

# **LAFAYETTE GENERAL HEALTH**

(Lafayette General Health System, Inc. and Subsidiaries)

## **Consolidated Financial Statements**

Years Ended September 30, 2020 and 2019



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### **Consolidated Financial Statements**

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## Independent Auditor's Report

To the Board of Trustees  
Lafayette General Health System, Inc. and Subsidiaries  
Lafayette, Louisiana

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization) which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations and change in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the September 30, 2020 and 2019 consolidated financial statements of Oil Center Surgical Plaza, LLC, a partially owned subsidiary, or the September 30, 2019 consolidated financial statements of Lafayette General Surgical Hospital, LLC, a partially owned subsidiary, which statements reflect total assets of \$2,217,000 and \$2,653,000 as of September 30, 2020 and 2019, respectively, and total revenues of \$6,333,000 and \$8,360,000 for the years then ended, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Oil Center Surgical Plaza, LLC, as of September 30, 2020 and 2019 and for the years then ended, and Lafayette General Surgical Hospital, LLC, as of September 30, 2019 and for the year then ended, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

### **Opinion**

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lafayette General Health System, Inc. and Subsidiaries as of September 30, 2020 and 2019, and the results of its operations, change in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, the Organization changed its method of accounting for leases as a result of the adoption of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, effective October 1, 2019. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2021 on our consideration of the Organization'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 the Organization'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 Organization's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA  
March 19, 2021

**LAFAYETTE GENERAL HEALTH**  
**Consolidated Balance Sheets**  
**September 30, 2020 and 2019**

|  | 2020                  | 2019                  |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| <b>Current Assets</b>  |                       |                       |
| Cash and Cash Equivalents  | \$ 109,038,035        | \$ 81,850,009         |
| Short-Term Investments   | 143,342,981           | 40,598,842            |
| Patient Accounts Receivable  | 88,963,301            | 103,176,503           |
| Amounts Due from Third-Party Payors  | 31,844,567            | 48,383,635            |
| Inventories  | 22,095,719            | 19,235,758            |
| Other Current Assets   | 32,311,806            | 38,749,042            |
| <b>Total Current Assets</b>  | <b>427,596,409</b>    | <b>331,993,789</b>    |
| <b>Noncurrent Assets</b>   |                       |                       |
| Assets Limited as to Use   |                       |                       |
| Under Debt Agreements Held by Third-Party Board Designated for Property and Equipment Additions and Replacements | 40,252                | 2,844                 |
|  | 109,388,546           | 102,280,621           |
| <b>Total Assets Limited as to Use</b>  | <b>109,428,798</b>    | <b>102,283,465</b>    |
| Investments in Joint Ventures  | 4,490,533             | 4,233,065             |
| Property and Equipment, Net  | 264,789,287           | 270,191,149           |
| Right-of-Use Asset from Operating Leases   | 52,274,883            | -                     |
| Other Assets   | 45,640,556            | 41,980,267            |
| <b>Total Noncurrent Assets</b>   | <b>476,624,057</b>    | <b>418,687,946</b>    |
| <b>Total Assets</b>  | <b>\$ 904,220,466</b> | <b>\$ 750,681,735</b> |

See notes to consolidated financial statements.

**LAFAYETTE GENERAL HEALTH**  
**Consolidated Balance Sheets (Continued)**  
**September 30, 2020 and 2019**

|  | 2020                  | 2019                  |
|--|-----------------------|-----------------------|
| <b>Liabilities and Net Assets</b>                                      |                       |                       |
| <b>Current Liabilities</b>   |                       |                       |
| Accounts Payable and Accrued Expenses                                  | \$ 75,954,889         | \$ 68,611,864         |
| Salaries and Wages Payable   | 40,957,726            | 30,306,270            |
| Amounts Due to Third-Party Payors                                      | 23,724,577            | 31,731,385            |
| Line of Credit   | -                     | 28,000,000            |
| Contract Liability - Medicare Advanced Payments                        | 19,696,172            | 304,463               |
| Current Portion of Self-Insurance Reserves                             | 7,289,343             | 5,039,350             |
| Current Portion of Finance Lease Liabilities                           | 121,332               | 95,519                |
| Current Portion of Operating Lease Liabilities                         | 10,698,625            | -                     |
| Current Maturities of Long-Term Debt                                   | 243,312,403           | 5,770,299             |
| <b>Total Current Liabilities</b>                                       | <b>421,755,067</b>    | <b>169,859,150</b>    |
| <b>Noncurrent Liabilities</b>  |                       |                       |
| Self-Insurance Reserves, Less Current Portion                          | 2,046,841             | 1,338,064             |
| Accrued Postretirement Benefit Costs                                   | 12,662,752            | 9,115,211             |
| Contract Liability - Medicare Advanced Payments Net of Current Portion | 72,876,253            | -                     |
| Finance Lease Liabilities, Less Current Portion                        | 2,821,598             | 2,959,443             |
| Operating Lease Liabilities, Less Current Portion                      | 41,295,403            | -                     |
| Long-Term Debt, Less Current Portion, Net of Discount                  | 1,903,771             | 244,616,659           |
| <b>Total Noncurrent Liabilities</b>                                    | <b>133,606,618</b>    | <b>258,029,377</b>    |
| <b>Total Liabilities</b>   | <b>555,361,685</b>    | <b>427,888,527</b>    |
| <b>Net Assets</b>  |                       |                       |
| <b>Net Assets Without Donor Restrictions</b>                           |                       |                       |
| Health System Net Assets Without Donor Restrictions                    | 346,734,317           | 319,967,081           |
| Noncontrolling Interests   | (684,715)             | 16,948                |
| <b>Total Net Assets Without Donor Restrictions</b>                     | <b>346,049,602</b>    | <b>319,984,029</b>    |
| <b>Net Assets With Donor Restrictions</b>                              | <b>2,809,179</b>      | <b>2,809,179</b>      |
| <b>Total Net Assets</b>  | <b>348,858,781</b>    | <b>322,793,208</b>    |
| <b>Total Liabilities and Net Assets</b>                                | <b>\$ 904,220,466</b> | <b>\$ 750,681,735</b> |

See notes to consolidated financial statements.

**LAFAYETTE GENERAL HEALTH**  
**Consolidated Statements of Operations and Change in Net Assets**  
**For the Years Ended September 30, 2020 and 2019**

|   | 2020                 | 2019                 |
|---|----------------------|----------------------|
| <b>Revenues</b>   |                      |                      |
| Net Patient Service Revenues  | \$ 757,900,816       | \$ 780,505,241       |
| Other Operating Revenues  | 90,808,772           | 40,505,240           |
| <b>Total Operating Revenues</b>   | <b>848,709,588</b>   | <b>821,010,481</b>   |
| <b>Expenses</b>   |                      |                      |
| Salaries, Wages, and Benefits   | 354,849,364          | 345,218,347          |
| Medical Supplies and Drugs  | 193,206,660          | 186,692,301          |
| Contract Services   | 155,086,494          | 140,190,897          |
| Utilities and Equipment Rentals   | 63,510,483           | 59,024,372           |
| Depreciation and Amortization   | 24,575,125           | 24,650,310           |
| Interest Expense  | 10,707,849           | 11,822,953           |
| Insurance Expense   | 11,397,606           | 10,961,072           |
| Other Expenses  | 24,926,620           | 25,032,603           |
| <b>Total Operating Expenses</b>   | <b>838,260,201</b>   | <b>803,592,855</b>   |
| <b>Operating Income</b>   | <b>10,449,387</b>    | <b>17,417,626</b>    |
| <b>Non-Operating Income (Expenses)</b>  |                      |                      |
| Investment Income, Net  | 12,953,806           | 4,612,712            |
| Other Revenue (Expense), Net  | 3,421,308            | 1,330,920            |
| <b>Total Non-Operating Income</b>   | <b>16,375,114</b>    | <b>5,943,632</b>     |
| <b>Excess of Revenues over Expenses</b>                                       | <b>26,824,501</b>    | <b>23,361,258</b>    |
| <b>Attributable to Noncontrolling Interest</b>                                | <b>(553,963)</b>     | <b>528,377</b>       |
| <b>Excess of Revenues Over Expenses<br/>Attributable to the Health System</b> | <b>\$ 27,378,464</b> | <b>\$ 22,832,881</b> |

See notes to consolidated financial statements.

**LAFAYETTE GENERAL HEALTH**  
**Consolidated Statements of Operations and Change in Net Assets (Continued)**  
**For the Years Ended September 30, 2020 and 2019**

|  | 2020                  | 2019                  |
|--|-----------------------|-----------------------|
| <b>Change in Net Assets Without Donor Restrictions</b>             |                       |                       |
| Excess of Revenues over Expenses                                   |                       |                       |
| Attributable to the Health System                                  | \$ 27,378,464         | \$ 22,832,881         |
| Change in Noncontrolling Interest                                  | (553,963)             | 528,377               |
| Other Changes, Net   | (1,025,647)           | (12,137,954)          |
| <b>Increase in Total Net Assets Without Donor Restrictions</b>     | <b>25,798,854</b>     | <b>11,223,304</b>     |
| <b>Change in Net Assets With Donor Restrictions</b>                |                       |                       |
| Increase in Net Assets With Donor Restrictions                     | -                     | 78,040                |
| <b>Increase in Total Net Assets</b>                                | <b>25,798,854</b>     | <b>11,301,344</b>     |
| Total Net Assets, Beginning of the Year,<br>as Previously Reported | 322,793,208           | 311,491,864           |
| Change in Accounting Principle                                     | 266,719               | -                     |
| Total Net Assets, Beginning of the Year, Restated                  | 323,059,927           | -                     |
| <b>Total Net Assets, End of Year</b>                               | <b>\$ 348,858,781</b> | <b>\$ 322,793,208</b> |

See notes to consolidated financial statements.



**LAFAYETTE GENERAL HEALTH**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended September 30, 2020 and 2019**

|  | 2020                 | 2019                |
|--|----------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>  |                      |                     |
| Increase in Net Assets   | \$ 25,798,854        | \$ 11,301,344       |
| Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities |                      |                     |
| Depreciation and Amortization  | 24,575,125           | 24,650,310          |
| Gain on Sale/Disposal of Assets  | -                    | (33,137)            |
| Unrealized and Realized Losses (Gains) on Investments  | (9,606,676)          | 2,011,807           |
| Equity in Earnings of Joint Ventures   | (257,468)            | 802,494             |
| Noncontrolling Interests in Subsidiaries   | (553,963)            | 528,377             |
| Changes in Operating Assets and Liabilities  |                      |                     |
| Patient Accounts Receivable  | 14,213,202           | (17,465,277)        |
| Amounts Due from/to Third-Party Payors   | 8,532,260            | (1,731,123)         |
| Inventories  | (2,859,961)          | (1,301,602)         |
| Other Assets   | 3,243,299            | (14,077,470)        |
| Accounts Payable and Accrued Expenses  | 17,994,481           | 13,407,692          |
| Deferred Revenue   | 92,267,962           | 304,463             |
| Self-Insurance Reserves  | 2,958,770            | 1,100,369           |
| Other Liabilities  | 3,454,948            | (57,808)            |
| <b>Net Cash Provided by Operating Activities</b>   | <b>179,760,833</b>   | <b>19,440,439</b>   |
| <b>Cash Flows from Investing Activities</b>  |                      |                     |
| Purchase of Property and Equipment   | (17,830,085)         | (15,819,136)        |
| Purchase of Minority Interest in Subsidiaries  | -                    | (19,765,120)        |
| Purchase of Investments  | (100,495,525)        | (50,534,428)        |
| Sale of Investments  | 212,729              | 44,037,264          |
| Investment in Unconsolidated Affiliates  | -                    | (890,800)           |
| <b>Net Cash Used in Investing Activities</b>   | <b>(118,112,881)</b> | <b>(42,972,220)</b> |
| <b>Cash Flows from Financing Activities</b>  |                      |                     |
| Repayment of Long-Term Debt  | (6,199,894)          | (4,644,893)         |
| Proceeds from Issuance of Long-Term Debt   | -                    | 3,263,171           |
| Payments on Finance Lease Obligations  | (112,032)            | (233,876)           |
| Line of Credit Activity, Net   | (28,000,000)         | 28,000,000          |
| Distributions, Net of Contributions  | (148,000)            | (87,555)            |
| <b>Net Cash (Used in) Provided by Financing Activities</b>                                   | <b>(34,459,926)</b>  | <b>26,296,847</b>   |
| <b>Increase in Cash and Cash Equivalents</b>   | <b>27,188,026</b>    | <b>2,765,066</b>    |
| <b>Cash and Cash Equivalents</b>   |                      |                     |
| Beginning  | 81,850,009           | 79,084,943          |
| Ending   | \$ 109,038,035       | \$ 81,850,009       |
| <b>Supplementary Disclosure of Cash Flow Information</b>                                     |                      |                     |
| Cash Paid During the Year for:   |                      |                     |
| Interest, Net of Amount Capitalized  | \$ 10,960,320        | \$ 11,802,501       |
| Non-cash Issuance of Debt for Capital Purchases and Other Transactions                       | \$ 1,121,703         | \$ -                |

See notes to consolidated financial statements.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

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### Note 1. Nature of Business and Significant Accounting Policies

#### Reporting Entity and Nature of Business

The accompanying consolidated financial statements include the accounts of the entities detailed below, which are collectively referred to as the Organization. There are no other entities whose financial statements should be consolidated and presented with these consolidated financial statements.

