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

Management's Discussion and Analysis,
Financial Statements as of and
for the Years Ended June 30, 2016 and 2015,
and Independent Auditor's Report

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

LAPORTE
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Independent Auditor's Report

To the Board of Directors of
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice

Report on the Financial Statements

We have audited the accompanying financial statements of Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network (LSUHN) and its blended component units, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise LSUHN's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of University Medical Group, LLC, a wholly-owned component unit, (UMG), which statements reflect total assets constituting 25% of total assets as of June 30, 2016 and 2015, respectively, and total revenues constituting 19% and 22% of total operating revenues for the years ended June 30, 2016 and 2015, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UMG, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of UMG were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of LSUHN as of June 30, 2016 and 2015, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated August 22, 2016 on our consideration of LSUHN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LSUHN's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Covington, LA
August 22, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network's (LSUHN), annual financial report presents management's discussion and analysis of financial performance during the fiscal year ended June 30, 2016. It should be read in conjunction with the financial statements in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The *Financial Statements* of LSU Healthcare Network report the financial position of LSUHN and its blended component units and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about LSUHN's activities.

The *Statements of Net Position* include all of LSUHN's and its blended component unit's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to LSUHN's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of LSUHN and assessing the liquidity and financial flexibility of LSUHN.

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

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

The annual report also includes the *Notes to the Financial Statements* that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

FINANCIAL ANALYSIS OF THE HEALTHCARE NETWORK

The CEO position of the Network transferred to Dr. Chris Winters during fiscal year 2016 and slight changes were made to the management team. New initiatives are underway to increase access points to the clinics, reduce expenses, and increase efficiency of staff.

There have been a few changes in the facilities operated by the Network. The main clinic is still LSUHN's seven floor multi-specialty-flagship clinic located on St. Charles Avenue near Touro. LSUHN continues to operate clinic sites in the New Orleans area in medical office buildings adjacent to Ochsner Kenner, Ochsner WestBank (in conjunction with PHN Primary Care Plus), East Jefferson Hospital, West Jefferson Hospital, and in the Behavioral Sciences Center near Touro Infirmary, as well as a private clinic in Baton Rouge. The clinic that was located at the Ochsner Baptist campus closed and the Plastic Surgery Department moved to the St. Charles clinic. The small practice in Lafayette closed at the end of fiscal year ended June 30, 2015 with the departure of the one physician there. LSUHN's physicians provide services in hospital-based clinics at Ochsner Kenner, East Jefferson, Our Lady of the Lake (replacing Earl K. Long Hospital) in Baton Rouge, and University Medical Center in Lafayette. During fiscal year ended June 30, 2016, the Interim Hospital in New Orleans closed and moved into the brand new University Medical Center of New Orleans.

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

Condensed Statements of Net Position
(In Thousands)

	June 30,		
	2016	**2015**	**2014**
Assets			
Current and Other Assets	**$ 44,074**	$ 36,616	$ 38,858
Capital Assets	**1,092**	1,892	2,195
Total Assets	**$ 45,166**	$ 38,508	$ 41,053
Liabilities			
Other Liabilities	**$ 16,675**	$ 14,408	$ 15,462
Total Liabilities	**16,675**	14,408	15,462
Net Position			
Net Investment in Capital Assets	**1,092**	1,892	2,195
Unrestricted	**27,399**	22,208	23,396
Total Net Position	**28,491**	24,100	25,591
Total Liabilities and Net Position	**$ 45,166**	$ 38,508	$ 41,053

Summary of Revenues, Expenses, and Change in Net Position

The following table presents a summary of the practice's historical revenues and expenses:

Condensed Statements of Revenues, Expenses, and Change in Net Position
For the Years Ended June 30, 2016, 2015, and 2014
(In Thousands)

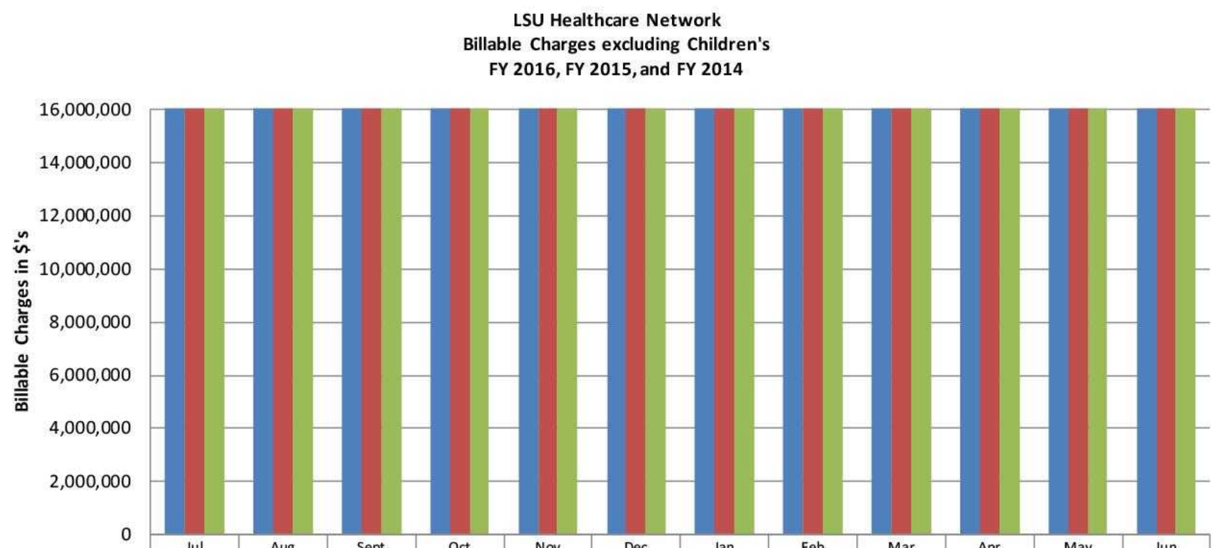
	Years Ended June 30,		
	2016	**2015**	**2014**
Revenues			
Net Patient Service Revenue	**$ 84,055**	$ 79,990	$ 72,082
Capitation Revenue	**20,143**	22,064	24,259
Grant Revenue	**278**	193	168
Total Revenues	**104,476**	102,247	96,509
Operating Expenses			
Operating and Administrative	**81,195**	81,328	74,521
Medical Claims Expense	**17,962**	21,528	19,930
Depreciation and Amortization	**794**	828	800
Total Operating Expenses	**99,951**	103,684	95,251
Income (Loss) from Operations	**4,525**	(1,437)	1,258
Non-Operating Expenses			
Interest Income and Other Income and Expenses, Net	**(134)**	(54)	(18)
Change in Net Position	**4,391**	(1,491)	1,240
Net Position, Beginning of Year	**24,100**	25,591	24,351
Net Position, End of Year	**$ 28,491**	$ 24,100	$ 25,591

During fiscal years 2016 and 2015, the practice generated 81% and 76%, respectively, of its total revenues from patient care, with the other 19% and 24%, respectively, being derived primarily from capitation revenue from University Medical Group (UMG). There was an increase in the revenues of $2.2 million in fiscal year 2016 compared to an increase of $8.1 million in fiscal year 2015. This increase was due to new service lines picked up from the privatization of the state hospitals. During fiscal years 2016 and 2015, Net Patient Service Revenue for LSUHN, excluding Children's revenue and Upper Payment Limit revenues (UPL), increased by $3.4 million and $7.7 million, respectively.. Visits at the LSUHN managed clinics increased by 5,000 in both fiscal years 2016 and 2015.

