>For the three months ended September 30,</i>	2018
Commercial	36.80%
Medicaid	34.88%
Medicare	19.94%
Self-pay	8.38%
<hr/>	
Total net revenue	100.00%

NOTE 7: INSURANCE COVERAGE

Malpractice Insurance

The physicians providing services to the FGP on behalf of LSU HSC-S are provided professional liability coverage by LSU HSC-S in accordance with the provisions of LA. R.S. 40:1299.39 et seq. for the services provided under the Memorandum of Understanding. 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 8: 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.

LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

NOTE 8: GOVERNMENT REGULATIONS (Continued)

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 the FGP 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 FGP. 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 FGP's principal payors.

It is not possible at this time to determine the impact on FGP 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 FGP in future years.

NOTE 9: COMMITMENTS AND CONTINGENCIES

FGP contracts with Acadiana Computer Systems, Inc. ("ACS") as its sole third-party billing company. FGP's agreement calls for FGP to compensate ACS based on monthly net cash collections. A contract rate of 10.5% is applied to all of FGP's cash collections plus an additional 0.5% performance incentive. The only exceptions to this rate relate to nephrology, which is 7% of collections plus an additional 0.5% performance incentive, LSU Health faculty contracts, which are 1.5% of contract payments, and the LSU Health School of Allied Health, which is 7.0% of collections. Expenses incurred under this contract for the three months ended September 30, 2018 were \$1,990,963.



LSU Health Sciences Center-Shreveport Faculty Group Practice Notes to the Financial Statements

NOTE 9: COMMITMENTS AND CONTINGENCIES (Continued)

Under the MoU discussed on page 15, the FGP will determine the Net Revenue payable to LSU HSC-S based solely on collection of those billings net of the related expenses as described in Note 1.

NOTE 10: SUBSEQUENT EVENTS

Effective October 1, 2018, FGP admitted Ochsner LSU Health System of North Louisiana (“OLHS-NL”) as the sole member of the Corporation. The Uniform Affiliation Agreement and Memorandum of Understanding described in Note 1 were terminated as of October 1, 2018. An Academic and Clinical Collaboration Agreement (“ACCA”) between the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (“LSU”) and Ochsner Clinic Foundation (“Ochsner”) and the Membership Interest Transfer Agreement between OLHS-NL and Biomedical Research Foundation of Northwest Louisiana were in effect as of October 1, 2018. The ACCA replaced the previous UAA and MoU, and as of October 1, 2018, the FGP is no longer a supporting organization as described within Louisiana Revised Statute 17:3390.

FGP has evaluated subsequent events through September 3, 2019, the date which the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

**LSU Health Sciences Center-Shreveport Faculty Group Practice
 Schedule of Compensation, Benefits, and Other Payments to Agency Head
 For the three months ended September 30, 2018**

Agency Head Name: Dr. Charles Fox, MD, President

<u>Purpose</u>	<u>Amount</u>
Salary	\$ -
Benefits-insurance	\$ -
Benefits-retirement	\$ -
Benefits-other (describe)	\$ -
Benefits-other (describe)	\$ -
Benefits-other (describe)	\$ -
Car allowance	\$ -
Vehicle provided by government (enter amount reported on W-2)	\$ -
Per diem	\$ -
Reimbursements	\$ -
Travel	\$ -
Registration fees	\$ -
Conference travel	\$ -
Housing	\$ -
Unvouchered expenses (example: travel advances, etc.)	\$ -
Special meals	\$ -
Other	\$ -

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

To the Board of Directors of
LSU Health Sciences Center-Shreveport 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 LSU Health Sciences Center-Shreveport Faculty Group Practice (the "FGP"), a Louisiana nonprofit corporation that is a component unit of the Louisiana State University System, as of and for the three months ended September 30, 2018, and the related notes to the financial statements, which collectively comprise LSU Health Sciences Center-Shreveport Faculty Group Practice's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LSU Health Sciences Center-Shreveport Faculty Group Practice'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 LSU Health Sciences Center-Shreveport Faculty Group Practice's internal control. Accordingly, we do not express an opinion on the effectiveness of LSU Health Sciences Center-Shreveport Faculty Group Practice'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LSU Health Sciences Center-Shreveport Faculty Group Practice'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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