**Lafayette General Health System, Inc. (LGHS)** is a not-for-profit Louisiana corporation, organized on a non-stock basis to operate exclusively for the benefit of, perform functions of, and to carry out the purposes of Lafayette General Medical Center, Inc., Lafayette Health Ventures, Inc., St. Martin Hospital, Inc., University Hospital and Clinics, Inc., Acadia General Hospital, Inc., Lafayette General Foundation, Inc., Kaplan General Hospital, Inc., MTS/LGH Therapy Services, LLC, and Lafayette General Health Network, LLC. It is governed by a board of trustees. The trustees are elected from the general board membership, which consists of not more than 100 members of leaders in the community.

**Lafayette General Medical Center, Inc. (LGMC)** is a not-for-profit Louisiana corporation, organized on a non-stock basis to provide medical care to the residents of southwest Louisiana. The operations of LGMC consist of the services provided in Lafayette, Louisiana, at the main campus as well as Lafayette General Southwest (LGSW) campus.

**Lafayette Health Ventures, Inc. (LGMD)** is operating as a non-profit Delaware corporation, effective May 2011. It primarily operates physician practices, with specialties including family practice, internal medicine, Ob/Gyn, medical oncology, orthopedics, plastics, and cardiology.

**University Hospital and Clinics, Inc. (UHC)** was incorporated on April 18, 2013 as a not-for-profit Louisiana corporation, and organized on a non-stock basis. LGHS became the sole member of UHC. On May 17, 2013, LGHS and UHC entered into an Amended and Restated Cooperative Endeavor Agreement (CEA) with the Board of Supervisors of Louisiana State University (LSU) and Agricultural and Mechanical College, the Louisiana Division of Administration, and the State of Louisiana, through the Division of Administration (the State). In accordance with and subject to the terms of the CEA, UHC assumes responsibility for operating the hospital known as University Medical Center in Lafayette, Louisiana (Hospital); LSU is leasing to UHC the hospital building and related facilities (Facility) in which LSU operated the Hospital together with all furniture, fixtures, and equipment used in connection with the Hospital's operations; UHC purchased from LSU consumable inventory necessary for the continued operation of the Hospital; and UHC and LGHS commit to support LSU's academic, clinical, and research missions. Unless earlier terminated as provided in the CEA, the term of the CEA began on May 17, 2013 and is to continue for five (5) years. Beginning on the expiration of the initial term on May 17, 2018, and continuing on each anniversary date thereafter, the term of the CEA shall automatically be extended for one (1) additional year period.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

##### Reporting Entity and Nature of Business (Continued)

###### University Hospital and Clinics, Inc. (UHC) (Continued)

The CEA shall terminate prior to the expiration of the term in accordance with Section 14.2, which includes amongst other events the mutual agreement of all parties to the CEA, as well as in accordance with Section 14.7 of the CEA. Section 14.7 of the CEA presents that LGHS may provide notice to LSU, through a Termination for Convenience Notice, at any time that it intends to cease to be a party to this CEA, which decisions shall be in the sole discretion of LGHS and be made with or without cause; provided that the decision to provide such notice must be approved by the LGHS Board of Directors. Upon receipt of said notice, LSU shall have forty-five (45) days to notify LGHS in writing if it wants LGHS to withdraw as a member of UHC in lieu of terminating the CEA. If LSU fails or elects not to provide LGHS a notice within the 45 days, then the CEA shall automatically terminate sixty (60) days after LSU receives LGHS' notice. If LSU delivers a proper and timely notice to LGHS then the CEA shall not terminate, and LGHS will withdraw as a member of UHC on the 60<sup>th</sup> day after LSU receives LGHS' notice. In the event LGHS withdraws as a member of UHC, it shall be removed as a party to the CEA and shall have no further obligations with respect to the CEA or the lease as further explained.

On June 24, 2013, the lease between LSU and UHC officially commenced and UHC assumed operations for the Hospital. The lease agreement has an initial term of five (5) years. See Notes 1 and 9 for further details on the CEA and lease agreement.

**St. Martin Hospital, Inc. (SMH)** is a non-profit Louisiana corporation that is currently a wholly-owned subsidiary of LGMC. The entity operates a 25 licensed bed critical access hospital. SMH leases the hospital facilities under the terms of a twenty-five (25) year arrangement with Hospital Service District No. 2 of St. Martin Parish, LA. Under the terms of the lease, detailed more fully in Note 9, SMH assumed all operations for the Service District as of that date.

**Acadia General Hospital, Inc. (AGH)** is a non-profit Louisiana corporation incorporated on February 19, 2014 on a non-stock basis. The sole member of AGH is LGHS. The mission of AGH is to serve the City of Crowley, Louisiana and Acadia Parish, Louisiana community through the delivery of health care services. On May 6, 2014, AGH and American Legion Hospital, Inc. (ALH), a general medical and surgical hospital in Crowley, Louisiana, entered into an agreement whereby AGH will lease the facilities of ALH for a period of ten (10) years beginning on June 1, 2014.

**Lafayette General Foundation, Inc. (LGF)** is a non-profit Louisiana corporation incorporated on May 7, 2014 on a non-stock basis. The sole member of LGF is LGHS. LGF's mission is to enable the community to invest through philanthropy, in innovation that furthers the LGF's mission to restore, maintain, and improve health.

**MTS/LGH Therapy Services, LLC (MTS)** operates a physical therapy clinic in Lafayette, Louisiana. LGHS has a 50% ownership interest in MTS. The operating agreement of MTS provides LGHS a controlling interest.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

##### Reporting Entity and Nature of Business (Continued)

**Kaplan General Hospital, Inc. (KGH)** is a non-profit Louisiana corporation incorporated on December 5, 2014 on a non-stock basis. The sole member of KGH is LGHS. In June 2015, KGH assumed the operations of Abrom Kaplan Memorial Hospital (AKMH), a critical access hospital with 35 licensed beds located in Kaplan, Louisiana, through a building and equipment lease. The lease term runs until such date as the sales, use, and millage taxes, dedicated for the purpose of paying costs associated with operating, maintaining, and improving AKMH, are not renewed by special election. The Board of Commissioners for Vermillion Parish Hospital Service District 1 (the District) still owns the property and equipment of AKMH.

**LG Indemnity Company, Ltd. (LGI)** was incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands. LGI holds a Class B(i) Insurer's License under Section 4(3)(b) of the Insurance Law, 2010. The principal activity of LGI is to write coverage for directors and officer liability, employment practices liability, and cyber liability, on a deductible reimbursement basis, for LGH, as well as provide stop loss coverage for LGH's self-funded health plan.

**Lafayette General Health Network, LLC (LGHN)** was created to develop a provider network to participate in various quality, population health, and shared savings programs with health insurers including Ochsner Health Network.

The consolidated financial statements also include the accounts of the following entities in which LGMC has a controlling interest:

**Lafayette General Surgical Hospital, LLC (LGSH)** operates a short-stay hospital in Lafayette, Louisiana. LGMC had a 50% ownership interest in LGSH. On January 31, 2019, LGMC acquired 100% ownership of LGSH. LGSH ceased operations on May 31, 2019. LGSH was licensed as an off-campus location of LGMC effective June 1, 2019. The operating agreement of LGSH provided LGMC a controlling interest, prior to 100% ownership.

**Lafayette Investment Group, LLC (LIG)** was organized to operate a short-stay hospital and medical office building in Lafayette, Louisiana, that houses LGSH and OCSP. LGMC has a 51.72% ownership interest in LIG, and LGSH has a 25.96% ownership interest in LIG. In May 2019, LGMC acquired 100% ownership of LIG.

**Oil Center Surgical Plaza, LLC (OCSP)** operates an ambulatory surgical center in Lafayette, Louisiana. LGMC has a 50% ownership interest in OCSP. The operating agreement provides LGMC a controlling interest.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

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### Note 1. Nature of Business and Significant Accounting Policies (Continued)

#### Reporting Entity and Nature of Business (Continued)

The consolidated financial statements also include the accounts of the following entities in which LGF has a controlling interest:

**Healthcare Innovation Fund, LLC** is a wholly owned subsidiary of Lafayette General Foundation formed in July 2015. The fund will utilize capital, provided by the Louisiana Economic Development Corporation, to invest in start-up and early-stage firms that demonstrate significant growth potential for product development in the healthcare industry in Louisiana. A funding agreement was formed with the state in order to promote economic development in the State of Louisiana. It is anticipated that these activities will assist in seeking opportunities for the creation or enhancement of economic growth in Louisiana.

The consolidated financial statements also include **Lafayette General Health ACO, LLC (ACO)** which is an accountable care organization that began operations in 2020 as it qualified for participation in the Medicare Shared Savings Program. ACO is organized as a limited liability corporation with LGHS being its sole member.

#### Significant Accounting Policies

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Lafayette General Health System, Inc., its wholly-owned subsidiaries, and entities in which the Organization has a controlling financial interest as indicated above. All significant inter-company balances and transactions have been eliminated in consolidation. Income from unconsolidated entities is included in consolidated excess of revenues over expenses in the accompanying consolidated statements of operations and change in net assets.

Accounting Estimates: The preparation of consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. The Organization evaluates and updates its assumptions and estimates on an ongoing basis. Actual results could differ from those estimates.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

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### Note 1. Nature of Business and Significant Accounting Policies (Continued)

#### Significant Accounting Policies (Continued)

Charity Care: The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, and these amounts are not expected to result in cash flows, they are not reported as revenue. The Organization estimates its cost of care provided under its charity care programs by applying the ratio of direct and indirect costs to charges, to gross uncompensated revenue associated with providing care to charity patients. The cost to provide charity care was \$6,428,502 and \$10,617,582 for the years ended September 30, 2020 and 2019, respectively.

The Organization did not change its charity care or uninsured discount policies during fiscal years 2020 or 2019.

Cash Equivalents: Cash equivalents include highly liquid investments with a maturity of three months or less when purchased.

Short-Term Investments: Short-term investments consist of investments with original maturities exceeding three months and up to one year. Short-term investments are stated at fair value based on quoted market values.

Patient Accounts Receivable and Amounts Due to or from Third-Party Payors: Patient accounts receivable are reported at the amounts that reflect the consideration which the Organization expects to be entitled in exchange for providing patient care, as further described in Note 2.