In fiscal year 2016, overall cash collections for Patient Services increased by 6% with a 4% increase in the LSUHN managed clinics and 9% on the contract business. During fiscal year 2015, there was a large increase in cash collections due to the added service lines mentioned in the previous paragraph. In fiscal year 2015, overall cash collections increased 17% with 52% related to contract services which include the privatized state hospitals. Children's revenue remained flat with only a 2% increase in both fiscal years 2016 and 2015.

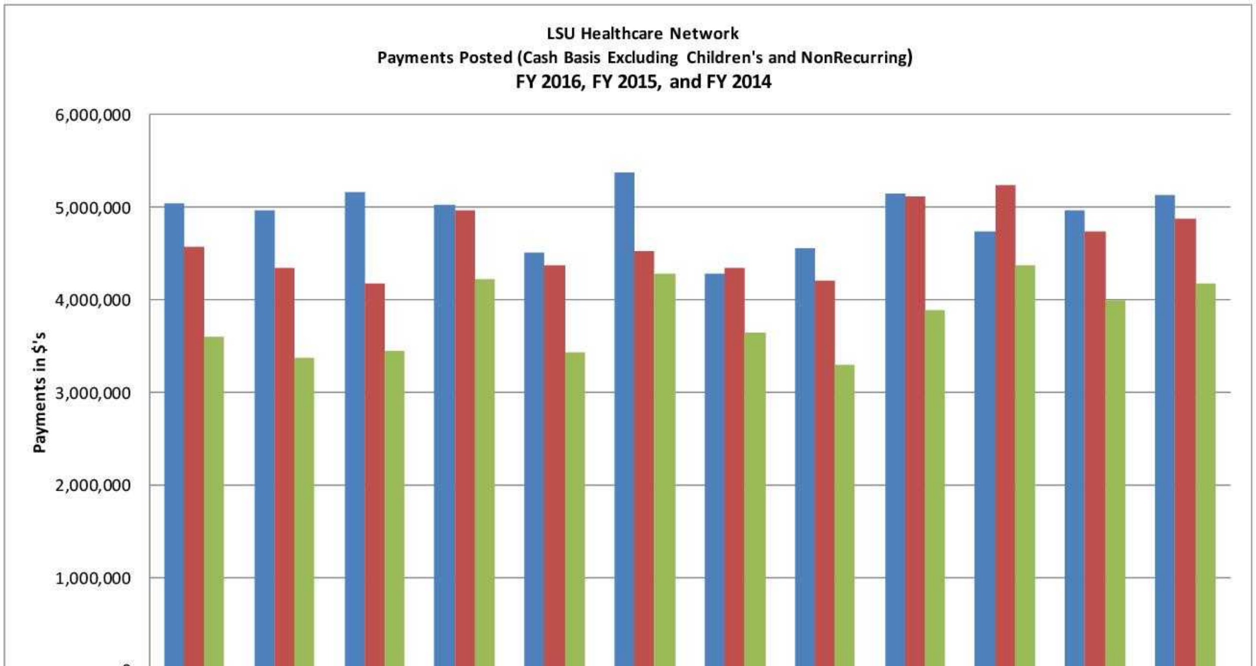
UPL revenues included in Net Patient Service Revenue increased slightly, by 5%. However, actual cash UPL payments received decreased by $4.0 million as a new methodology for distributing the payments through the Medicaid CCNs was implemented during the year. This resulted in an accrual of $6.0 million for the newly named Full Medicaid Pricing (FMP replacing UPL) to be booked at the end of fiscal year 2016. In fiscal year 2015, UPL increased by $0.45 million, or 9%, compared to the previous year. Overall Net Revenue for LSUHN is $84.1 million which increased 5% for the year compared to an 11% increase in fiscal year 2015. Capitation revenue through UMG decreased by $1.9 million which was due to a prior year reclassification.

The following chart shows the trend in billable charges for fiscal years 2016, 2015 and 2014:



	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2016	22,604,981	20,915,765	20,913,134	22,432,313	20,702,929	24,016,982	21,956,857	22,513,032	24,939,923	23,451,944	23,964,879	25,345,007
2015	23,406,112	20,885,133	21,599,840	24,831,891	18,085,259	22,232,493	21,367,755	20,029,554	24,031,869	21,488,779	21,732,736	22,488,450
2014	16,701,238	21,205,713	18,810,775	20,482,815	17,890,760	20,188,076	19,208,693	20,323,168	19,918,418	21,913,295	22,633,717	19,432,841

The following chart shows the trend in payments for patient services for fiscal years 2016, 2015, and 2014:



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2016	5,040,969	4,973,101	5,161,322	5,027,512	4,511,161	5,368,663	4,279,028	4,554,724	5,146,040	4,738,401	4,972,577	5,130,257
2015	4,576,773	4,350,617	4,181,461	4,963,446	4,378,865	4,522,011	4,341,229	4,203,410	5,122,592	5,245,002	4,743,267	4,881,660
2014	3,604,587	3,379,672	3,455,494	4,227,061	3,430,083	4,284,307	3,640,509	3,294,416	3,895,968	4,379,873	3,998,535	4,178,055

LSUHN continues to provide care to patients formerly seen in the public hospital system in New Orleans, Baton Rouge, and Lafayette, without regard to their ability to pay for those services. During the year ended June 30, 2016, charity charges entered into the billing system and adjusted off totaled over $55.1 million, compared to $48.7 million during the year ended June 30, 2015.

The following table represents the relative percentage of gross charges billed for patient services by payor, excluding activity for Medicare Advantage for UMG, for the years ended June 30, 2016 and 2015.

	Fiscal Year 2016	**Fiscal Year 2015**
Medicaid	**27 %**	27 %
Free Care/Indigent	**20**	15
Medicare	**28**	28
Managed Care	**19**	19
Self-Pay	**6**	11
Total Gross Charges	**100 %**	100 %

OPERATING AND FINANCIAL PERFORMANCE

Total practice expense increased slightly by $0.45 million. Clinical personnel increased by $0.42 million with the additions of Nurse Practitioners that help generate additional revenue. Medical drugs also increased by $0.18 million which is mostly due to increased billable drugs that are offset by revenue. Medical supplies decreased by $0.09 million mostly due to radiology equipment that was purchased in fiscal year 2015. Clinical rent decreased by $0.3 million due to the Metairie office relocation and the termination of the rent for an Orthopedist at a private clinic. Janitorial expenses decreased by $0.03 million due to change of vendor at our St. Charles, Kenner, and Village de Jardin locations. Medical Records expense increased by $0.31 million due to the expense of a quality data registry that was required for quality reporting. However, this avoided penalties that would have been incurred without the reporting. Billing and collections fees decreased by $0.04 million primarily due to the decreased UPL cash payment.

The Net Revenues returned to LSU Health Sciences Center (LSUHSC) increased by $1.2 million but this includes an accrual for future payable to LSUHSC based on patient service accounts receivable of $2.9 million. Therefore, the actual cash payment decreased $2.3 million. Since this amount returned to LSUHSC is based on cash collections, the decrease in the UPL cash payments affected this amount even though overall patient service collections are higher.