LSU Health Sciences Center-Shreveport Faculty Group Practice's Response to Findings

LSU Health Sciences Center-Shreveport Faculty Group Practice's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. LSU Health Sciences Center-Shreveport Faculty Group Practice's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana
September 3, 2019

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Schedule of Findings and Responses
For the three months ended September 30, 2018**

We have audited the basic financial statements of LSU Health Sciences Center-Shreveport Faculty Group Practice as of and for the three months ended September 30, 2018, and have issued our report thereon dated September 3, 2019. 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. Our audit of the financial statements as September 30, 2018, resulted in an unmodified opinion.

Section I – Summary of Auditors’ Report

Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weakness	Yes
Other Conditions	None noted

Compliance

Compliance Material to Financial Statements	None noted
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Federal Awards

N/A

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Schedule of Findings and Responses
For the three months ended September 30, 2018**

Section II – Financial Statement Findings

Current Year Findings and Responses

Finding 2019-001 – Information Technology Controls

Year of Origination: June 30, 2017

Criteria or specific requirement:

Management of the FGP is responsible for the design, implementation, and maintenance of internal control, including controls related information technology (“IT”) over all financial systems of FGP.

Condition:

A substantial portion of the IT utilized by the FGP during the three month period ended September 30, 2018 was governed and administered by the hospital partner, BRFHH or its subsidiary. BRFHH was requested to provide information on the IT systems that FGP utilizes. This information and supporting materials would have allowed FGP to review the IT general controls, and as needed, the specific user controls that are in place over these systems. Having this information would allow FGP management to determine the risk associated with these systems in the design, use and execution of the IT systems. BRFHH did not provide the information requested for the financial statement audit of the three months ended September 30, 2018. However, based on the partnership with Ochsner Health System which was effective October 1, 2018, management of the FGP believes the deficiency has been corrected.

Cause:

BRFHH and its subsidiary stated that because there is no written agreement between itself and the FGP, BRFHH therefore, would not provide the requested information on these IT systems.

Effect:

Management is unable to fully meet their responsibility, over those systems administered by BRFHH and its subsidiary, regarding internal controls over information technology.

Recommendation:

We recommend the FGP obtain information necessary for management to meet their obligation related to internal controls over information technology.

Views of responsible officials and planned corrective actions:

Management of the FGP believes that its partnership with Ochsner Health System effective October 1, 2018, effectively reduces and/or eliminates any internal control concerns, as Ochsner Health System will apply its IT and financial systems controls, which are recognized as industry leading standards.

Completion date:

October 1, 2018

**LSU Health Sciences Center-Shreveport Faculty Group Practice
Schedule of Findings and Responses
For the three months ended September 30, 2018**

Person responsible for corrective actions:

Charles Fox, III, MD

President of LSU Health Sciences Center-Shreveport Faculty Group Practice

1501 Kings Highway, Shreveport, LA 71103

(318) 675-5019

Prior Year Findings

Finding 2018-001 – Information Technology Controls

Year of Origination: June 30, 2017

Condition:

A substantial portion of the IT utilized by the FGP is governed and administered by the hospital partner, BRFHH or its subsidiary. BRFHH was requested to provide information on the IT systems that FGP utilizes. This information and supporting materials would have allowed FGP to review the IT general controls, and as needed, the specific user controls that are in place over these systems. Having this information would allow FGP management to determine the risk associated with these systems in the design, use and execution of the IT systems. BRFHH failed to provide the information requested for the financial statement audit of the fiscal year ended June 30, 2018.

Status:

See current year finding 2019-001.