The collection of outstanding receivables for Medicare, Medicaid, managed care and commercial insurance payers, and patients is the Organization's primary source of cash and is critical to the Organization's operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

##### Significant Accounting Policies (Continued):

The concentration of net receivables by primary payer class for both patients and third-party payers at September 30, 2020 and 2019 was as follows:

|                           | 2020         | 2019         |
|---------------------------|--------------|--------------|
| Managed Care \ Commercial | 63 %         | 57 %         |
| Medicare                  | 28           | 24           |
| Medicaid                  | 2            | 2            |
| Other Third-Party Payors  | 5            | 8            |
| Self-Pay Patients         | 2            | 9            |
|                           | <u>100 %</u> | <u>100 %</u> |

SMH and AKMH are approved for critical access status under the Medicare Rural Hospital Flexibility Program. States were allowed to designate this status to rural facilities meeting the program criteria. Medicare payments for inpatient/outpatient services under critical access status are determined on the basis of reasonable allowable costs. Inpatient care services rendered to SMH and AKMH Medicaid program beneficiaries are paid at prospectively determined rates per day. Most outpatient services rendered to program beneficiaries are reimbursed under a cost reimbursement methodology subject to an outpatient adjustment determined by Louisiana Department of Health (LDH).

LGMC, SMH, and AKMH formed collaborations with the State, units of state government in Louisiana, and other healthcare providers, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy population. The purpose of the collaborations is to create vehicles to provide charity care services in the providers' communities served. The provision of this care directly to low income and needy patients alleviates the expense of public funds the governmental entities previously expended on care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL).

Federal matching funds are not available for Medicaid payments that exceed UPLs. Each state's UPL methodology must comply with its state plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Under this methodology, LGMC, AKMH, and SMH received funding from the State of Louisiana during the fiscal years ended September 30, 2020 and 2019 collectively totaling \$9,634,616 and \$9,217,842, respectively, which is included as a component of net patient service revenue.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

##### Significant Accounting Policies (Continued)

As mentioned above, LGHS and UHC collaborated with the State of Louisiana through a CEA and related lease, assuming operational responsibility for LSU's teaching Hospital in Lafayette, Louisiana. The CMS provides for direct graduate medical education payments and indirect medical education reimbursement (DGME and IME) to LSU. The DGME and IME payment rules establish "caps" on the number of residency positions that are reimbursable but allow the caps (the Residency Caps) to be shared among and/or affiliated to other hospitals under certain circumstances. In order for LSU to continue to effectively provide the LSU graduate medical education programs, LSU transferred certain Residency Caps to Lafayette General Medical Center. The CEA also provides for other cost-based funding to LGMC and Louisiana Medicaid uncompensated care payments to UHC for the provision of health care services to UHC's Medicaid and self-pay / uninsured patients in a given State fiscal year. LGMC and UHC recognized a total of \$75,950,896 (\$3,500,000 and \$4,000,000 of which was paid to Lake Charles Memorial Hospital (LCM) and West Calcasieu Cameron Hospital (WC), respectively, as part of a community benefit agreement) and \$71,972,146 (\$3,500,000 and \$4,000,000 of which was paid to LCM and WC, respectively, as part of a community benefit agreement), during fiscal years ended September 30, 2020 and 2019, respectively, as a component of net patient service revenue, in accordance with the terms of the CEA.

Effective January 1, 2019, certain entities within the Organization entered in an agreement with the Quality and Outcome Improvement Network (QOIN) to facilitate payments to these entities under the State of Louisiana's Medicaid Managed Care Quality Incentive Program (Program). The Louisiana Department of Health (LDH) amended its agreements with its contracted Managed Care Organizations (MCOs) to include quality-based performance measures and quality-based outcomes. With the expected achievement of the defined quality measures, LDH will fund the MCOs, who in turn will fund the network that the hospitals contract with for this Managed Care Incentive Payment (MCIP). For each measurement year, LDH will evaluate the performance relative to the specific quality measures. In the event LDH finds a deficiency in the accomplishment of those performance measures, there is the potential for recoupment of the MCIPs. Under the terms of the agreement with the QOIN, the Organization recognized revenue of approximately \$11,100,000 for the year ended September 30, 2020 and approximately \$10,248,000 for the year ended September 30, 2019. This revenue is a component of other operating revenues.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports and regulatory audit. Such settlements are estimated and recorded as amounts due to or from third-party payors in the consolidated financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term. These adjustments resulted in a increase to net patient service revenue of \$16,659,412 in 2020. These adjustments resulted in an increase to net patient service revenue of \$1,732,968 in 2019.



## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

##### Significant Accounting Policies (Continued):

The Organization's Medicare and Medicaid cost reports have been settled through the years, as shown in the table below:

|      | Medicare | Medicaid |
|------|----------|----------|
| LGMC | 2016     | 2015     |
| SMH  | 2018     | 2014     |
| LGSH | 2016     | 2014     |
| UHC  | 2016     | 2014     |
| AGH  | 2016     | 2013     |
| KGH  | 2019     | 2015     |

The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2020 will be reported in the Organization's consolidated operations as such determinations are made.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Organization believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrong doing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis. The programs use 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 ago but not longer than three years ago. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare and Medicaid reimbursement in an amount estimated to equal the overpayment.

The Organization 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. Management has determined RAC and MIC assessments to be insignificant to date.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

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### Note 1. Nature of Business and Significant Accounting Policies (Continued)

#### Significant Accounting Policies (Continued):

Inventories: Inventories, which consist primarily of drugs and supplies, are stated at the lower of average cost or market and net realizable value.

Assets Whose Use is Limited: Assets whose use is limited include investments held by trustees under indenture agreements, the Organization's self-insurance program, and assets designated by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. These investments are considered to be limited as to use; however, they are not considered to be restricted. Assets whose use is limited that are specifically held by the trustee to make bond principal payments are classified as current assets in the consolidated balance sheets.

Investments: The Organization's investment portfolio is classified as trading with unrealized gains and losses included in revenues in excess of expenses. Investments in equity securities with readily determinable fair values are measured at fair values in the consolidated balance sheets. Other investments consist primarily of money market funds, equity mutual funds, and fixed income funds of the U.S. government and government agencies. Investments in equity mutual funds, with readily determinable fair values and all investments in fixed income funds are stated at fair value based on quoted market values. Investments in equity securities, equity mutual funds, and fixed income funds are classified as noncurrent due to the Organization's intent to hold the investment for long-term purposes. Investments classified as long-term may be sold before their maturities to fund working capital or for other purposes.

All realized and unrealized gains or losses are recorded in investment income (loss), net on the consolidated statement of operations and change in net assets. Realized gains and losses on sales of investments are determined using the specific identification method and are included in excess of revenues over expenses in the period in which the sale occurs.

Property and Equipment: Property and equipment are recorded at acquisition cost or, if donated, at the fair value at the date of donation. Assets under capital lease obligations are recorded at the present value of the aggregate future minimum lease payments at the beginning of the lease term. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years.

Costs of maintenance and repairs are charged to expenses when incurred; costs of renewals and betterments are capitalized. Upon sale or retirement of property and equipment, the costs and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and change in net assets.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

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### Note 1. Nature of Business and Significant Accounting Policies (Continued)

#### Significant Accounting Policies (Continued):

Impairment of Long-Lived Assets: When events or changes in circumstances indicate the carrying amount of property and equipment, and intangible or other long-lived assets related to specifically acquired assets may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed.

Physician Recruiting Agreements: In order to recruit physicians to meet the needs of the facilities and the communities they serve; the Organization enters into certain minimum revenue guarantee and subsidy arrangements to assist the recruited physicians during the period they are relocating and establishing their practices. The funds expended under the arrangements are considered advances until the conclusion of the defined guarantee period when a note receivable is recorded. Once the notes are recorded, they bear interest at prevailing rates and are due in monthly installments (typically 36 months). The notes contain provisions that state the monthly payment will be forgiven if the physician is in compliance with the terms of the agreement. All forgiveness is recognized in the period incurred.

Goodwill: Included in other assets is goodwill, which is carried at acquisition value, less any impairment reductions. The carrying value of goodwill amounted to approximately \$9,418,383 at September 30, 2020 and 2019 and is included in other assets in the consolidated balance sheets. Goodwill is assessed for impairment on an annual basis at the reporting unit level. If the fair value of the reporting unit is less than the carrying value, an impairment loss equal to the difference between the implied fair value of the reporting unit goodwill and the carrying value of the reporting unit goodwill is recognized. There was no impairment of goodwill in 2020. The Organization accounts for its investments in less than majority affiliates using either the cost or equity method of accounting depending on the ownership percentage and the level of control exercised by the Organization. Income from these investments is reflected in other revenue in the consolidated statements of operations and change in net assets.

Accrued Postretirement Benefits and Self-Insurance Reserves: The liabilities for accrued postretirement benefits and self-insurance reserves, which include health insurance, workers' compensation, and medical malpractice claims, include estimates for the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate past experience, as well as other considerations including the nature of claims, industry data, relevant trends, and the use of actuarial information.

Noncontrolling Interest: The consolidated financial statements include all assets, liabilities, revenues, and expenses of entities that are controlled by the Organization and therefore consolidated. Noncontrolling interests in the consolidated balance sheets represent the portion of net assets owned by entities outside the Organization, for those entities in which the Organization's ownership interest is less than 100%.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

##### Significant Accounting Policies (Continued):

Income Taxes: LGHS, LGMC, UHC, LGMD, SMH, AGH, LGF, and KGH are exempt from federal income taxes on related income under Internal Revenue Code (IRC) Section 501(a) as organizations described in Section 501(c)(3). OCSP and MTS are for-profit Louisiana limited liability corporations.

Uncertain Tax Positions: The Organization accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740. FASB ASC 740 prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Organization's various federal income tax and exempt organization income tax returns (IRS Forms 1065, 1120, and 990), whether filed on a calendar or fiscal year basis, are subject to examination by the Internal Revenue Service (IRS). The income tax returns are subject to examination by the taxing authorities, generally for three years after they are filed.

Contributions: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and change in net assets without donor restrictions as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as net assets without donor restrictions in the accompanying consolidated financial statements.

Net Assets Without Donor Restrictions: Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes.

Net Assets With Donor Restrictions: Net assets with donor restrictions consist of assets whose use is limited by donor imposed, time and/or purpose restrictions.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

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### Note 1. Nature of Business and Significant Accounting Policies (Continued)

#### Significant Accounting Policies (Continued):

Fair Value of Financial Instruments/Measurements: The following methods and assumptions were used by the Organization in estimating the fair value of their financial instruments:

Current Assets and Liabilities - The Organization considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

Investments - The fair values of the Organization's marketable equity securities are based on quoted market prices in an active market. The carrying amounts of other investments approximate fair value. See Note 5 for further details.

Long-Term Debt - When practicable to estimate, the fair values of the Organization's long-term financial instruments are based on (a) currently traded values of similar financial instruments and (b) discounted cash flows methodologies utilizing currently available borrowing rates.

Statement of Operations and Change in Net Assets: Transactions deemed to be ongoing, major, or central to the provision of health care services are reported within operating income. Peripheral or incidental transactions are reported as non-operating revenues and expenses. Investment income, which includes changes in unrealized gains and losses on investments, is reported as non-operating revenue.

Performance Indicator (Excess of Revenues Over Expenses): The performance indicator includes operating income and nonoperating income (losses). The performance indicator excludes, when present, certain changes in pension obligations and contributions for capital expenditures, contributions of capital, distributions, and net assets released from restricted funds.

Coronavirus Aid, Relief, and Economic Security Act: In response to the economic impact of COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted by Congress and was subsequently signed into law on March 27, 2020. The CARES Act included a variety of economic assistance provisions for businesses and individuals. The Organization suspended non-emergency or non-critical surgeries, procedures and appointments beginning in mid-March through early-May in 2020 due to COVID-19. Under certain provisions in the CARES Act, the Organization recognized benefits related to provider relief funding totaling \$50,630,982 in its consolidated statement of operations and change in net assets for the year ended September 30, 2020. The Health System also deferred payment of approximately \$7.3 million for the employer portion of the Social Security payroll tax as allowed by the CARES Act. This deferral is included as a component of salaries and wages payable on the accompanying consolidated balance sheet as of September 30, 2020. Fifty percent of the deferred taxes must be paid by December 31, 2021 with the remainder by December 31, 2022.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

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### Note 1. Nature of Business and Significant Accounting Policies (Continued)

#### Significant Accounting Policies (Continued):

Under the CARES Act, the Organization also received \$92,572,424 in advances under the Medicare Accelerated and Advance Payments Program (AAPP) in April 2020.