The net income of UMG was $2.0 million for fiscal year 2016, compared to a loss of $1.4 million in fiscal year 2015. This change is due to a decrease of $3.6 million in medical claims expense for fiscal year 2016.

Cash increased by $3.0 million mostly at UMG. Patient Accounts Receivable increased by $4.9 million. This resulted in total current assets increasing by $7.6 million.

Net capital assets decreased by $0.8 million due primarily to retirement of assets and only an additional $0.2 million bought in fiscal year 2016. Medical record licensing was the largest capitalization of $134,000.

Capital Asset Summary
(In Thousands)

	As of 2016	As of 2015	Dollar Change	Total % Change
Office Furniture and Telephones	**$ 799**	$ 845	$ (46)	(5) %
Computers and Related Equipment	**1,435**	1,839	(404)	(22) %
Medical Equipment	**2,324**	2,293	31	1 %
Leasehold Improvements	**735**	808	(73)	(9) %
License Fees	**2,984**	3,037	(53)	(2) %
Totals at Historical Cost	**8,277**	8,822	(545)	(6) %
Less: Accumulated Depreciation and Amortization	**(7,186)**	(6,931)	(255)	4 %
Capital Assets - Net	**$ 1,091**	$ 1,891	$ (800)	(42) %

Capital asset purchases of approximately $0.5 million in fiscal year 2015 were primarily related to the purchase of clinical quality metrics software; additional upgrades to electronic medical records; purchase of electronic medical record system for Oral and Maxillofacial Surgery; computer purchases; and medical equipment for Urology and OB-GYN.

Capital Asset Summary
(In Thousands)

	As of 2015	As of 2014	Dollar Change	Total % Change
Office Furniture and Telephones	**$ 845**	$ 836	$ 9	1 %
Computers and Related Equipment	**1,839**	1,737	102	6 %
Medical Equipment	**2,293**	2,217	76	3 %
Leasehold Improvements	**808**	803	5	1 %
License Fees	**3,037**	2,705	332	12 %
Totals at Historical Cost	**8,822**	8,298	524	6 %
Less: Accumulated Depreciation and Amortization	**(6,931)**	(6,103)	(828)	14 %
Capital Assets - Net	**$ 1,891**	$ 2,195	$ (304)	(14) %

During fiscal year 2016, total current liabilities increased by $2.3 million mainly due to the accrued future payable to LSUHSC. The ratio of current liabilities to current assets is 2.18.

During fiscal year 2015, total current liabilities decreased by $1.1 million mainly due to the accrued future payable to LSUHSC. The ratio of current liabilities to current assets is 1.99.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A budget was presented and approved by the Board in June for fiscal year 2017. This budget was rolled out to all the practice managers and will be reviewed quarterly to compare actual expenses vs. budget.

The Nurse Practitioner grant for the four clinics: Village de Jardin, Terraces on Tulane, School of Medicine Employee Health, and the Interprofessional Clinic at the Dental School, was to term June 30, 2016 but received a no-cost extension for six months. All clinics will close at the end of six months, except for the Interprofessional Clinic. This one clinic will remain operational under LSUHN.

Requirements for Electronic Medical Records (EHR) and quality reporting require an upgrade or a change of the current EHR. Evaluations of various options are taking place now, but will definitely require additional expense to meet federal requirements to avoid future penalties.

As the lease of the flagship St. Charles comes close to the initial 5-year term in October 2016, LSUHN is looking at opportunities for consolidation of the space at this clinic to right-size the clinic to current operational levels with some room for growth. This will help to decrease the rent to a more appropriate benchmark.

The professional billing in the Emergency Department at University Medical Center will move to a new billing vendor. The proposal for this new vendor shows an increase in billing and collections.

CONTACTING THE PRACTICE'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of LSUHN's finances. If you have questions about this report or need additional financial information, please contact the Director of Accounting, LSU Healthcare Network, 1542 Tulane Ave., Suite 123-HCN, New Orleans, LA 70112.

REPORT OF MANAGEMENT'S RESPONSIBILITY

The management of LSUHN is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and the Financial Accounting Standards Board and include amounts based on judgments and estimates made by management. Management also prepares the other information included in the report and is responsible for its accuracy and consistency with the financial statements. The financial statements have been audited by the independent accounting firm of LaPorte, APAC who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the Board of Directors.

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

LSUHN maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded and that assets are properly safeguarded, and also to provide reasonable assurance to our management and the Board of Directors regarding the reliability of our financial statements. The internal control system includes:

- A documented organizational structure and division of responsibility.
- Established policies and procedures that are regularly communicated and that demand high ethical conduct from all employees.

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

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

J. Christian Winters

J. Christian Winters, MD
Chief Executive Officer

BASIC FINANCIAL STATEMENTS

LSU HEALTHCARE NETWORK
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	$ 18,167,049	$ 15,121,986
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of $6,774,883 in 2016 and $8,137,823 in 2015)	17,063,792	12,130,798
Due from Related Party	93,688	646,762
Inventory	105,000	110,436
Prepaid Expenses	535,836	520,244
Other Receivables	309,167	191,281
Total Current Assets	36,274,532	28,721,507
Capital Assets, Net	1,091,590	1,891,785
Other Assets		
Due from Related Party - Other	182,091	191,677
Deposits	233,376	232,976
Investment in PH Holdings, LLC	2,531,213	2,531,213
Investments, at Fair Value	4,852,861	4,938,577
Total Other Assets	7,799,541	7,894,443
Total Assets	$ 45,165,663	$ 38,507,735
Liabilities and Net Position		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 2,088,398	$ 1,731,771
Medical Claims Payable	1,452,752	1,727,935
Due to LSU Health Sciences Center	13,134,131	10,948,716
Total Current Liabilities	16,675,281	14,408,422
Net Position		
Net Investment in Capital Assets	1,091,590	1,891,785
Unrestricted	27,398,792	22,207,528
Total Net Position	28,490,382	24,099,313
Total Liabilities and Net Position	$ 45,165,663	$ 38,507,735

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

LSU HEALTHCARE NETWORK
Statements of Revenues, Expenses, and Change in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net Patient Service Revenue, Net of Provision for Bad Debts of $12,520,064 in 2016 and $13,878,273 in 2015	**$ 84,054,621**	$ 79,989,896
Capitation Revenue	**20,142,778**	22,064,272
Grant Revenue	**278,638**	192,893
Total Operating Revenues	**104,476,037**	102,247,061
Operating Expenses		
Personnel - Salaries and Benefits	**9,002,181**	8,433,699
Leased Employees - Non-Faculty	**447,286**	611,004
Medical Drugs and Supplies	**1,755,768**	1,663,193
Medical Claims Expense	**17,962,369**	21,528,411
General and Administrative	**11,813,040**	13,641,946
Net Revenues Returned to LSUHSC	**58,176,310**	56,978,322
Depreciation and Amortization	**794,360**	828,240
Total Operating Expenses	**99,951,314**	103,684,815
Income (Loss) from Operations	**4,524,723**	(1,437,754)
Non-Operating Income and Expenses		
Medical School Enhancement Fund	**-**	-
Medical School Cost Recovery Fund	**-**	-
Investment Income and Other Expenses, Net	**(133,654)**	(53,533)
Total Non-Operating Expenses, Net	**(133,654)**	(53,533)
Change in Net Position	**4,391,069**	(1,491,287)
Net Position, Beginning of Year	**24,099,313**	25,590,600
Net Position, End of Year	**$ 28,490,382**	$ 24,099,313

