

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

**FINANCIAL STATEMENTS**

**June 30, 2018**



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

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**Carr, Riggs & Ingram, LLC**  
1000 East Preston Avenue  
Suite 200  
Shreveport, LA 71105

Mailing Address:  
P.O. Box 4278  
Shreveport, LA 71134-0278

(318) 222-2222  
(318) 226-7150 (fax)  
CRlcpa.com

## **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 year ended June 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 June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 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 Supplemental Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the FGP's basic financial statements. The Schedule of Compensation, Benefits, and Other Payments to Agency Head is presented in accordance with Act 706 of the 2014 Louisiana Legislative Session, and is not a required part of the basic financial statements. Such information for this schedule is the responsibility of management, 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 basic 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 August 28, 2018, 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 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 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  
August 28, 2018

**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 fiscal year that ended June 30, 2018. It should be read in conjunction with the financial statements in this report.

### Financial Highlights

The FGP completed its first full year of operations on June 30, 2018, since beginning operations in December 2016 after being dormant since being organized in 2013. Following are some of the more important highlights of the financial results of the FGP for the year ended June 30, 2018:

- The assets of the FGP exceeded its liabilities at the close of the fiscal year by \$10,042,435 (net position) which is a \$996,796 increase over the prior year;
- Net patient service revenue was \$70,037,535 during the fiscal year;
- The cost of operating the FGP was \$69,040,739.

### 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 Auditor's 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 \$10,042,435 at the close of the fiscal year. 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 June 30, 2018, the FGP had an unrestricted net position of \$9,455,614.

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

<i>June 30,</i>	2018	2017
<b>Assets</b>		
Current assets	\$ 14,892,956	\$ 20,068,893
Capital assets	586,821	52,472
<b>Total assets</b>	<b>\$ 15,479,777</b>	<b>\$ 20,121,365</b>
<b>Liabilities</b>		
Current liabilities	\$ 5,437,342	\$ 11,075,726
<b>Total liabilities</b>	<b>5,437,342</b>	<b>11,075,726</b>
<b>Net Position</b>		
Net investment in capital assets	586,821	52,472
Unrestricted	9,455,614	8,993,167
<b>Total net position</b>	<b>10,042,435</b>	<b>9,045,639</b>
<b>Total liabilities and net position</b>	<b>\$ 15,479,777</b>	<b>\$ 20,121,365</b>

## 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:

<i>For the year ended June 30,</i>	2018	2017
<b>Revenues</b>		
Net patient service revenue	\$ 70,037,535	\$ 34,771,566
<b>Total revenues</b>	<b>70,037,535</b>	<b>34,771,566</b>
<b>Expenses</b>		
Operating expenses	69,040,739	25,725,927
<b>Total expenses</b>	<b>69,040,739</b>	<b>25,725,927</b>
<b>Income from operations</b>	<b>996,796</b>	<b>9,045,639</b>
<b>Change in net position</b>	<b>996,796</b>	<b>9,045,639</b>
<b>Net position, beginning of year</b>	<b>9,045,639</b>	<b>-</b>
<b>Net position, end of year</b>	<b>\$ 10,042,435</b>	<b>\$ 9,045,639</b>

### Operating and Financial Performance

As previously noted, the FGP began its clinical operations during December 2016. During fiscal year 2018, the FGP's net patient service revenue increased over 100% as a result of operating for the entire fiscal year. One of the FGP's major operating expense is related to third-party patient billing services which were \$7,973,951. 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 \$58,516,675. The amount is based on cash collections, and because of the timing of the collections, it was necessary to accrue a payable of \$4,600,555. Operating expenses increased \$43,314,812 over the prior year as a result of expanded operations of the FGP.

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

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.

<i>For the year ended June 30,</i>	2018	2017
Commercial	29%	29%
Medicaid	41%	43%
Medicare	20%	21%
Self-pay	10%	7%
Total gross charges net of charity care	100%	100%

### Capital Assets

The FGP’s investment in capital assets as of June 30, 2018 totaled \$586,821, net of accumulated depreciation. This investment included leasehold improvements, medical and surgical equipment, office furniture and fixtures, and computers and related software. Significant capital assets acquired during fiscal year 2018 related 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**

<i>June 30,</i>	<b>2018</b>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 6,633,708
Patient accounts receivable, <i>net</i>	8,159,060
Due from LSU Health Sciences Center-Shreveport	86,234
Prepaid expenses	13,954
Total current assets	14,892,956
Capital assets, <i>net</i>	586,821
Total assets	\$ 15,479,777
 <b>Liabilities and Net Position</b>	
Current liabilities	
Accounts payable	\$ 700,599
Due to LSU Health Sciences Center-Shreveport	4,736,743
Total current liabilities	5,437,342
Total liabilities	5,437,342
Net position	
Net investment in capital assets	586,821
Unrestricted	9,455,614
Total net position	10,042,435
Total liabilities and net position	\$ 15,479,777