Through the Continuing Appropriations Act, 2021 and Other Extensions Act (the CA Act) that was enacted October 1, 2020, the Organization will not be subject to recoupment of their Medicare payments for a period of one year from the date they received their AAPP payments. Starting on the date that is one year from their receipt of the AAPP payments, repayment will be made out of the Organization's future Medicare payments. The schedule for such repayments will be as follows:

- Twenty five percent (25%) of the Organization's Medicare payments will first offset against the outstanding AAPP balance for the next eleven (11) months.
- Fifty percent (50%) of the Organization's Medicare payments will first offset against the outstanding AAPP balance for the next six (6) months.
- The Organization will receive a letter setting forth their remaining balance and will have thirty (30) days to pay the balance in full.
- Any unpaid balance after the 30 days will accrue interest at a rate of four percent (4%).

The Organization has classified these advances as deferred revenue on its consolidated balance sheets, with \$19,676,172 classified as a current liability and \$72,876,252 as a non-current liability.

Reclassifications: Certain reclassifications have been made to prior year balances to conform to the current year presentation.

#### Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which amends the accounting for leases, requiring lessees to recognize most leases on their balance sheet with a right-of-use asset and a corresponding lease liability. Leases will be classified as either finance or operating leases, which will impact the manner and timing of expense recognition of such leases over the lease term. The ASU also modifies the lease classification criteria for lessors and eliminates some of the real estate leasing guidance previously applied for certain leasing transactions. The Organization adopted this ASU on October 1, 2019. In July 2018, the FASB issued ASU 2018-11, which provides entities relief from the transition requirements in ASU 2016-02 by allowing them to elect not to recast prior comparative periods. The Organization elected this method of transition upon adoption of this ASU. Because of the number of leases, the Organization utilizes to support its operations, the adoption of this ASU had a significant impact on the Organization's consolidated financial position but did not have a significant impact on the Organization's results of operations. Refer to Note 9 for additional information regarding the right-of-use assets and liabilities.

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Recently Adopted Accounting Pronouncements (Continued)**

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Organization adopted the standard effective October 1, 2019. There was no material impact on the Organization's consolidated financial position or results of operations.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses in Financial Statements*. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. The provisions of ASU 2016-13 are effective for the Organization starting October 1, 2023. Management is currently evaluating the impact of this pronouncement on the consolidated financial statements.

In July 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The amendments in this update eliminate Step 2 from the goodwill impairment test in an effort to simplify the subsequent measurement of goodwill. Step 2 requires determining the fair value at the impairment testing date of assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. The provisions of ASU 2017-04 are effective for the Organization starting October 1, 2023, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on the consolidated financial statements.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 2. Patient Service Revenue

The Organization's revenues generally relate to contracts with patients in which the Organization's performance obligations are to provide health care services to the patients. Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients and third-party payers (including government programs and managed care and commercial insurance companies) and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. The Organization determines the transaction price based on standard charges, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Organization's policy, and implicit price concessions.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The Organization measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time, which includes outpatient services, is generally recognized when services are provided to our patients, and the Organization does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. Estimates of contractual adjustments under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. The payment arrangements with third-party payers provide for payments to the Organization at amounts different from its established rates.



## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 2. Patient Service Revenue (Continued)

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. At September 30, 2020 and 2019, estimated implicit price concessions of \$312,427,443 and \$308,936,262, respectively, have been recorded as reductions to accounts receivable balances to enable the Organization to record its revenues and accounts receivable at the estimated amounts the Organization expects to collect.

Estimated implicit price concessions are recorded for all uninsured accounts, which includes uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage, regardless of the aging of those accounts. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state, and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections as a primary source of information in estimating the collectability of our accounts receivable. The Organization performs a hindsight analysis, utilizing historical accounts receivable collection, and write-off data. The Organization believes its updates to the estimated implicit price concession amounts at each of its hospital facilities provide reasonable valuation estimates of the Organization's revenues and accounts receivable.

The Organization provides medical services to government program beneficiaries and has agreements with other third-party payors that provide payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, prospectively determined rates per procedure, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payers, and others for services rendered.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 2. Patient Service Revenue (Continued)

The Organization's patient service revenues by payer for the years ended September 30, 2020 and 2019, were as follows (in thousands):

|                                       | 2020              | 2019              |
|---------------------------------------|-------------------|-------------------|
| Medicare                              | \$ 232,223        | \$ 227,115        |
| Medicaid                              | 213,611           | 217,847           |
| Managed Care and Commercial Insurance | 281,679           | 305,361           |
| Patients                              | 30,388            | 30,182            |
|                                       | <u>\$ 757,901</u> | <u>\$ 780,505</u> |

#### Note 3. Cash and Cash Equivalents

As of September 30, 2020 and 2019, the Organization reported cash and cash equivalents balances of \$109,038,035 and \$81,850,009, respectively. The Organization has concentrated its credit risk by maintaining deposits in banks located within the same geographic region that may, at times, exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC). At September 30, 2020 and 2019, respectively, approximately \$112,000,000 and \$90,000,000 of cash and cash equivalents were uninsured. The Organization's policy is to place its cash and cash equivalent deposits with high credit quality financial institutions. Accordingly, the Organization has not experienced any losses and management does not believe these excess deposits expose the Organization to a significant risk of loss.

#### Note 4. Short-Term Investments and Assets Limited as to Use

The balance in short-term investments was \$143,342,981 and \$40,598,842 at September 30, 2020 and 2019, respectively.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 4. Short-Term Investments and Assets Limited as to Use (Continued)

Assets limited as to use at September 30, 2020 and 2019, were as follows:

|   | 2020                  | 2019                  |
|---|-----------------------|-----------------------|
| <b>Under Debt Agreement Held by<br/>Third Party</b>                       |                       |                       |
| Cash and Cash Equivalents   | \$ 40,252             | \$ 2,844              |
|   | <u>40,252</u>         | <u>2,844</u>          |
| <b>By Board for Property and Equipment Additions<br/>and Replacements</b> |                       |                       |
| Equity Mutual Funds   | 49,522,941            | 45,003,437            |
| Fixed Income Funds  | 59,599,795            | 53,134,374            |
| Cash and Cash Equivalents   | 265,810               | 277,085               |
| Other   | -                     | 3,865,725             |
|   | <u>109,388,546</u>    | <u>102,280,621</u>    |
| <b>Total Assets Whose Use is Limited</b>                                  | <u>\$ 109,428,798</u> | <u>\$ 102,283,465</u> |

#### Note 5. Fair Value Measurements

The fair value measurements are based on a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 5. Fair Value Measurements (Continued)

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NAV As a practical expedient, the Organization is permitted under generally accepted accounting principles in the United States of America (U.S. GAAP) to estimate the fair value of investments in investment companies that have a calculated value of their capital account or net asset value (NAV) at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if NAV is not calculated in accordance with U.S. GAAP. The investments at NAV are not classified in the fair value hierarchy.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used for assets measured at fair value is as follows:

- Common stocks, corporate bonds, and U.S. government securities, when present are valued at the closing price reported on the active market on which the individual securities are traded.
- Mutual Funds are valued at the NAV of shares held at year end. The NAV is calculated by summing the total assets and subtracting the total liabilities, divided by the number of shares outstanding. The NAV is the value used to compare it with other funds and to calculate performance statistics. However, the NAV may not represent the current value since the component prices change throughout the trading day. Therefore, the NAV is calculated only at the end of the trading day. The investments held are deemed to be actively traded and valued at the NAV calculated at the end of the trading day.
- Money Market Funds and certificates of deposit are reported at the net asset value and amount reported by the issuing financial institution, respectively.
- Pooled Investment accounts are valued at the liquidation value of the underlying instruments.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 5. Fair Value Measurements (Continued)

- Insurance Company Group Annuity Contract is carried at contract value as reported by the insurance company, which approximates fair value. The concept of a value other than contract value does not apply to this insurance company issued general account backed evergreen (no maturity date) group annuity spread investment. This contract's operation is different than many other evergreen group annuity products in the market by virtue of the fact that a market value (fair value) adjustment does not apply upon discontinuance. There are no specific securities in the general account that back the liabilities of the annuity contract and it would be inappropriate to look to the market value of the securities within the insurer's general account to determine a fair value.

The following table sets forth, by level within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2020:

|  | Fair Value     | Level 1        | Level 2       | Level 3      |
|--|----------------|----------------|---------------|--------------|
| Mutual Funds   |                |                |               |              |
| Equity Funds   | \$ 52,395,323  | \$ 52,395,323  | \$ -          | \$ -         |
| Fixed Income Funds   | 170,552,019    | 154,908,449    | 15,643,570    | -            |
| Total Mutual Funds   | 222,947,342    | 207,303,772    | 15,643,570    | -            |
| Cash Equivalents, Money Market,<br>and Certificates of Deposit | 31,531,399     | 31,531,399     | -             | -            |
| Marketable Equity Securities                                   | 9,275,494      | 9,275,494      | -             | -            |
| Insurance Company Group Annuity Contract                       | 1,912,281      | -              | -             | 1,912,281    |
| Investments Measured at NAV                                    | 7,102,957      | -              | -             | -            |
| Total  | \$ 272,769,473 | \$ 248,110,665 | \$ 15,643,570 | \$ 1,912,281 |

These instruments are included on the Organization's September 30, 2020, consolidated balance sheet under the following captions:

|  |                       |
|--|-----------------------|
| Short-Term Investments                                   | \$ 143,342,981        |
| Assets Limited as to Use                                 | 109,388,546           |
| Items Included as a Component of Other Noncurrent Assets |                       |
| Marketable Equity Securities                             | 9,275,494             |
| Deferred Compensation Arrangement Assets                 | 10,762,452            |
| Total  | <u>\$ 272,769,473</u> |

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 5. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2019:

|  | Fair Value     | Level 1        | Level 2      | Level 3      |
|--|----------------|----------------|--------------|--------------|
| Mutual Funds   |                |                |              |              |
| Equity Funds   | \$ 48,166,117  | \$ 48,166,117  | \$ -         | \$ -         |
| Asset Allocation Funds   | 3,957,945      | 3,957,945      | -            | -            |
| Fixed Income Funds   | 85,838,485     | 77,093,216     | 8,745,269    | -            |
| Total Mutual Funds   | 137,962,547    | 129,217,278    | 8,745,269    | -            |
| Cash Equivalents, Money Market,<br>and Certificates of Deposit | 1,948,180      | 1,948,180      | -            | -            |
| Marketable Equity Securities                                   | 5,879,301      | 5,879,301      | -            | -            |
| Insurance Company Group Annuity Contract                       | 1,939,061      | -              | -            | 1,939,061    |
| Investments Measured at NAV                                    | 4,987,269      | -              | -            | -            |
| Total  | \$ 152,716,358 | \$ 137,044,759 | \$ 8,745,269 | \$ 1,939,061 |

These instruments are included on the Organization's September 30, 2019 consolidated balance sheet under the following captions:

|  |                |
|--|----------------|
| Short-Term Investments                                   | \$ 35,467,553  |
| Assets Limited as to Use                                 | 102,280,621    |
| Items Included as a Component of Other Noncurrent Assets |                |
| Marketable Equity Securities                             | 5,879,301      |
| Deferred Compensation Arrangement Assets                 | 9,088,883      |
| Total  | \$ 152,716,358 |

### Fair Value of Investments that Calculate Net Asset Value per Share

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2020:

|                     | Fair Value   | Unfunded Commitments | Redemption Frequency | Notice Period |
|---------------------|--------------|----------------------|----------------------|---------------|
| Dynamic Equity Fund | \$ 7,102,957 | None                 | Daily                | N/A           |