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

LSU HEALTHCARE NETWORK
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash Received from Clinic Operations	**$ 79,121,627**	$ 80,570,600
Cash Received from Grant Revenue	**183,461**	173,993
Cash Received from Capitation Revenue	**20,705,438**	23,866,053
Cash Payments for Personnel	**(9,332,138)**	(8,406,146)
Cash Payments for Net Revenues Returned to LSUHSC	**(55,990,895)**	(58,262,495)
Cash Payments for Supplies and General and Administrative	**(13,362,375)**	(17,671,728)
Cash Payments for Medical Claims	**(18,237,552)**	(21,947,943)
Net Cash Provided by (Used in) Operating Activities	**3,087,566**	(1,677,666)
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	**(196,853)**	(525,416)
Net Cash Used in Capital and Related Financing Activities	**(196,853)**	(525,416)
Cash Flows from Investing Activities		
Cash Paid for Deposits	**(400)**	(3,250)
Interest and Dividend Income Received	**77**	7,890
Proceeds from Sale of Investments	**1,159,756**	-
Purchase of Investments	**(1,005,083)**	(5,000,000)
Net Cash Provided by (Used in) Investing Activities	**154,350**	(4,995,360)
Net Increase (Decrease) in Cash and Cash Equivalents	**3,045,063**	(7,198,442)
Cash and Cash Equivalents, Beginning of Year	**15,121,986**	22,320,428
Cash and Cash Equivalents, End of Year	**$ 18,167,049**	$ 15,121,986
Reconciliation of Operating Income to Net Cash Provided by (Used In) Operating Activities		
Income (Loss) from Operations	**$ 4,524,723**	$ (1,437,754)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	**794,360**	828,240
Provision for Bad Debt	**12,520,064**	13,878,273
(Increase) Decrease in Operating Assets		
Patient Accounts Receivable, Net	**(17,453,058)**	(13,568,376)
Amounts Due from Related Party	**562,660**	(209,989)
Inventory	**5,436**	(39,571)
Prepaid Expenses	**(15,592)**	(772)
Other Receivables	**(117,886)**	(74,305)
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	**356,627**	230,761
Medical Claims Payable	**(275,183)**	
Due to LSU Health Sciences Center	**2,185,415**	(1,284,173)
Net Cash Provided by (Used in) Operating Activities	**$ 3,087,566**	$ (1,677,666)

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Louisiana State University School of Medicine in New Orleans Faculty Group Practice, a Louisiana non-profit corporation, d/b/a LSU Healthcare Network (LSUHN), assists the LSU Health Sciences Center (LSUHSC) in carrying out its medical, educational, and research functions. The Board of Directors consists of seven (7) members who are representatives of the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU), the LSUHSC, and the LSU School of Medicine in New Orleans, as well as eight (8) public or community members who are not employees of LSU and are nominated by either the Nominating Committee or any member of the Board of Directors. Upon dissolution of LSUHN, any remaining assets would be distributed to the Board of Supervisors of LSU or its successor for distribution to LSUHSC or to the Louisiana State University Medical Center Foundation. LSUHN provides health care to the general public including, but not limited to, the delivery of physician medical services and other healthcare services to individuals. LSUHN receives compensation for these services from the Medicare and Medicaid programs, certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and directly from patients.

LSUHN's activities include services provided in both the public hospitals and the private clinics serviced by LSUHSC. LSUHN and LSUHSC (through the Board of Supervisors of LSU) have entered into Cooperative Endeavor and Operating Agreements that permit the two entities to work together on a mutually beneficial basis. The agreements delineate the obligations and responsibilities of both LSUHN and LSUHSC. Both parties have the right to terminate the Cooperative Endeavor and Operating Agreements with or without cause upon 60 days written notice. The agreements expired October 31, 2005, and have continued to be renewed on a quarterly basis since their expiration.

In August 2011, LSUHN and LSUHSC (through the Board of Supervisors of LSU) entered into a restated and amended agreement pursuant to the Uniform Affiliation Agreement. The agreement establishes support of the Board of Supervisors of LSU A&M and LSUHSC-NO in the attainment of its mission and goals, particularly as they relate to the LSUHSC-NO Schools of Medicine, Allied Health Professions, Dentistry, Nursing, and Public Health (collectively, the Health Professional Schools) in their clinical practices.

LSUHN is a component unit of the Louisiana State University System for financial reporting purposes and is included in the basic financial statements of the Louisiana State University System together with its blended component units which are described below.

Basis of Accounting

The financial statements of LSUHN have been prepared using the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Note 1. Summary of Significant Accounting Policies (Continued)

Accounting Standards
These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Codification. The financial statements of LSUHN and its component units have been prepared on the accrual basis of accounting.

Blended Component Units
LSUHN follows the requirements under GASB 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No.* 34. The financial statements include the accounts of LSUHN and its blended component units: University Medical Group, LLC, LSUHN Vascular Lab, LLC, and LSUHN Billing, LLC. The significant intercompany transactions and balances have been eliminated.

The activities of the blended component units of LSUHN are as follows:

University Medical Group, LLC - University Medical Group, LLC (UMG) is a wholly-owned component unit of LSUHN. UMG indirectly contracts with People's Health, Inc. (PHI) under capitated arrangements to provide physician healthcare services to members who select UMG primary care physicians. UMG operates primarily in the New Orleans, Louisiana metropolitan area.

The purpose of UMG is to pursue risk contracts in which providers accept capitated payments, through People's Health Network, for healthcare services. UMG has three primary goals: (1) to gain and protect market share for its providers, (2) to generate and distribute surpluses in the event that capitation payments received exceed the cost of healthcare services provided, and (3) to maintain an ownership interest in PH Holdings, LLC.

LSUHN Billing, LLC - LSUHN is the sole member of LSUHN Billing, LLC (LSUHN Billing). LSUHN Billing was formed in December 2007 for use by the billing company that handles Baton Rouge and Lafayette billing.

LSUHN Vascular Lab, LLC - LSUHN is the sole member of LSUHN Vascular Lab, LLC (LSUHN Vascular). LSUHN Vascular was formed in October 2009 for the purpose of owning and operating an independent vascular laboratory to provide vascular ultrasound testing to patients from the community. There was no activity in fiscal years 2016 or 2015.

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

Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates which are significant for LSUHN include contractual and bad debt allowances and the liability for medical claims payable. Accordingly, actual results could differ from those estimates.

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

LSUHN is a non-profit corporation organized under the laws of the State of Louisiana. It is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, and qualifies as a support organization, as defined in Section 501(a) of the Code.

LSUHN's blended component unit, University Medical Group, LLC, holds a minority ownership investment in PH Holdings, LLC, which is a holding company formed in November 2011 that elected to be an S corporation effective January 1, 2012. As a result of this election, any net income derived from this investment will be subject to tax from unrelated business activities.