*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 Year Ended June 30,</i>	<b>2018</b>
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Operating revenues	
Net patient service revenue, net of provision for bad debts of \$3,433,005	\$ 70,037,535
<b>Total operating revenues</b>	<b>70,037,535</b>
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Operating expenses	
Patient billing services	7,973,951
Consultant fees	1,486,813
Supplies and minor equipment	184,544
Building rent	134,857
Utilities	31,742
Professional fees	45,400
General and administrative	213,151
Net revenue returned to LSU Health Sciences Center-Shreveport	58,516,675
Expenses reimbursed to LSU Health Sciences Center-Shreveport	337,522
Depreciation and amortization	116,084
<b>Total operating expenses</b>	<b>69,040,739</b>
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Income from operations	996,796
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Change in net position	996,796
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Net position, beginning of year	9,045,639
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Net position, end of year	\$ 10,042,435
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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 Year Ended June, 30* **2018**

Cash flows from operating activities	
Cash from clinic operations	\$ 69,867,162
Cash payments for net revenues returned to LSU HSC-S	(64,112,336)
Cash payments to suppliers	(10,460,442)
Net cash used in operating activities	(4,705,616)
Cash flows from capital and related financing activities	
Purchase of capital assets	(650,433)
Net cash used in capital and related financing activities	(650,433)
Net decrease in cash and cash equivalents	(5,356,049)
Cash and cash equivalents - beginning of year	11,989,757
Cash and cash equivalents - end of year	\$ 6,633,708

**Reconciliation of Operating Income to Net Cash Used in Operating Activities**

Income from operations	\$ 996,796
Adjustments to reconcile income from operations to net cash used in operating activities	
Depreciation and amortization	116,084
Provision for bad debt	3,433,005
(Increase) decrease in operating assets	
Patient accounts receivable, <i>net</i>	(3,741,976)
Due from LSU Health Sciences Center-Shreveport	138,598
Prepaid expenses	(9,739)
Increase (decrease) in operating liabilities	
Accounts payable	(42,723)
Due to LSU Health Sciences Center-Shreveport	(5,595,661)
Net cash used in operating activities	\$ (4,705,616)

*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. Upon dissolution of the FGP, any remaining assets would be distributed to the Board of Supervisors of LSU or its successor for distribution to LSU Health Sciences Center-Shreveport School of Medicine.

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. The initial term of the UAA expired on December 31, 2017, and is automatically renewed and extended for additional one year periods unless terminated sooner. LSU HSC-S has the right to terminate the UAA with cause if the FGP fails to cure any violations after being provided 30 days’ notice. Either party has the right to terminate the UAA without cause by providing written notice no less than six months prior to the effective date of the termination. The initial term of the MoU will expire June 19, 2025, and shall be automatically renewed and extended for additional one year periods unless terminated sooner. Either party has the right to terminate the MoU with or without cause by providing written notice no less than ninety days prior to the effective date of the termination

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.



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

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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.

#### ***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 year ended June 30, 2018, would be subject to federal income taxes. Consequently, the accompanying financial statements do not reflect any 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.

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

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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 \$33,781,902 at June 30, 2018. The estimated allowance for doubtful accounts was \$2,151,439 at June 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 \$2,151,439 at June 30, 2018, and the provision for bad debts was \$3,433,005 for the year ended June 30, 2018.

#### ***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.

#### ***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.

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

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *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.

#### *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.

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

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 year ended June 30, 2018, charity charges entered into the billing system and adjusted off were approximately \$12,000,000. 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.

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

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *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.

#### *Subsequent Events*

Management has evaluated subsequent events through August 28, 2018, the date that the financial statements were available to be issued.

### 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 \$58,516,675 for the year ended June 30, 2018. Amounts still due to LSU HSC-S under the MoU at June 30, 2018 were \$4,600,555.

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 year ended June 30, 2018, were \$352,790 in reimbursable expenses. Reimbursable expenses due to LSU HSC-S as of June 30, 2018, were \$136,188.

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 June 30, 2018, were \$86,234.

### 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 June 30, 2018, the FGP had \$6,547,136 in uninsured cash balances.