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2019:

|                     | Fair Value   | Unfunded Commitments | Redemption Frequency | Notice Period |
|---------------------|--------------|----------------------|----------------------|---------------|
| Dynamic Equity Fund | \$ 4,987,269 | None                 | Daily                | N/A           |

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 5. Fair Value Measurements (Continued)

The following tables set forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended September 30, 2020 and 2019:

| <u>September 30, 2020</u> | <u>Level 3</u>      |
|---------------------------|---------------------|
| Beginning Balance         | \$ 1,939,061        |
| Interest Reinvested       | 36,646              |
| Purchases                 | 504,914             |
| Sales                     | (255,393)           |
| Other                     | <u>(312,947)</u>    |
| Ending Balance            | <u>\$ 1,912,281</u> |
| <u>September 30, 2019</u> | <u>Level 3</u>      |
| Beginning Balance         | \$ 1,964,620        |
| Interest Reinvested       | 33,011              |
| Purchases                 | 670,610             |
| Sales                     | (564,119)           |
| Other                     | <u>(165,061)</u>    |
| Ending Balance            | <u>\$ 1,939,061</u> |

#### Changes in Fair Value Levels

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluate the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended September 30, 2020 and 2019, there were no transfers in or out of Level 3.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 5. Fair Value Measurements (Continued)

#### Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following tables represent the Organization's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

| September 30, 2020   |              |                               |                      |                                   |                  |
|--|--------------|-------------------------------|----------------------|-----------------------------------|------------------|
| Investment   | Fair Value   | Principal Valuation Technique | Unobservable Inputs  | Range of Significant Input Values | Weighted Average |
| Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund | \$ 1,912,281 | See Discussion Above          | See Discussion Above | N/A                               | N/A              |
| September 30, 2019   |              |                               |                      |                                   |                  |
| Investment   | Fair Value   | Principal Valuation Technique | Unobservable Inputs  | Range of Significant Input Values | Weighted Average |
| Insurance Company Group Annuity Contract - Prudential Guaranteed Income Fund | \$ 1,939,061 | See Discussion Above          | See Discussion Above | N/A                               | N/A              |

In estimating fair value of the investments in Level 3, management may use third-party pricing sources or appraisers. In substantiating the reasonableness of the pricing data provided by third parties, the Organization evaluates a variety of factors including review of methods and assumptions used by external sources, recently executed transactions, existing contracts, economic conditions, industry and market developments, and overall credit ratings.

#### Financial Instrument Fair Value Disclosures

At September 30, 2020 and 2019, the Organization's financial instruments included cash and cash equivalents, accounts receivable, investments, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term obligations, approximate their fair values.

The fair value of the Organization's Series 2010 debt at September 30, 2020 is estimated at \$91,145,824, compared to its carrying value of \$81,128,202 (net of unamortized original issue discount of \$466,798). The fair value of this instrument is based on currently traded values of similar financial instruments.

The fair value of remaining long-term debt instruments reasonably approximates the carrying value.



## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 6. Investments in Joint Ventures and Other Investees

The Organization holds a 50% interest in Lafayette General Endoscopy Center, Inc. (GI-ASC). This Company provides ambulatory surgical services in Lafayette, Louisiana. The investment in GI-ASC, accounted for under the equity method, is \$1,437,117 and \$1,393,194 as of September 30, 2020 and 2019, respectively. Equity method goodwill arising upon the 2005 acquisition of GI-ASC by LGMC is included as a component of the carrying amount of the investment. The carrying amount of the equity method goodwill component comprises the substantial portion of the investment balance as of September 30, 2020 and 2019.

Summarized financial information of GI-ASC as of September 30, 2020 includes total assets of \$762,528 and total liabilities of \$554,960. GI-ASC operates on a calendar year basis and reported \$1,199,108 of net income for the nine months ended September 30, 2020. Summarized financial information of GI-ASC as of September 30, 2019 includes total assets of \$300,629 and total liabilities of \$180,907. GI-ASC operates on a calendar year basis and reported \$1,603,699 of net income for the nine months ended September 30, 2019. Net income is routinely distributed to LGMC and the other IRS subchapter S-corporation shareholders each year.

The Organization holds interests in several other entities which are accounted for under the equity method. These investments total \$3,053,416 and \$2,839,871 at September 30, 2020 and 2019, respectively.

Investee companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Other Noncurrent Assets include \$1,121,800 and \$975,545 of investments accounted for under the cost method as of September 30, 2020 and 2019, respectively.

Under this method, the Organization's share of the earnings or losses of such investee companies is not included in the consolidated balance sheets or consolidated statements of operations; however, impairment charges are recognized in the consolidated statements of operations, if applicable. When circumstances suggest that the value of the investee company has subsequently recovered that recovery is not recorded.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 7. Property and Equipment

Property and equipment consisted of the following:

|                                | 2020                  | 2019                  |
|--------------------------------|-----------------------|-----------------------|
| Land and Land Improvements     | \$ 15,209,938         | \$ 15,089,938         |
| Buildings and Fixed Equipment  | 445,560,152           | 424,889,058           |
| Major Movable Equipment        | 142,481,198           | 142,656,691           |
|                                | <u>603,251,288</u>    | <u>582,635,687</u>    |
| Less: Accumulated Depreciation | 344,659,866           | 320,177,671           |
|                                | <u>258,591,422</u>    | <u>262,458,016</u>    |
| Construction in Progress       | 6,197,865             | 7,733,133             |
|                                | <u>6,197,865</u>      | <u>7,733,133</u>      |
| <b>Total</b>                   | <b>\$ 264,789,287</b> | <b>\$ 270,191,149</b> |

#### Construction in Progress and Purchase Commitments

At September 30, 2020, the Organization was obligated under purchase commitments of approximately \$8,467,000, principally related to ongoing renovation projects, and \$29,078,000 related to other purchase commitments.

### Note 8. Short-Term and Long-Term Debt

The following table summarizes the Organization's outstanding debt as of September 30, 2020 and 2019:

| Line of Credit   | 2020               | 2019                 |
|--|--------------------|----------------------|
| Line of Credit - LGHS: Interest rate of LIBOR plus 1.75% (1.899% at September 30, 2019), matured October 1, 2020.  | (A) \$ -           | \$ 18,000,000        |
| Line of Credit - LGHS: Interest rate of 1 month LIBOR plus 1% (1.149% at September 30, 2020), a revolving loan due on demand.                              | (A) -              | 10,000,000           |
| <b>Total Line of Credit</b>  | <b>\$ -</b>        | <b>\$ 28,000,000</b> |
| <b>Long-Term Debt - Bonds Payable</b>  | <b>2020</b>        | <b>2019</b>          |
| Revenue and Refunding Bonds, Series 2010: Interest payable semi-annually at rates ranging from 2.0% to 5.5%. Principal is payable annually through 2041.   | (B) \$ 81,595,000  | \$ 81,595,000        |
| Hospital Revenue Bonds, Series 2012B: Fixed interest at 2.46% through 2019. Principal payable annually through 2042, variable interest rate.               | (C) 29,540,000     | 29,775,000           |
| Revenue and Refunding Bonds, Series 2016A: Interest payable semi-annually at rates ranging from 3.25% to 5.0%. Principal is payable annually through 2045. | (D) 65,295,000     | 65,295,000           |
| <b>Total Long-Term Debt - Bonds Payable</b>  | <b>176,430,000</b> | <b>176,665,000</b>   |

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 8. Short-Term and Long-Term Debt (Continued)

| Long-Term Debt - Notes Payable  |     | 2020          | 2019           |
|---|-----|---------------|----------------|
| Bank Note Payable, Series 2016A: Variable interest of LIBOR plus Spread (3.87% at September 30, 2019), payable quarterly. Principal payable quarterly through 2039, beginning in 2019.  | (E) | 22,965,000    | 25,000,000     |
| Bank Note Payable, Series 2016B: Variable interest of LIBOR plus Spread (3.795% at September 30, 2019), payable quarterly. Principal payable quarterly through 2041, beginning in 2019. | (F) | 40,395,000    | 42,750,000     |
| Bank Note Payable - OCSP: Interest rate of 4.75% payable in monthly principal and interest installments through June 2022.  | (G) | 491,680       | 754,436        |
| Bank Note Payable - MTS: Interest rate of 3.25% payable in monthly principal and interest installments through 2022.  | (H) | 14,666        | 20,765         |
| Bank Note Payable - MTS: Interest rate of 3.25% payable in monthly principal and interest installments through 2023.  | (I) | 20,705        | 28,111         |
| Note Payable - MTS: Interest rate of 0.00% payable in monthly principal installments through 2023.  | (J) | 91,218        | -              |
| Note Payable - MTS: Interest rate of 0.00% payable in monthly principal installments through 2030.  | (K) | 494,068       | -              |
| Note Payable - LGMC: Interest rate of 1.78% payable in monthly principal and interest installments through 2021.  | (L) | 126,525       | -              |
| Bank Note Payable - LGHS: Monthly principal and interest payments of \$84,945 over a 3 year term. Interest rate of 4.99%.   | (M) | 2,087,995     | 2,976,736      |
| Total Long-Term Debt - Notes Payable  |     | 66,686,857    | 71,530,048     |
| Total Long-Term Debt - Bonds and Notes Payable  |     | 243,116,857   | 248,195,048    |
| Less: Original issue discount, less accumulated amortization of \$23,243  |     | (466,798)     | (490,041)      |
| Plus: Original issue premium, less accumulated amortization of \$218,384.   |     | 4,814,483     | 5,032,868      |
| Less: Unamortized Debt Issuance Costs   |     | (2,248,368)   | (2,350,917)    |
|   |     | 245,216,174   | 250,386,958    |
| Less: Current maturities of long-term debt  |     | (243,312,403) | (5,770,299)    |
| Total   |     | \$ 1,903,771  | \$ 244,616,659 |

- (A) Revolving Credit Line: The Organization has an unsecured revolving line of credit from a bank that permits borrowings up to \$20,000,000, at an interest rate of LIBOR plus 1.75%. The line of credit matured on September 4, 2020. At September 30, 2020 and 2019, the Organization had \$-0- and \$18,000,000, respectively, of outstanding borrowings under this line of credit.

The Organization has also negotiated a secured revolving line of credit from a lender that permits borrowing up to \$50,000,000 at an interest rate of LIBOR plus 1% (1.149% at September 30, 2020). The line of credit is secured by the investment assets of the Organization. The line of credit is due upon demand. At September 30, 2020 and 2019, the Organization had \$-0- and \$10,000,000, respectively, of outstanding borrowings under this line of credit.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 8. Short-Term and Long-Term Debt (Continued)

- (B) Revenue and Refunding Bonds, Series 2010 - LGMC: During 2010, the Louisiana Public Facilities Authority (LPFA) issued \$84,840,000 of tax-exempt revenue and refunding bonds for which LGMC is obligated. The security for the 2010 series bonds is described later in this Note. These bonds are due serially through November 1, 2041. See Note 18 for an accelerated payment of these bonds.
- (C) Revenue Bonds Series 2012 A and B - LGMC: On July 1, 2012, the LPFA authorized the issuance of \$30,000,000 Series 2012A and \$30,000,000 Series 2012B of hospital revenue bonds for which LGMC is obligated via an executed loan agreement issued as of that date. The purpose of the issue was to finance a portion of the costs of construction, expansion and renovations of operating room suites, the emergency room, and other portions of the main campus and additional construction of a multi-level parking facility. Both the Series A and B Bonds were issued as draw down bonds. The loan agreement requires debt service by LGMC in an amount sufficient to provide for principal and interest under the terms of each bond series. Interest on the outstanding principal balance of each series is payable monthly. The Series A bonds were redeemed in 2016 in conjunction with the issuance of the 2016 bonds. The Series B bonds interest was fixed at 2.46% per annum through July 25, 2019. In 2019, the rate was renegotiated as a variable rate through July 2024. Principal repayment for Series B bonds began November 1, 2018 and continue through 2042. The bonds contain optional redemption provision at the direction of LGMC. See Note 18 for an accelerated payment of the Series B bonds.
- (D) Revenue and Refunding Bonds, Series 2016A - LGHS: On November 1, 2016, the LPFA authorized the issuance of \$65,295,000 Series 2016A Hospital Revenue and Refunding Bonds and \$31,750,000 Series 2016B Taxable Hospital Revenue and Refunding Bonds for which LGHS is obligated via an executed loan agreement as of that date. The Series 2016 Bonds were issued for the purpose of providing funds, together with other moneys of LGHS, to finance projects and refund indebtedness for LGHS and certain affiliates defined as the Obligated Group. The Series 2016A Bonds are subject to redemption prior to maturity at the option of LPFA at the request of LGHS on or after November 1, 2025. During the year ended September 30, 2016, LGHS redeemed in full the outstanding balance of the Series 2016B Bonds. The Series 2016A Bonds bear-interest at rates ranging from 3.25% to 5% with interest payable semi-annually. Principal is payable annually beginning November 1, 2032 with the final payment on November 1, 2045. See Note 18 for an accelerated payment of the Series A bonds.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 8. Short-Term and Long-Term Debt (Continued)

- (E) Series 2016A Note Payable - LGHS: On September 29, 2016, LGHS (as Borrower) executed a note with Iberia Bank (as Lender). The loan agreement was issued in the principal amount of \$25,000,000 for the purpose of refinancing debt. The note bears interest at the Special Bank Variable Rate, as defined, which shall be reset as defined. Interest is payable quarterly beginning November 1, 2016. Principal is payable quarterly beginning November 1, 2019 with maturity scheduled for November 1, 2039.