For the year ended June 30, 2015, LSUHN's share in the earnings of PH Holdings, LLC was a loss; therefore, no unrelated business income was generated and no taxes were paid or accrued. For the year ended June 30, 2016, LSUHN's share in the earnings of PH Holdings, LLC was income. However, there are sufficient passive activity losses to offset any taxes owed. LSUHN requested and received a private letter ruling from the Internal Revenue Service which confirmed its minority interest in this S corporation, through its blended component unit, will not affect its tax-exempt status.

LSUHN and its blended component units believe they have appropriate support for any tax positions taken and, as such, do not have any uncertain tax positions that are material to the financial statements. Penalties and interest assessed by income taxing authorities, if any, would be included in operating expenses.

Cash and Cash Equivalents

LSUHN considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents. Amounts are recorded at fair value.

Patient Receivables

Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payors. The estimated contractual allowance amounted to $27,172,934 and $28,815,825, as of June 30, 2016 and 2015, respectively.

Patient receivables due directly from the patients, net of any third-party payor responsibility, are carried at the original charge for the service provided less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. LSUHN does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Provision for bad debts was $12,520,064 and $13,878,273, for the years ended June 30, 2016 and 2015, respectively.

Note 1. Summary of Significant Accounting Policies (Continued)

Patient Receivables (Continued)

LSUHN participates in state Medicaid supplemental payment programs (Upper Payment Limit and Full Medicaid Payments) which are not subject to the allowances established by management. In 2016 and 2015, LSUHN included in patient receivables a receivable of $6,000,000 and $1,206,391, respectively, related to supplemental payment programs.

Due from Related Party - Other

This amount represents premium withheld from UMG by New Orleans Regional Physician Hospital Organization, Inc. (NORPHO) to allow PHI to hold an amount to satisfy regulatory requirements at PHI. The amount or a portion thereof will be paid to UMG if the network is dissolved, if UMG ceases operations and satisfies all obligations, if the regulatory requirements change, or when UMG experiences a significant change in its operations.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 - 5 years.

Investment in PH Holdings, LLC

At June 30, 2016 and 2015, LSUHN, through its blended component unit, UMG, held less than a 20% investment in PH Holdings, LLC, which it accounted for under the cost method. The cost method is used to account for the investment in the common stock of PH Holdings, LLC because UMG does not have the ability to exercise significant influence over the investee's operating and financial policies. The fair value of the investment is not disclosed, as there is no readily determinable fair value of the investment. Additionally, there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of net position. Unrealized gains and losses are included in the change in net position. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment earnings, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses, are included in non-operating income. During 2016 and 2015, the net decrease in the fair value of LSUHN's marketable securities was $104,050 and $65,891, respectively.

Note 1. Summary of Significant Accounting Policies (Continued)

Medical Claims Payable

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

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

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

During fiscal years ended June 30, 2016 and 2015, UMG recognized a favorable development of approximately $37,000 and $2,000, respectively, due to changes in estimates of the unpaid medical claims liability at June 30, 2015 and 2014, respectively. These changes in estimates resulted from the actual frequency and severity of claims differing from original estimates.

Net Position

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

LSUHN has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and Coordinated Care Networks (CCNs). The basis for payments to LSUHN under these agreements includes prospectively determined rates per office visit and discounts from established charges.

Included as a component of net patient service revenue on the statements of revenues, expenses, and change in net position for the years ended June 30, 2016 and 2015, are $5,797,607 and $5,546,676, respectively, of anticipated supplemental Medicaid payments.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare and Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis no later than 2010. The program uses RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to healthcare providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year but not longer than three years. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

LSUHN will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated.

Note 1. Summary of Significant Accounting Policies (Continued)

Patient Service Revenue Net of Contractual Adjustments and Allowances (Continued)
In July 2011, Louisiana Medicaid agency selected five private entities to manage care for most of the state's Medicaid enrollees in a new program beginning January 2012. These entities contracting with the Louisiana Department of Health and Hospitals will serve as Coordinated Care Networks (CCNs). The CCNs will coordinate care for adults with disabilities not enrolled in Medicare, children younger than 19, their parents, and pregnant women, allowing them to choose their own CCN. LSUHN contracted with the five entities and negotiated favorable fee schedules. While better rates were negotiated with the CCNs, the Upper Payment Limit (UPL) will not be available for this portion of the Medicaid business.

Charity Care
LSUHN provides care to patients in the Louisiana public hospital system without regard to their ability to pay for those services. LSUHN does not pursue collection of charges generated from providing services to patients that are determined to qualify for charity care and, as a result, these charges are not reported as revenue. The hospital and clinic partners of LSUHN determine when the criteria are met for a patient to qualify for charity care at which point the charges are written off. The records are maintained by each of these hospital and clinic partners.

During the years ended June 30, 2016 and 2015, charity charges entered into the billing system and adjusted off were approximately $55,100,000 and $48,700,000, respectively. As noted above, for those charity care charges entered into the billing system and adjusted off, accounts classified as charity care are written off immediately.

Capitation Revenue
UMG, the wholly-owned blended component unit of LSUHN, has entered into an agreement with NORPHO whereby UMG has authorized NORPHO to contract with purchasers of healthcare services for the delivery of healthcare services to covered members.

UMG receives capitation payments as compensation for a commitment to provide healthcare services to covered members. Capitation payments are recognized as revenue during the period in which UMG is obligated to provide healthcare services to these members.

Prior to January 1, 2015, the capitated payments were reduced on the statements of revenue, expenses, and change in net position by an amount paid to NORPHO for management services provided to UMG by NORPHO under a management services contract. In 2015, in order to better reflect UMG's operations, NORPHO paid to UMG only that portion of overall revenue actuarially allocated for the payment of direct medical expenses and, accordingly, did not assess management fees. Amounts receivable related to capitation revenue are included in amounts due from NORPHO on the statements of net position.

Note 1. Summary of Significant Accounting Policies (Continued)

Grant Revenue

LSUHN is a subrecipient of a federal grant awarded to LSUHSC to provide a nurse practitioners clinic to serve the under-privileged population. The clinic opened in January 2011 in the Village de Jardin development and is part of LSUHN. A second clinic location was opened in 2012 in the Terraces on Tulane, a Volunteers of America housing location. During the year ended June 30, 2015, two small employee health clinics were established under the grant at the School of Medicine and the Dental School. As of June 30, 2016 and 2015, $278,638 and $192,893, respectively, was included as revenue on the statements of revenues, expenses, and change in net position. As of June 30, 2016 and 2015, $179,843 and $84,666, respectively, of these grant revenues was included in other receivables on the statements of net position.

Medical Claims Expense

UMG contracts with various physicians, physician groups, and other ancillary providers under the terms of primary/specialty care physician agreements or other ancillary agreements for the purpose of providing healthcare services on behalf of UMG. Based on the terms of the agreements, medical expense is recognized either during the period in which UMG is obligated to provide medical services for members, or during the period in which medical services are incurred by members.

Reclassifications

Reclassifications have been made to prior year balances in order to conform to the current year presentation. They include a reclassification of $1,899,000 from management fees to capitation revenue, and a reclassification of $463,000 from medical claims expense to capitation revenue. These reclassifications resulted from the amendment to the management services and participation agreements executed during December 2015 with a retroactive effective date of January 1, 2015 (see Note 2).