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

**NOTE 4: CAPITAL ASSETS**

A summary of changes in capital assets follows:

<i>June 30,</i>	Balance 2017	Additions	Deletions / Transfers	Balance 2018
Capital assets not being depreciated				
Construction in progress	\$ 15,000	\$ 499,153	\$ (514,153)	\$ -
Total capital assets not being depreciated	15,000	499,153	(514,153)	-
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	38,691	151,280	514,153	704,124
Less: accumulated depreciation and amortization	(1,219)	(116,084)	-	(117,303)
Capital assets, net	\$ 52,472	\$ 534,349	\$ -	\$ 586,821

Depreciation and amortization expense was \$116,084 for the year ended June 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 year ended June 30, 2018 was \$134,857. Future noncancelable minimum rental payments required by the leases for years for the fiscal years ended June 30, are as follows:

<i>Fiscal year ended June 30,</i>	Amount
2019	\$ 167,447
2020	167,845
2021	168,642
2022	57,982
2023	23,900
Total minimum rental payments	\$ 585,816

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

**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>June 30,</i>	<b>2018</b>
Medicaid, Medicare, commercial, and self-pay	\$ 44,092,400
Less contractual adjustments	(33,781,901)
Patient accounts receivable	10,310,499
Less allowance for doubtful accounts	(2,151,439)
<b>Total patient accounts receivable, net</b>	<b>\$ 8,159,060</b>

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

<i>June 30,</i>	<b>2018</b>
Commercial	36.79%
Medicaid	35.97%
Medicare	16.16%
Self-pay	11.08%
<b>Total patient accounts receivable</b>	<b>100.00%</b>

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

<i>For the year ended June 30,</i>	<b>2018</b>
Commercial	36.42%
Medicaid	35.44%
Medicare	21.90%
Self-pay	6.24%
<b>Total net revenue</b>	<b>100.00%</b>

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

### 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.

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.



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

### **NOTE 8: GOVERNMENT REGULATIONS (Continued)**

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, except nephrology, which is 7%. Expenses incurred under this contract for the year ended June 30, 2018 were \$7,961,148.

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.

**OTHER SUPPLEMENTAL INFORMATION**

**LSU Health Sciences Center-Shreveport Faculty Group Practice  
Schedule of Compensation, Benefits, and Other Payments to Agency Head  
For the Year Ended June 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	\$ -



Carr, Riggs & Ingram, LLC  
1000 East Preston Avenue  
Suite 200  
Shreveport, LA 71105

Mailing Address:  
P.O. Box 4278  
Shreveport, LA 71134-0278

(318) 222-2222  
(318) 226-7150 (fax)  
CRlcpa.com

**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 year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise LSU Health Sciences Center-Shreveport Faculty Group Practice's basic statements as listed in the table of contents, and have issued our report thereon dated August 28, 2018.

**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 opinion 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 preceding paragraph 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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, 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  
August 28, 2018

**LSU Health Sciences Center-Shreveport Faculty Group Practice  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018**

We have audited the basic financial statements of LSU Health Sciences Center-Shreveport Faculty Group Practice as of and for the year ended June 30, 2018, and have issued our report thereon dated August 28, 2018. 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 June 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	No
Compliance	
Compliance Material to Financial Statements	No

*Federal Awards*

N/A

**LSU Health Sciences Center-Shreveport Faculty Group Practice  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018**

**Section II – Financial Statement Findings**

**Current Year Findings and Responses**

**Finding 2018-001 – 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 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.

*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, whose purpose is to assist the LSU Health Sciences Center-Shreveport carry out its medical, educational, and research functions, refer to the agreement between BRFHH and LSUHSC to pursue this request to obtain information necessary for management to meet their obligation related to internal controls over information technology.

*Views of responsible officials and planned corrective actions:*

FGP will work with LSUHSC-S under current contracts to obtain a copy of the information requested.

*Anticipated completion date:*

*December 31, 2018*

**LSU Health Sciences Center-Shreveport Faculty Group Practice  
Schedule of Findings and Responses  
For the Year Ended June 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 2017-001 – Review of Financial Statements**

*Condition:*

The FGP does not have personnel or procedures in place that provide for the review and evaluation of the financial statements and reconciliations by someone other than the preparer.

*Status:*

Resolved.

**Finding 2017-002 – Information Technology Controls**

*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, 2017.

*Status:*

Not resolved. See Finding 2018-001 – Information Technology Controls.

**Finding 2017-003 – Develop Policies and Procedures**

*Condition:*

FGP has adopted policies and procedures used by LSU Health Sciences Center-Shreveport until a set of written policies and procedures unique to FGP is finalized and put into place.

*Status:*

Resolved.