This note is secured by an Act of Assignment of Receipts and Security Agreement dated September 1, 2016 to which LGHS, as Obligated Group Agent, as defined, has assigned certain receipts to the Master Trustee. Additionally, security includes the benefits of a Multiple Indebtedness Mortgage, Assignment of Leases and Rents, and Security Agreement dated August 10, 2010 by LGMC in favor of the Master Trustee, granting a mortgage lien on certain of the properties of LGHS. See Note 18 for an accelerated payment of the Series 2016A Note.

- (F) Series 2016B Note Payable - LGHS: On September 29, 2016, LGHS (as Borrower) executed a note with Whitney Bank (as Lender). The loan agreement was issued in the principal amount of \$42,750,000 for the purpose of refunding the Series 2016B Bonds, raise capital to increase liquidity, refinance other debt, and pay certain related expenses incurred in connection with the issuance note. The note bears interest at the Special Bank Variable Rate, as defined, which shall be set as defined. Interest is payable quarterly beginning November 1, 2016. Principal is payable quarterly beginning November 1, 2019 with maturity scheduled for November 1, 2041. This note is subject to optional redemption, in whole or in part, at the principal amount thereof plus accrued interest to the redemption date.

This note is secured by an Act of Assignment of Receipts and Security Agreement dated September 1, 2016 to which LGHS as Obligated Group Agent, as defined, has assigned certain Receipts to the Master Trustee. Additionally, security includes the benefits of a Multiple Indebtedness Mortgage, Assignment of Leases and Rents, and Security Agreement dated August 10, 2010 by LGMC in favor of the Master Trustee, granting a mortgage lien on certain of the properties of LGHS. See Note 18 for an accelerated payment of the Series 2016B Note.

- (G) Bank Note Payable - OCSP: The Organization has recorded a bank note payable with OCSP (as Borrower) and Home Bank (as Lender). The loan agreement was issued for up to \$1,900,000 of principal to be utilized to pay off construction costs for OCSP. The note bears interest at 4.75% with maturity in June 2022.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 8. Short-Term and Long-Term Debt (Continued)

- (H) Bank Note Payable - MTS: The Organization has recorded a bank note payable which was issued May 31, 2017. The balance is due in monthly principal installments of \$757 plus interest through March 30, 2022. The note bears interest at a rate of 3.25%.
- (I) Bank Note Payable - MTS: The Organization has recorded a bank note payable which was issued May 31, 2017. The balance is due in monthly principal installments of \$651 plus interest through March 30, 2023. The note bears interest at a rate of 3.25%.
- (J) Note Payable - MTS: The Organization has a note payable with a balance due in monthly principal installments of \$3,035 through March 15, 2023. The note bears interest at a rate of 0.00%.
- (K) Note Payable - MTS: The Organization has a note payable with a balance due in monthly principal installments of \$4,117 through September 10, 2030. The note bears interest at a rate of 0.00%.
- (L) Note Payable - LGMC: The Organization has recorded a note payable with monthly principal installments of \$8,333 plus interest through October 1, 2021. The note bears interest at a rate of 1.78%.
- (M) Bank Note Payable - LGSH: The Organization has recorded a bank note payable which was issued May 2019. The balance is due in monthly principal and interest installments of \$84,945 through November 2022. The note bears interest at a rate of 4.99%.

LGHS and Whitney Bank, as master trustee (the Master Trustee) for the outstanding bonds have entered into, amended, restated, and added supplements to the Master Trust Indenture, with the latest supplement dated January 1, 2016. LGHS and the LPFA have entered into a Loan Agreement documenting that LGMC, as Obligated Group Agent, has delivered a promissory note to the LPFA to evidence and secure its obligations to the LPFA.

As referenced above to Note 18, subsequent to year end, bonds were issued to refinance the LGMC Series 2010 Bonds, the LGMC Series 2012B Bonds, the LGHS Series 2016A Bonds, the LGHS Series 2016A Notes, and the LGHS Series 2016B Notes. As a result the balance of the bonds outstanding, along with the associated discount, premium, and unamortized debt issuance costs, is classified as current maturities of long-term debt on the consolidated balance sheet as of September 30, 2020.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 8. Short-Term and Long-Term Debt (Continued)

As security for the Bonds, the LPFA has assigned and pledged to the Trustee, for the benefit of the owners of the Bonds, substantially all of LPFA's interest in the Series 2016, 2012, and 2010 loan agreements. Pursuant to the terms of the Amended and Restated Master Trust Indenture, LGHS, as obligated group agent, may from time to time issue other notes or series of notes such that the holders of the Series 2016, 2012, and 2010 obligations are on a parity with respect to the holders of such other notes or series of notes entitled to the benefit of the Amended and Restated Master Trust Indenture.

Under the Series 2016, 2012, and 2010 bond obligations, LGHS is also subject to an Act of Assignment of Receipts and Security Agreement, which has been supplemented and amended and restated, with the latest change made effective January 1, 2016 (collectively, the Assignment), pursuant to which LGHS, as obligated group agent, has assigned certain Receipts (as therein defined), to the Master Trustee, as assignee, for the benefit of the owners of the bonds and for the benefit of certain of the existing and future creditors of the obligated group members. The provisions of the Series 2016, 2012, and 2010 bond obligations also contain a Multiple Indebtedness Mortgage, Assignment of Leases and Rents and Security Agreement dated January 1, 2016 (the Mortgage) by LGMC in favor of the Master Trustee, as mortgagee, granting a mortgage lien on certain of the properties of LGMC.

The Organization is required to comply with covenants contained in the Amended Master Trust Indenture, dated January 1, 2016. These covenants include, among other requirements, maintenance of proper debt service coverage ratio. For the years ended September 30, 2020 and 2019, the Organization was in compliance with these covenants.

At September 30, 2020, scheduled maturities of long-term debt are as follows:

| <b>Year Ending<br/>September 30,</b> | <b>Amount</b>                |
|--------------------------------------|------------------------------|
| 2021                                 | \$ 241,211,676               |
| 2022                                 | 1,316,897                    |
| 2023                                 | 242,438                      |
| 2024                                 | 49,407                       |
| 2025                                 | 49,407                       |
| Thereafter                           | <u>247,032</u>               |
| <b>Total</b>                         | <b><u>\$ 243,116,857</u></b> |

The Organization's interest expense on its long-term debt totaled \$10,707,849 and \$11,822,953 during the years ended September 30, 2020 and 2019, respectively.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 9. Leases

The Organization adopted ASU 2016-02, *Leases (Topic 842)*, which requires leases with durations greater than 12 months to be recognized on the balance sheet, effective October 1, 2019, using the modified retrospective approach. The primary effect of adoption of the new standard was the recording of right-of-use asset and operating lease liabilities of approximately \$56 million. Prior period financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. The Organization elected the package of practical expedients which allowed historical assessments of whether contracts are or contain leases, the lease classification, and the treatment of initial direct costs to be carried forward.

The Organization leases property and equipment under finance and operating leases. For leases with terms greater than 12 months, the Organization records the related assets and obligations at the present value of lease payments over the term. Many of the Organization's leases include rental escalation clauses and renewal options that are factored into the determination of lease payments, when appropriate. The Organization elected the practical expedient to not separate lease and non-lease components of contracts. The Organization elected the practical expedient to use the risk-free interest rate to discount the lease payments when leases do not provide a readily determinable implicit interest rate.

The following table presents the Organization's lease-related assets and liabilities for the year ended September 30, 2020:

|  | Balance Sheet Classification             | Amount               |
|--|--|----------------------|
| <b>Assets</b>  |  |                      |
| Operating Lease  | Right-of-Use Asset from Operating Leases | \$ 52,274,883        |
| Financing Lease  | Property and Equipment, Net              | 2,664,613            |
| <b>Total Lease Assets</b>                                    |  | <u>\$ 54,939,496</u> |
| <b>Liabilities</b>   |  |                      |
| Current  |  |                      |
| Operating Lease  | Operating Lease Liabilities              | \$ 10,698,625        |
| Financing Lease  | Finance Lease Liabilities                | 121,332              |
| Noncurrent   |  |                      |
| Operating Lease  | Operating Lease Liabilities              | 41,295,403           |
| Financing Lease  | Finance Lease Liabilities                | 2,821,598            |
| <b>Total Lease Liabilities</b>                               |  | <u>\$ 54,936,958</u> |
| <b>Weighted-Average Operating Lease Remaining Lease Term</b> |  | 4.6 Years            |
| <b>Weighted-Average Finance Lease Remaining Lease Term</b>   |  | 13.8 Years           |
| <b>Weighted-Average Operating Lease Discount Rate</b>        |  | 3.0%                 |
| <b>Weighted-Average Finance Lease Discount Rate</b>          |  | 8.0%                 |
| <b>Lease Costs</b>   |  |                      |
| Operating Lease Cost   |  | \$ 12,205,796        |
| Amortization of Finance Lease Assets                         |  | \$ 112,033           |
| Interest on Lease Liabilities                                |  | \$ 240,348           |



## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 9. Leases (Continued)

SMH Lease: As mentioned in Note 1, SMH leases the physical assets of Hospital Service District No. 2 of St. Martin Parish, Louisiana (the Service District). Under the terms of the agreement, accounted for as a finance lease obligation, SMH became the lessee of substantially all of the land, buildings, and equipment associated with the Service District. SMH simultaneously became the operator of that facility and assumed responsibility for management. As a result of the arrangement, all financial results of the facility during the lease term flow directly to SMH.

During 2013, the lease was amended to include an additional 5,477 square feet of hospital space. The monthly lease obligation of \$28,833 was increased to \$29,365, effective May 1, 2013, and is due in monthly installments over the remainder of the original 25-year lease term and the original renewal term of an additional 24 year period, if exercised.

UHC Lease: As initially detailed in Note 1, UHC entered into a lease agreement with LSU and the State to lease the facilities and equipment of University Medical Center, with the lease commencing on June 24, 2013. The initial lease term is for five (5) years. Beginning on the expiration of the fifth year of the initial term, which was June 24, 2018, and continuing on each annual anniversary date thereafter, the term shall automatically be extended for an additional one (1) year period so that after the initial term, the term of the lease shall be a rolling one-year term; provided, however, that the extension provision shall no longer apply if LSU or UHC provides the other party written notice at least one hundred eighty (180) calendar days prior to the extension date that such party does not intend to extend the term of the lease. Additionally, this lease shall terminate automatically upon the termination of the Amended and Restated CEA as provided in Section 14.9 of the Amended and Restated CEA. In addition to the termination of the Amended and Restated CEA, this lease shall terminate upon the compelled withdrawal of LGHS as the sole member of UHC.