Significant New Governmental Accounting Standards Board (GASB) Statements Adopted

During the year ended June 30, 2016, LSUHN adopted the following GASB Statement:

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This Statement defined fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that are held primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The related disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

Note 2. Related Party Transactions

In accordance with the Amended and Restated Uniform Affiliation Agreement with LSUHSC, LSUHN provides management services, nursing services, technical support services, clerical services, billing and collection services, and other support personnel as necessary to operate a healthcare delivery system. LSUHSC provides professional services of clinical faculty and in exchange LSUHN returns all net revenue, according to the formula in the agreement, to LSUHSC. Net revenues incurred to be returned to LSUHSC were $58,176,310 and $56,978,322, respectively, for the years ended June 30, 2016 and 2015. Amounts still due under the Amended and Restated Uniform Affiliation Agreement at June 30, 2016 and 2015, were $13,134,131 and $10,948,716, respectively.

In addition, LSUHSC provides general support services for LSUHN to operate, such as faculty for LSUHN senior management, computer network, and email accounts. LSUHN reimburses LSUHSC for these services. Amounts paid for general support services were $480,537 and $690,496, during the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, $46,025 and $90,099, respectively, were due to LSUHSC for general support services. These amounts are included in accounts payable and accrued liabilities on the statements of net position.

Several independent physician associations, including UMG and NORPHO, operate as the Network. The Network operates under a master operating agreement with PHI, a health maintenance organization (HMO), wholly-owned by NORPHO. The Network provides covered medical services under certain Medicare Advantage HMO, POS, PPO, and prescription drug plans to covered members located in southeast Louisiana.

NORPHO provides all administrative services necessary for the operation of the Network, including, but not limited to, financial services, medical management, claims processing, member services, and provider relations.

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

As discussed in Note 1, UMG, the blended component unit of LSUHN, operates under a management services agreement with NORPHO. Prior to January 2015, management fees were paid by UMG to NORPHO for expenses incurred up to 15% of capitation revenue. Management fees were $1,761,000 for the related period of July 1, 2014 to December 31, 2014. Effective January 1, 2015, the management service and participation agreements were amended to allow payments from NORPHO equivalent to the percentage of capitation revenue actuarially determined for the payment of medical claims, with no charges for management fees. The amended agreements stipulate that NORPHO is responsible for management services for the Network. The amended agreements have been renewed through December 31, 2016.

Note 2. Related Party Transactions (Continued)

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

Note 3. Major Payor

Currently, all contracts between UMG and third-party payors are executed through NORPHO. UMG, the blended component unit of LSUHN, earned 100% of capitation revenue from PHI. PHI and NORPHO contract with the Centers for Medicare and Medicaid Services (CMS) under a Medicare Advantage contract.

Under the terms of the Medicare Advantage contract, PHI has agreed to provide medical services to Medicare enrollees in return for capitated payments under the products Choices 65, Choices Select, Choices Plus, Secure Health, and Secure Choice. In addition, beginning in 2015, PHI began offering a new product, Choices Platinum. UMG offers membership in Choices 65, Choices Plus, Secure Health, and Choices Platinum. The contract automatically renews for successive periods of one year unless written notice of intention not to renew is given. The contract has been renewed through December 31, 2016. Approximately 100% of PHI's revenue is earned under contracts for these products. A significant modification to, or termination of, this arrangement could have a material effect on UMG's results of operations and financial condition.

Note 4. Capitation Revenue

The plans provide prescription drug benefits to members under the Medicare Part D contract. The capitation revenue is subject to risk corridor adjustment, which permits the plans and CMS to share the risk associated with the ultimate costs of the Part D benefit. The adjustment may be positive or negative based on the application of risk corridors that compare a plan's actual prescription drug costs to its targeted costs, as reflected in the Medicare Part D bid. The plans also receive subsidies from CMS for all or a portion of the deductible, co-insurance, and co-payment amounts for low-income beneficiaries, subsidies for coverage gap costs, and reinsurance subsidies for catastrophic costs. Amounts received for these subsidies are not reflected as premium revenue, but rather are accounted for as deposits. A settlement with CMS of the prospective subsidies based on actual prescription drug costs paid by the plans is made after the plans' year-end.

UMG, the blended component unit of LSUHN, estimates and recognizes an adjustment to capitation revenue related to the risk corridor adjustment based upon prescription drug claims experience to date. At June 30, 2016, UMG recorded a liability of $104,000 related to the period from January 1, 2016 to June 30, 2016 for the risk corridor adjustment. UMG estimated a liability of $487,000 for the 2015 plan year for its share of the Network's plan settlements with CMS. PHI expects to pay this amount to CMS during the last quarter of the 2016 calendar year.

Note 4. Capitation Revenue (Continued)

During the year ended June 30, 2016, UMG paid $453,000 of this amount to PHI through NORPHO, with a liability of $34,000 remaining at June 30, 2016 on the accompanying statement of financial position. In December 2015, the Network received notification from CMS related to the reconciliation and final settlement of the 2014 Network Part D plan. UMG's share of the final settlement liability resulted in an increase to premium revenue of $80 during the year ended June 30, 2016. In December 2014, the Network received notification from CMS related to the reconciliation and final settlement of the 2013 Network Part D plan. UMG's share of the final settlement liability resulted in an increase to premium revenue of $327, during the year ended June 30, 2015.

The difference between the recorded estimate and the final determination of the amount to be received or paid will be recorded when such determinations are made, and the final settlement amount could vary significantly from the amount recorded at June 30, 2016. Assets and liabilities related to the settlement of balances with CMS are included in amounts due from NORPHO on the statements of net position.

UMG recognizes an accrual for retroactive changes from CMS for revenue resulting from changes in risk adjustment scores for prior periods. At June 30, 2016, UMG recorded an asset of $417,000 for these adjustments related to the period from January 1, 2016 to June 30, 2016. PHI received this payment from CMS in August 2016. PHI and NORPHO advanced $380,000 of this amount to UMG during the year ended June 30, 2016. UMG has recorded a receivable of $37,000 at June 30, 2016, on the accompanying statements of net position. At June 30, 2015, UMG recorded an asset of $671,394 for risk score adjustments related to the period from January 1, 2015 to June 30, 2015. The amount was received by UMG in August 2015. These amounts were included in amounts due from NORPHO on the statements of net position at June 30, 2016 and 2015.

UMG recorded $198,000 for risk score adjustments related to calendar year 2015 revenue, which PHI had received from CMS in July 2016. PHI and NORPHO advanced $170,000 of this amount to UMG during the year ended June 30, 2016. UMG has recorded a receivable of $28,000 at June 30, 2016, on the accompanying statements of net position. At June 30, 2015, UMG accrued $173,900 for estimated risk score adjustments to calendar year 2014 revenue. The amount was received by UMG in July 2015. These amounts were included as current assets in due from related party on the statements of net position at June 30, 2016 and 2015.

During the year ended June 30, 2016, PHI was notified by CMS of the Medicare Advantage Risk Adjustment Data Validation (RADV) audits for the 2012 and 2013 revenue periods. RADV audits are the U.S. Department of Health & Human Services' primary corrective action to regroup improper revenue payments under Medicare Part C. Although Medicare laws and regulations regarding risk score are complex and subject to interpretation, management believes the results of the RADV audits will not have a significant impact on the financial position of UMG.

Note 5. Deposits, Investments, and Investment Income

Deposits

LSUHN maintains bank balances in excess of the FDIC insured limits. LSUHN has not experienced any losses on these amounts in excess of insured limits and management believes the related risk is minimal.

Investments

LSUHN's investment policy allows for investing available funds in: cash and cash equivalents, marketable securities (including publically traded equity and fixed income securities), and mutual funds. At June 30, 2016 and 2015, all of LSUHN's investments were in equities with no set maturity dates. The cost and fair value of investments at June 30, 2016 and 2015, are as follows:

June 30, 2016	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Sweep Fund	**$ 63,677**	**$ 63,677**	**$ -**
Equities - Foreign Large Blend	**189,802**	**227,525**	**(37,723)**
Equities - International Index	**375,652**	**422,265**	**(46,613)**
Equities - Japan Stock	**37,772**	**48,794**	**(11,022)**
Equities - Large Blend	**796,444**	**806,619**	**(10,175)**
Equities - Mid-Cap Growth	**289,779**	**291,782**	**(2,003)**
Fixed Income - High Yield Bonds	**523,691**	**536,531**	**(12,840)**
Fixed Income - Intermediate Term Bonds	**651,081**	**636,278**	**14,803**
Fixed Income - Multisector Bonds	**145,084**	**144,744**	**340**
Fixed Income - Short-Term Bonds	**1,281,234**	**1,273,467**	**7,767**
Fixed Income - Ultrashort Bonds	**498,645**	**505,229**	**(6,584)**
Total	**$ 4,852,861**	**$ 4,956,911**	**$ (104,050)**

June 30, 2015	Fair Value	Cost	Unrealized Gain (Loss)
Cash and Sweep Fund	$ 100,128	$ 100,128	$ -
Equities - Foreign Large Blend	626,393	650,310	(23,917)
Equities - Large Blend	837,436	858,243	(20,807)
Equities - Mid-Cap Growth	355,469	360,755	(5,286)
Equities - Small Blend	123,362	122,727	635
Fixed Income - High Yield Bonds	769,877	780,834	(10,957)
Fixed Income - Intermediate Term Bonds	475,584	479,281	(3,697)
Fixed Income - Multisector Bonds	99,839	100,543	(704)
Fixed Income - Short-Term Bonds	951,322	951,870	(548)
Fixed Income - Ultrashort Bonds	599,167	599,777	(610)
Total	$ 4,938,577	$ 5,004,468	$ (65,891)

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

Investments (Continued)

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

Concentration of Credit Risk: LSUHN invests in money market funds which are not insured or guaranteed by the U.S. Government; however, management believes the credit risk related to these investments is minimal. The Network's investment policy is to maintain a reasonable diversification of investment assets between asset classes and investment categories at all times using a conservative-moderate approach to the allocation. The Network places no limits on the amount that may be invested with one issuer. As of June 30, 2016 and 2015, LSUHN did not have any debt or equity investments in any one organization which represented greater than 5% of total investments.

LSUHN categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. LSUHN has the following recurring fair value measurements as of June 30, 2016:

Assets	Level 1	Level 2	Level 3	Net Balance
Cash and Sweep Fund	$ 63,677	$ -	$ -	$ 63,677
Equities - Foreign Large Blend	189,802	-	-	189,802
Equities - International Index	375,652	-	-	375,652
Equities - Japan Stock	37,772	-	-	37,772
Equities - Large Blend	796,444	-	-	796,444
Equities - Mid-Cap Growth	289,779	-	-	289,779
Fixed Income - High Yield Bonds	523,691	-	-	523,691
Fixed Income - Intermediate Term Bonds	651,081	-	-	651,081
Fixed Income - Multisector Bonds	145,084	-	-	145,084
Fixed Income - Short-Term Bonds	1,281,234	-	-	1,281,234
Fixed Income - Ultrashort Bonds	498,645	-	-	498,645
Total	$ 4,852,861	$ -	$ -	$ 4,852,861

Note 6. Capital Assets

Capital asset activity for fiscal years ended June 30, 2016 and 2015, was as follows:

	Balance 2015	Additions	Deletions	Balance 2016
Office Furniture and Fixtures	**$ 844,647**	**$ 7,369**	**$ (52,976)**	**$ 799,040**
Computers and Related Equipment	**1,838,815**	**10,643**	**(414,896)**	**1,434,562**
Medical Equipment	**2,293,423**	**30,443**	**-**	**2,323,866**
Leasehold Improvements	**808,275**	**4,648**	**(77,577)**	**735,346**
License Fees	**3,037,452**	**143,750**	**(196,800)**	**2,984,402**
Total at Historical Cost	**8,822,612**	**196,853**	**(742,249)**	**8,277,216**
Less: Accumulated Depreciation and Amortization	**(6,930,827)**	**(794,360)**	**539,561**	**(7,185,626)**
Capital Assets, Net	**$ 1,891,785**	**$ (597,507)**	**$ (202,688)**	**$ 1,091,590**

	Balance 2014	Additions	Deletions	Balance 2015
Office Furniture and Fixtures	$ 836,321	$ 8,326	$ -	$ 844,647
Computers and Related Equipment	1,737,255	101,560	-	1,838,815
Medical Equipment	2,216,955	76,468	-	2,293,423
Leasehold Improvements	801,566	6,709	-	808,275
License Fees	2,705,099	332,353	-	3,037,452
Total at Historical Cost	8,297,196	525,416	-	8,822,612
Less: Accumulated Depreciation and Amortization	(6,102,587)	(828,240)	-	(6,930,827)
Capital Assets, Net	$ 2,194,609	$ (302,824)	$ -	$ 1,891,785

Depreciation and amortization expense amounted to $794,360 and $828,840, for the fiscal years ended June 30, 2016 and 2015, respectively.

Note 7. Other Assets

Investment in PH Holdings, LLC

As mentioned in Note 2, UMG held less than a 20% investment in NORPHO. On December 9, 2011, UMG redeemed its shares in NORPHO and invested in PH Holdings, LLC, a limited liability corporation established on November 15, 2011. As a result of these transactions, NORPHO became a wholly-owned subsidiary of PH Holdings, LLC. As of June 30, 2016 and 2015, UMG holds less than a 20% investment interest in PH Holdings, LLC, which amounted to $2,531,213, and accounts for the investment under the cost method. In 2016 and 2015, UMG did not receive distributions from PH Holdings, LLC.

Note 8. Lease Commitments

Operating Leases

LSUHN leases office space and equipment under operating leases that expire at various dates through 2019. Certain of the lease agreements provide for escalations based on cost of operations. Minimum annual lease payments as of June 30, 2016, are as follows:

Year Ending June 30,	Amount
2017	$ 877,327
2018	370,747
2019	257,938
2020	39,693
Total	$ 1,545,705

Total rent expense for all of the above leases for the years ended June 30, 2016 and 2015, was $2,225,609 and $2,487,885, respectively.