The annual rent through the initial term is \$15,790,500, payable in four quarterly installments. At the end of the initial term of five (5) years, the annual rent is subject to review and adjustment to the then current fair market value for the rental of the leased premises and equipment. Future rental adjustments may occur as of the end of every five (5) year period thereafter.

UHC was required to prepay one full year of rent which shall be considered payment of all quarterly rent due for the last year of the term. This prepayment is classified as a noncurrent asset and is included in other assets on the September 30, 2020 and 2019 consolidated balance sheet.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

#### Note 9. Leases (Continued)

##### Maturities of Lease Liabilities

The following schedule summarizes the Organization's future annual minimum rental commitments on outstanding leases as of September 30, 2020:

| Year Ending<br>September            | Lease Obligations |               |
|-------------------------------------|-------------------|---------------|
|                                     | Finance           | Operating     |
| 2021                                | \$ 352,381        | \$ 12,086,273 |
| 2022                                | 352,381           | 10,758,669    |
| 2023                                | 352,381           | 9,408,202     |
| 2024                                | 352,381           | 7,421,417     |
| 2025                                | 352,381           | 5,895,965     |
| Thereafter                          | 3,112,702         | 11,136,795    |
| Total Minimum Lease Payments        | 4,874,607         | 56,707,321    |
| Less: Amounts Representing Interest | (1,931,677)       | (4,713,293)   |
|                                     | 2,942,930         | 51,994,028    |
| Less: Current Maturities            | (121,332)         | (10,698,625)  |
| Lease Obligation - Noncurrent       | \$ 2,821,598      | \$ 41,295,403 |

Supplemental cash flow information related to leases is as follows:

Cash paid for amounts included in the measurement of operating lease liabilities was approximately \$12 million in operating cash outflows for operating leases for the year ended September 30, 2020.

Right-of-use assets obtained in exchange for lease obligations were approximately \$6.8 million in operating leases for the year ended September 30, 2020.

Rent expense, which includes operating leases and cancelable short-term rental agreements, was approximately \$41.5 million for the year ended September 30, 2019. At September 30, 2019, cost and accumulated depreciation on equipment acquired under capital lease obligations were \$5.5 million and \$2.3 million, respectively. Amortization expense applicable to the capital lease assets is included in depreciation and amortization in the accompanying consolidated statements of operations.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 9. Leases (Continued)

##### Operating Leases - Lessor

The Organization and its affiliates lease office space and clinical facilities, generally to members of the medical staff, under operating leases whose terms range from monthly up to five years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals, and all rental revenue has been recorded on a straight-line basis.

The future minimum rental payments under non-cancelable operating leases for the year ended September 30, 2020 are as follows:

| Years Ending<br>September 30, | Amount               |
|-------------------------------|----------------------|
| 2021                          | \$ 3,918,857         |
| 2022                          | 2,532,981            |
| 2023                          | 1,640,364            |
| 2024                          | 1,135,561            |
| 2025                          | 723,240              |
| Thereafter                    | <u>827,696</u>       |
| Total Minimum Lease Payments  | <u>\$ 10,778,699</u> |

#### Note 10. Retirement Benefits

The Organization sponsors two defined contribution employee pension plans, one of which was frozen in 1998. Participation in the active plan is available to all of the Organization's employees upon hire date. Participating employees become 100% vested in the Organization's contributions to the active plan after three years of service. An employee shall be credited with a year of vesting service for each computation period during which he completes at least 1,000 hours of service.

The active plan contains both a contributory and a noncontributory component. For the contributory component, the Organization matches two-thirds of a participating employee's elective deferrals, up to a maximum of two-thirds of 3% of the employee's annual salary. In addition, during each plan year, participants may elect to defer up to 75% of their compensation to be contributed by the employee plan. For the noncontributory component, the Organization may contribute 1% to 5% (based on years of participation) of a participating employee's salary, but such contribution is not required. For the fiscal year end September 30, 2020 and 2019 management elected to suspend this contribution.

The frozen plan remains in existence and its assets are distributed to participants upon termination or retirement.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 10. Retirement Benefits (Continued)

The Organization's policy is to fund all pension costs of the contributory component in the period earned by the employee and all pension costs of the noncontributory component annually at the end of the plan year. Defined contribution plan costs charged to operations for the years ended September 30, 2020 and 2019, were \$4,863,568 and \$4,105,081, respectively.

The Organization has a deferred compensation arrangement with a group of its key employees. The purpose is to provide supplemental retirement benefits which, when integrated with the Organization's retirement income sources, provides a specified target level of retirement benefits for those employees. As of September 30, 2020 and 2019, the Organization had set aside \$10,762,452 and \$9,088,883, respectively, in a Rabbi Trust, which is included as a component of Other Noncurrent Assets on its consolidated balance sheets, in accordance with terms of the arrangement. As of September 30, 2020 and 2019, the Organization had recorded accrued liabilities of \$11,748,752 and \$8,234,111, respectively, which represents the estimated present value of the benefits earned under this agreement.

The Organization's invested assets associated with this deferred compensation arrangement include a benefit-responsive investment contract with an insurance company. The insurance company maintains the related portion of contributions in a general account which is credited with earnings on the underlying investments and charged for withdrawals and administrative expenses. The issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer but may not be less than 1.5%. Such interest rates are reviewed on a semi-annual basis for resetting. For the years ended September 30, 2020 and 2019, the effective yields and crediting interest rates ranged between 1.5% and 2.0%.

#### Note 11. Accrued Other Postretirement Benefits

The Organization provides certain health care benefits for retired employees. Under FASB ASC 715, the Organization is required to accrue the estimated cost of retiree health care benefits over the years that the employees render service.

The Organization's postretirement health care plan is contributory for retiree spouses and noncontributory for retirees. The health care plan covers all retirees, who retired before January 1, 2005, and their spouses. The Organization's current policy is to fund the cost of the postretirement health care plan on a pay-as-you-go basis.

FASB ASC 715 also requires the Organization to fully recognize and disclose as an asset or liability, the over-funded or under-funded status of its postretirement health care plan in its current year financial statements.

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 11. Accrued Other Postretirement Benefits (Continued)

The plan's funded status, along with assumptions used to calculate that status as of and for the years ended September 30, 2020 and 2019 were as follows:

|  | Fiscal Year Ending September 30, |              |
|--|----------------------------------|--------------|
|  | 2020                             | 2019         |
| <b>Benefit Obligation Information</b>                            |                                  |              |
| Accumulated Postretirement Benefit Obligation                    | \$ 1,044,200                     | \$ 999,500   |
| <b>Asset Information</b>   |                                  |              |
| Employer Contributions   | \$ 118,400                       | \$ 121,500   |
| Plan Participants' Contributions                                 | -                                | -            |
| Benefits Paid  | \$ 118,400                       | \$ 121,500   |
| Fair Value of Assets at End of Year                              | \$ -                             | \$ -         |
| Funded Status at End of Year                                     | \$ (1,044,200)                   | \$ (999,500) |
| <b>Amounts Recognized in the Statement of Financial Position</b> |                                  |              |
| Noncurrent Assets  | \$ -                             | \$ -         |
| Current Liabilities  | (130,200)                        | (118,400)    |
| Noncurrent Liabilities   | (914,000)                        | (881,100)    |
| Total  | \$ (1,044,200)                   | \$ (999,500) |
| <b>Amounts Recognized in Unrestricted Net Assets</b>             |                                  |              |
| Transition Obligation/(Asset)                                    | \$ -                             | \$ -         |
| Prior Service Cost/(Credit)                                      | -                                | -            |
| Net Actuarial Loss/(Gain)  | (532,500)                        | (765,300)    |
| Total  | \$ (532,500)                     | \$ (765,300) |
| Total Amount Recognized in Unrestricted Net Assets               | \$ (532,500)                     | \$ (765,300) |
| <b>Assumptions for End of Year Disclosure</b>                    |                                  |              |
| Discount Rate  | 1.40%                            | 2.42%        |
| Initial Medical Trend Rate                                       | 6.00%                            | 6.25%        |
| Ultimate Medical Trend Rate                                      | 4.50%                            | 5.00%        |
| Years from Initial to Ultimate Trend                             | 9                                | 5            |
| Measurement Date   | 9/30/2020                        | 9/30/2019    |
| Census Date  | 9/30/2020                        | 9/30/2018    |

# LAFAYETTE GENERAL HEALTH

## Notes to Consolidated Financial Statements

### Note 11. Accrued Other Postretirement Benefits (Continued)

The following table presents expected future benefit payments to beneficiaries:

|   | Fiscal Year Ending September 30, |                   |
|---|----------------------------------|-------------------|
|   | 2020                             | 2019              |
| <b>Net Periodic Benefit Cost and Other Amounts<br/>Recognized in Unrestricted Net Assets</b>          |                                  |                   |
| <b>Net Periodic Benefit Cost</b>  |                                  |                   |
| Net Periodic Benefit Income   | \$ (69,700)                      | \$ (71,800)       |
| <b>Other Changes in Plan Assets and Benefit Obligations<br/>Recognized in Unrestricted Net Assets</b> |                                  |                   |
| Transition Obligation/(Asset)   | \$ -                             | \$ -              |
| Prior Service Cost (Credit)   | -                                | -                 |
| Net Loss (Gain)   | 140,300                          | 24,800            |
| Amortization of Transition Obligation/(Asset)   | -                                | -                 |
| Amortization of Prior Service Cost  | -                                | -                 |
| Amortization of Net Loss (Gain)   | 92,500                           | 108,900           |
| <b>Total Change in Unrestricted Net Assets</b>  | <b>\$ 232,800</b>                | <b>\$ 133,700</b> |
| <b>Total Recognized in Net Periodic Benefit<br/>Cost and Unrestricted Net Assets</b>                  | <b>\$ 163,100</b>                | <b>\$ 61,900</b>  |
| <b>Assumptions for Net Periodic Benefit Cost</b>  |                                  |                   |
| Discount Rate   | 2.42%                            | 3.72%             |
| Initial Medical Trend Rate  | 6.25%                            | 6.50%             |
| Ultimate Medical Trend Rate   | 5.00%                            | 5.00%             |
| Years from Initial to Ultimate Trend  | 5                                | 6                 |
| Measurement Date  | 9/30/2019                        | 9/30/2018         |
| <b>Expected Benefit Payments</b>  |                                  |                   |
| 2021 Fiscal Year  | \$ 130,200                       |                   |
| 2022 Fiscal Year  | \$ 123,300                       |                   |
| 2023 Fiscal Year  | \$ 115,400                       |                   |
| 2024 Fiscal Year  | \$ 106,700                       |                   |
| 2025 Fiscal Year  | \$ 97,300                        |                   |
| 2026 - 2030 Fiscal Year   | \$ 343,600                       |                   |
| <b>Expected Employer Contributions Recognized<br/>for the 2021 Fiscal Year</b>                        | <b>\$ 130,200</b>                |                   |
| <b>Expected Amortization Amounts Included in Expense<br/>for the 2021 Fiscal Year</b>                 |                                  |                   |
| Transition Obligation/(Asset)   | \$ -                             |                   |
| Prior Service Cost  | \$ -                             |                   |
| Actuarial (Gain)/Loss   | \$ (68,800)                      |                   |

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 12. Functional Expenses

The Organization provides general health care services, including acute inpatient, sub-acute inpatient, outpatient, ambulatory, and home care to residents within its geographic location. The Organization's consolidated financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses by both their nature and function for 2020 and 2019 were as follows (in thousands):

|                               | 2020       | 2019       |
|-------------------------------|------------|------------|
| Health Care Services          |            |            |
| Salaries, Wages, and Benefits | \$ 319,364 | \$ 310,697 |
| Supplies and Other Expenses   | 403,315    | 379,711    |
| Depreciation and Amortization | 22,118     | 22,185     |
| Interest Expense              | 9,637      | 10,641     |
| Total                         | 754,434    | 723,234    |
| General and Administrative    |            |            |
| Salaries, Wages, and Benefits | 35,485     | 34,521     |
| Supplies and Other Expenses   | 44,813     | 42,190     |
| Depreciation and Amortization | 2,457      | 2,465      |
| Interest Expense              | 1,071      | 1,182      |
| Total                         | 83,826     | 80,358     |
| Total                         | \$ 838,260 | \$ 803,592 |

#### Note 13. Income Taxes

The past operations of LGMD resulted in an estimated cumulative net operating loss for federal income tax purposes at September 30, 2011. These net operating loss carry-forwards expire in varying amounts through 2030. Because of uncertainty involving LGMD's ability to utilize the deferred tax benefit attributable to these losses, management has elected to establish a valuation allowance equal to the amount of the associated deferred tax asset. During March 2014, LGMD received approval of its application to be recognized as a 501(c)(3) organization.

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 14. Commitments and Contingencies

Insurance Programs: During 1976, the state of Louisiana enacted legislation that placed a maximum limit of \$500,000 for each medical professional liability claim and established the Louisiana Patient's Compensation Fund (the Fund) to provide professional liability insurance to participating health care providers. The Organization participates in the Fund. The Fund provides up to \$400,000 coverage for settlement amounts in excess of \$100,000 per claim.

The Organization remains liable for \$100,000 per claim. The Organization also carries umbrella coverage for losses from \$1,000,000 to \$15,000,000 in the aggregate.

The Organization has a self-insurance program with respect to general and professional liability and employee health claims. The Organization is also self-insured for workers' compensation claims up to the deductible of its excess workers' compensation policy of \$400,000 per claim.

Litigation: The Organization is involved in litigation arising in the ordinary course of business. Claims asserted against the Organization are currently in various stages of litigation. The Organization accrues for claims losses arising from litigation or self-insurance programs when it is determined that it is probable that liabilities have been incurred and the amounts of losses can be reasonably estimated. It is the opinion of management that estimated costs resulting from pending or threatened litigation are adequately accrued.

Community Benefits: The Organization has committed, under Low Income and Needy Collaborative Care Agreements (LINCCA), to funding quality healthcare services to low income and needy residents in its community. During the years ended September 30, 2020 and 2019, the Organization recorded, within operating expenses on its consolidated statements of operations and changes, payments of \$7,500,000 (\$3,500,000 and \$4,000,000 of which is attributed payments to LCM and WC, respectively, as part of the community benefit agreement) in accordance with the terms of its LINCCAs.

Other: As mentioned in Note 7, the Organization has commitments under construction contracts.

#### Note 15. Collaboration Agreements

During November 2014, the Organization entered into a collaboration agreement with Opelousas General Hospital Authority, a public trust, d/b/a Opelousas General Health System (OGHS) effective January 1, 2015. The agreement shall be for a two-year term, with renewals. The agreement provides that the Organization will provide services to OGHS including guidance and professional oversight on operational and capital budgets, recommendations to OGHS leadership, and collaboration with OGHS leadership to improve day to day operations, physician relations, and the patient experience.



## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 15. Collaboration Agreements (Continued)

Effective September 1, 2016, the Organization entered into a collaboration agreement with Hospital Service District No. 1 of Iberia Parish d/b/a Iberia Medical Center (IMC). The agreement shall be for a two-year term, with renewals. The agreement provides that the Organization will provide services to IMC including guidance and professional oversight on operational and capital budgets, recommendations to IMC leadership, collaboration with IMC leadership to improve day to day operations, physician relations, and the patient experience, and provide access to information technology tools, platforms, and services.

#### Note 16. Liquidity and Availability

As of September 30, 2020, the Organization has a working capital surplus of approximately \$155,000,000 and average days (based on normal expenditures) cash on hand of 160.

Financial assets available for general purpose expenditures within one year of the balance sheet date, consist of the following:

|                                     |                              |
|-------------------------------------|------------------------------|
| Cash and Cash Equivalents           | \$ 109,038,035               |
| Short-Term Investments              | 143,342,981                  |
| Patient Accounts Receivable         | 88,963,301                   |
| Amounts Due from Third-Party Payors | <u>31,844,567</u>            |
| <b>Total</b>                        | <b><u>\$ 373,188,884</u></b> |

The Organization has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above.

The Organization has other assets limited to use for the professional and general liability captive insurance program. These assets are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the Organization's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. Additionally, the Network maintains a \$50,000,000 line of credit, as discussed in more detail in Note 8.

## **LAFAYETTE GENERAL HEALTH**

### **Notes to Consolidated Financial Statements**

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#### **Note 17. Ochsner Health System**

##### **Strategic Agreement**

LGHS and Ochsner Clinic Foundation, d/b/a Ochsner Health System (OHS) have entered into a strategic agreement focused on increasing local access to care, improving quality, and reducing the cost of healthcare for patients across southwest Louisiana, which has the purpose of improving the health of the Louisiana communities they both serve today and to meet the needs of new communities across the State. This agreement will create greater opportunity for alignment through a comprehensive clinically integrated physician network, joint investments in the resources needed to start new programs and the expansion of patient services and resources in the region. The key areas of initial focus for the strategic agreement include expanding pediatric subspecialty care, comprehensive stroke care, and a telemedicine program.

##### **Merger**

On September 24, 2019, Lafayette General Health System, Inc. and Ochsner Clinic Foundation, d/b/a Ochsner Health System signed a non-binding letter of intent to enter into a shared mission agreement. Pursuant to such shared mission agreement, Ochsner Clinic Foundation would become the sole corporate member of LGHS, with LGHS and Ochsner Clinic Foundation having such powers and board appointment rights as shall be agreed by the parties. Among other obligations, the letter of intent contemplates that Ochsner Clinic Foundation will invest \$365 million in the Organization over the next ten (10) years. The closing of the affiliation occurred effective October 1, 2020 as detailed below in Note 18.

#### **Note 18. Subsequent Events**

Management evaluated subsequent events through the date the consolidated financial statements were available to be issued, March 19, 2021, and determined that the following events occurred that require disclosure:

On October 1, 2020, Ochsner Clinic Foundation (OCF) became the sole corporate member of Lafayette General Health System, Inc. (LGHS).

In October 2020, OCF had bonds issued for their benefit, totaling \$385,005,000 (the Ochsner Bonds). The purpose of the bonds includes the refinancing of debt of LGHS that includes the following:

- LGMC Series 2010 Bonds with a principal balance of \$81,595,000
- LGMC Series 2012B Bonds with a principal balance of \$29,540,000
- LGHS Series 2016A Bonds with a principal balance of \$65,295,000
- LGHS Series 2016A Notes with a principal balance of \$22,965,000
- LGHS Series 2016B Notes with a principal balance of \$40,395,000

## LAFAYETTE GENERAL HEALTH

### Notes to Consolidated Financial Statements

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#### Note 18. Subsequent Events (Continued)

In connection with the prepayment and/or defeasance of the LGHS debt listed above, on the date of issuance of the Ochsner Bonds, the master trust indenture of LGHS and certain affiliates has been discharged.

With respect to Ochsner Bonds, OCF is the only Obligated Group Member under the Master Indenture. As of the date of issuance of the Ochsner Bonds, LGHS and certain affiliates of LGHS and certain other additional entities became part of the Credit Group as Designated Affiliates under the Master Indenture. Designated Affiliates are not obligated to make payments with respect to the Obligations of the Ochsner Bonds but may be required to transfer to OCF as the Obligated Group Member, amount necessary to enable the Obligated Group Member to make payments under the Master Indenture.

No other subsequent events occurring after March 19, 2021 have been evaluated for inclusion in these consolidated financial statements.

**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***

**Independent Auditor's Report**

To the Board of Trustees  
Lafayette General Health System, Inc. and Subsidiaries  
Lafayette, Louisiana

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 Lafayette General Health System, Inc. and Subsidiaries (the Organization), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Organization's consolidated financial statements, and have issued our report thereon dated March 19, 2021. Our report includes a reference to other auditors who audited the financial statements of Oil Center Surgical Plaza, LLC, as described in our report on the Organization's financial statements. The financial statements of Oil Center Surgical Plaza, LLC, were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 consolidated 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**LOUISIANA • TEXAS**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated financial statements. 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*.

**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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaPorte".

A Professional Accounting Corporation

Metairie, LA  
March 19, 2021

# **LAFAYETTE GENERAL HEALTH**

## **Schedule of Findings and Responses For the Year Ended September 30, 2020**

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### **Part I - Summary of Auditor's Results**

#### **Financial Statement Section**

Type of Auditor's Report Issued: Unmodified

Internal Control over Financial Reporting:

Material Weakness(es) Identified? No

Significant Deficiency(ies) Identified not Considered  
to be Material Weakness? None Reported

Noncompliance Material to Financial Statements Noted? No

### **Part II - Schedule of Financial Statement Findings Section**

None.

## **LAFAYETTE GENERAL HEALTH**

### **Summary Schedule of Prior Year Findings For the Year Ended September 30, 2020**

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#### **Part I - Financial Statement Findings**

##### **Finding 2019-001: Financial Statement Measurements**

Condition: The internal financial statements contained errors in measurement that resulted in material adjusting entries before concluding on the audited financial statements.

Status: This finding has been resolved.

##### **Finding 2019-002: Account Reconciliations**

Condition: Certain account reconciliations were not prepared timely and/or produced findings that were significant to the internal financial statements.

Status: This finding has been resolved.

##### **Finding 2019-003: Adopting of Accounting Standards Updates**

Condition: The Organization is subject to reporting modifications due to Accounting Standards Updates (ASUs), that impact its financial statement preparation and supporting footnotes. The Organization had ASUs that were effective October 1, 2018; however, the application of these standards was not implemented within its internal financial statements in a manner consistent with its audited financial statements.

Status: This finding has been resolved.



## **Independent Auditor's Report on Supplementary Information**

To the Board of Trustees  
Lafayette General Health System, Inc. and Subsidiaries  
Lafayette, Louisiana

We have audited the consolidated financial statements of Lafayette General Health System, Inc. and Subsidiaries (the Organization), as of and for the year ended September 30, 2020, and have issued our report thereon, dated March 19, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to March 19, 2021.

The accompanying supplementary information is presented for the purpose of additional analysis, as required by Louisiana Revised Statutes, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



A Professional Accounting Corporation

Metairie, LA  
March 19, 2021



## LAFAYETTE GENERAL HEALTH

### Schedule of Compensation, Benefits and Other Payments to Agency Head For the Year Ended September 30, 2020

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**Agency Head**  
David Callecod, FACHE  
President/CEO

| <b>Purpose</b>                         | <b>Amount</b> |
|--|---------------|
| Salary                                 | \$0           |
| Benefits - Insurance                   | \$0           |
| Benefits - Retirement                  | \$0           |
| Benefits - Other                       | \$0           |
| Car Allowance                          | \$0           |
| Vehicle Provided by Organization       | \$0           |
| Per Diem                               | \$0           |
| Reimbursements                         | \$0           |
| Travel                                 | \$0           |
| Registration Fees                      | \$0           |
| Conference Travel                      | \$0           |
| Continuing Professional Education Fees | \$0           |
| Miscellaneous Expenses                 | \$0           |

Louisiana Revised Statute 24:513(A)(3) as amended by Act 706 of the 2014 Regular Legislative Session requires that the total compensation, reimbursements, and benefits of an agency head or political subdivision head or chief executive officer related to the position, including but not limited to travel, housing, unvouchered expense, per diem, and registration fees to be reported as a supplemental report within the financial statement of local government and quasi-public auditees. In 2015, Act 462 of the 2015 Regular Session of the Louisiana Legislature further amended R.S. 24:513(A)(3) to clarify that nongovernmental entities or not-for-profit entities that received public funds shall report only the use of public funds for the expenditures itemized in the supplemental report.