Note 9. 401(k) Plan

Beginning January 2012, LSUHN transitioned to a safe-harbor plan, whereby the employees will be able to contribute up to 16% of their compensation into the plan, subject to certain limitations. The participating employees will receive a dollar for dollar matching on their contributions from LSUHN, up to a maximum of 6%. At its discretion, LSUHN may make contributions to the 401(k) plan for the benefit of participating employees. For the years ended June 30, 2016 and 2015, 401(k) plan expenses were $272,633 and $259,150, respectively.

Note 10. Concentrations of Credit Risk

LSUHN provides services in New Orleans, Baton Rouge, and Lafayette. LSUHN grants credit to its patients, some of whom are insured under third-party payor agreements. LSUHN routinely obtains assignment of, or is otherwise entitled to receive patients' benefits from Medicare, Medicaid, and other third-party payors. The mix of receivables from its patients and third-party payors at June 30, 2016 and 2015, was as follows:

	2016	2015
Commercial	**30 %**	27 %
Medicaid	**31**	32
Medicare	**24**	22
Self-Pay	**15**	19
Total	**100 %**	100 %

Note 11. Insurance Coverage

Malpractice Insurance

The physicians leased to LSUHN by LSUHSC are provided professional liability coverage by LSUHSC in accordance with the provisions of LA. R.S. 40:1299.39 et seq. for the services provided under Cooperative Endeavor and Operating Agreements. These provisions provide the physician with coverage on malpractice claims up to $500,000 per occurrence, which is the limit on medical malpractice claims under current state law.

Note 12. Government Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Recently, government oversight has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Office of the Inspector General of the Department of Health and Human Services has undertaken a project to audit Medicare billings of certain academic medical institutions. The government has stated that it believes that a significant amount of Medicare claims filed by teaching physicians are not properly documented as required by current interpretations of Medicare standards. If a provider is found to be in violation of these documentation standards, the government may require repayment of any overcharges and may impose a penalty of treble damages plus up to $10,000 per false claim.

Management believes that LSUHN is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations, and with the Medicare documentation standards. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 12. Government Regulations (Continued)

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operations of LSUHN. Federal healthcare reform legislation proposals debated in Congress in recent years have included proposals for the imposition of price controls and/or healthcare spending budgets or targets, significant reductions in Medicare and Medicaid program reimbursement to healthcare providers, and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of LSUHN's principal payors.

It is not possible at this time to determine the impact on LSUHN of government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system, and/or payment methodology changes. However, such changes could have an adverse impact on operating results and cash flows of LSUHN in future years.

Note 13. Commitments and Contingencies

LSUHN has certain other pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed LSUHN's insurance coverage, and will not materially affect the financial position of LSUHN or the results of its operations.

LSUHN contracts with ACS as the sole third-party billing company. The contract rate for net cash collections for ACS is 13% for public business, 5.5% for private business, 10.5% for Baton Rouge, and 5.5% for New Orleans Anesthesia business. Additional fees are paid for UPL payments at the same rates above, but only for 75% of total payment.

LSUHN has a management services agreement with Diagnostic Imaging Services (DIS) to manage and operate the low-modality imaging center in the St. Charles Clinic. LSUHN reimburses DIS for wages and fringes of the DIS employees and an additional 15% fee for overhead as set in the agreement. The agreement extends through December 31, 2016.

Note 14. Combining Schedules

The following tables include condensed combining statements of net position and condensed combining statements of revenues, expenses, and change in net position information for LSUHN and its active blended component units as of and for the years ended June 30, 2016 and 2015:

	2016				
	LSUHN	LSUHN Billing	UMG	Eliminations	Total
Current Assets	$ 21,328,463	$ 6,437,578	$ 8,508,491	$ -	$ 36,274,532
Capital Assets, Net	1,085,332	6,258	-	-	1,091,590
Other Assets	14,758,457	-	2,713,304	(9,672,220)	7,799,541
Total Assets	$ 37,172,252	$ 6,443,836	$ 11,221,795	$ (9,672,220)	$ 45,165,663
Total Liabilities	$ 15,125,706	$ -	$ 1,549,575	$ -	$ 16,675,281
Net Position	22,046,546	6,443,836	9,672,220	(9,672,220)	28,490,382
Total Liabilities and Net Position	$ 37,172,252	$ 6,443,836	$ 11,221,795	$ (9,672,220)	$ 45,165,663
Operating Revenues	$ 85,375,609	$ (1,042,350)	$ 20,142,778	$ -	$ 104,476,037
Depreciation and Amortization	792,516	1,844	-	-	794,360
Other Operating Expenses	79,399,434	1,652,961	18,104,559	-	99,156,954
Operating Income (Loss)	5,183,659	(2,697,155)	2,038,219	-	4,524,723
Non-Operating Revenues (Expenses)	1,907,634	(3,069)	-	(2,038,219)	(133,654)
Change in Net Position	$ 7,091,293	$ (2,700,224)	$ 2,038,219	$ (2,038,219)	$ 4,391,069

Note 14. Combining Schedules (Combined)

	2015				
	LSUHN	LSUHN Billing	UMG	Eliminations	Total
Current Assets	$ 14,509,470	$ 7,475,750	$ 6,736,287	$ -	$ 28,721,507
Capital Assets, Net	1,880,655	11,130	-	-	1,891,785
Other Assets	12,805,554	-	2,722,890	(7,634,001)	7,894,443
Total Assets	$ 29,195,679	$ 7,486,880	$ 9,459,177	$ (7,634,001)	$ 38,507,735
Total Liabilities	$ 12,583,246	$ -	$ 1,825,176	$ -	$ 14,408,422
Net Position	16,612,433	7,486,880	7,634,001	(7,634,001)	24,099,313
Total Liabilities and Net Position	$ 29,195,679	$ 7,486,880	$ 9,459,177	$ (7,634,001)	$ 38,507,735
Operating Revenues	$ 79,753,644	$ 429,145	$ 22,064,272	$ -	$ 102,247,061
Depreciation and Amortization	826,065	2,175	-	-	828,240
Other Operating Expenses	77,846,755	1,570,208	23,439,612	-	102,856,575
Operating Income (Loss)	1,080,824	(1,143,238)	(1,375,340)	-	(1,437,754)
Non-Operating Revenues (Expenses)	(1,428,873)	-	-	1,375,340	(53,533)
Change in Net Position	$ (348,049)	$ (1,143,238)	$ (1,375,340)	$ 1,375,340	$ (1,491,287)

Note 15. Subsequent Events

Management has evaluated subsequent events through August 22, 2016, the date that the financial statements were available to be issued and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

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

To the Board of Directors of
Louisiana State University School of Medicine in
New Orleans Faculty Group Practice

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Louisiana State University School of Medicine in New Orleans Faculty Group Practice d/b/a LSU Healthcare Network (a Louisiana non-profit corporation) (LSUHN), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise LSUHN's basic statements, and have issued our report thereon dated August 22, 2016. We did not audit the financial statements of University Medical Group, LLC (a wholly-owned blended component unit) (UMG), which statements reflect total assets constituting 25% of total assets as of June 30, 2016 and 2015, respectively, and total revenues constituting 19% and 22% of total operating revenues for the years ended June 30, 2016 and 2015, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UMG, is based solely on the report of the other auditors.

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

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered LSUHN's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LSUHN's internal control. Accordingly, we do not express an opinion on the effectiveness of LSUHN's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether LSUHN's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Covington, LA
August 22, 2016