# Consolidated Financial Statements and Reports on Federal Award Programs

Ochsner Clinic Foundation and Subsidiaries
Year Ended December 31, 2018
With Reports of Independent Auditors

Ernst & Young LLP



Ochsner Clinic Foundation and Subsidiaries

Consolidated Financial Statements and Reports on Federal Award Programs

Year Ended December 31, 2018

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# Report of Independent Auditors

The Board of Directors and Management
Ochsner Clinic Foundation and Subsidiaries

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ochsner Clinic Foundation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes 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 Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of 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 conducted our audits in accordance with auditing standards generally accepted in the United States 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 of 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.



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

**Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities***

As discussed in Note 1 to the consolidated financial statements, Ochsner Clinic Foundation changed its method of revenue recognition and financial statement presentation as a result of the adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, respectively. Our opinion is not modified with respect to this matter.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ochsner Clinic Foundation and its subsidiaries at December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

***Supplementary Information – Schedule of Compensation Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Compensation Information as required under Louisiana Revised Statute 24:513A(1)(a)(3) is presented for purposes of additional analysis and is not a required part of the consolidated 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 audit 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. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated April 29, 2019 on our consideration of Ochsner Clinic Foundation and its subsidiaries' 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 Ochsner Clinic Foundation and its subsidiaries' internal control over financial reporting or on compliance. That report is an



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integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ochsner Clinic Foundation and its subsidiaries' internal control over financial reporting and compliance.

Ernst & Young LLP

April 29, 2019,
Except for the Schedule of Compensation Information
for which the date is June 26, 2019



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# Ochsner Clinic Foundation and Subsidiaries

## Consolidated Balance Sheets
*(In Thousands)*

| | December 31, 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 137,604 | $ 186,401 |
| Assets limited as to use required for current liabilities | 7,630 | 7,370 |
| Patient accounts receivable | 271,331 | 249,299 |
| Accounts receivable other | 149,190 | 104,827 |
| Inventories | 69,757 | 68,608 |
| Prepaid expenses and other current assets | 40,814 | 34,395 |
| Estimated third-party payor settlements | 27,448 | 22,224 |
| Total current assets | 703,774 | 673,124 |
| | | |
| Assets limited as to use: | | |
| By Board for capital improvements, charity, research, and other | 747,572 | 769,717 |
| Under bond indenture agreements | – | 95,106 |
| Under self-insurance trust fund | 10,024 | 9,301 |
| Donor-restricted long-term investments | 82,010 | 97,425 |
| Total assets limited as to use | 839,606 | 971,549 |
| Less assets limited as to use required for current liabilities | (7,630) | (7,370) |
| Non-current assets limited as to use | 831,976 | 964,179 |
| | | |
| Investments in unconsolidated affiliates, real estate, and other | 83,409 | 19,644 |
| Property – net | 1,171,795 | 927,979 |
| Goodwill | 72,411 | 71,195 |
| Intangible assets | 11,477 | 12,354 |
| Other assets | 50,167 | 47,332 |
| Total assets | $ 2,925,009 | $ 2,715,807 |

Ochsner Clinic Foundation and Subsidiaries

Consolidated Balance Sheets
*(In Thousands)*

| | December 31, 2018 | 2017 |
|---|---|---|
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable | $ 205,582 | $ 190,683 |
| Accrued salaries, wages, and benefits | 190,359 | 163,218 |
| Deferred revenue | 39,476 | 35,552 |
| Estimated third-party payor settlements | 5,079 | 4,275 |
| Bonds payable – current portion | 4,060 | 2,095 |
| Notes payable – current | 52,430 | 52,430 |
| Long-term debt – current portion | 15,606 | 13,299 |
| Other current liabilities | 43,230 | 33,266 |
| Total current liabilities | 555,822 | 494,818 |
| Pension and postretirement obligations | 141,993 | 147,596 |
| Bonds payable | 980,831 | 986,730 |
| Long-term debt | 193,672 | 175,722 |
| Other long-term liabilities | 118,094 | 38,770 |
| Total liabilities | 1,990,412 | 1,843,636 |
| Commitments and contingencies *(Notes 6 and 18)* | | |
| Net assets: | | |
| Without donor restrictions | 820,414 | 745,282 |
| With donor restrictions | 114,183 | 126,889 |
| Total net assets | 934,597 | 872,171 |
| Total liabilities and net assets | $ 2,925,009 | $ 2,715,807 |

*See notes to financial statements.*

# Ochsner Clinic Foundation and Subsidiaries

## Consolidated Statements of Operations
*(In Thousands)*

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| Unrestricted revenues: | | |
| Patient service revenue | $ 2,595,675 | $ 2,301,804 |
| Premium revenue | 318,453 | 298,824 |
| Other operating revenue | 504,342 | 403,463 |
| Net assets released from restrictions used for operations | 5,155 | 6,319 |
| Total unrestricted revenues | 3,423,625 | 3,010,410 |
| Expenses: | | |
| Salaries and wages | 1,505,643 | 1,359,294 |
| Benefits | 145,877 | 138,008 |
| Medical services to outside providers | 140,491 | 133,952 |
| Medical supplies and services | 653,371 | 570,155 |
| Other operating expenses | 671,492 | 560,994 |
| Depreciation and amortization | 147,528 | 128,098 |
| Interest | 52,411 | 49,762 |
| Total expenses | 3,316,813 | 2,940,263 |
| Operating income | 106,812 | 70,147 |
| Non-operating gains (losses): | | |
| Investment and other realized gains – net | 34,557 | 47,147 |
| Loss on early extinguishment of debt | – | (9,256) |
| Unrealized (losses) gains on investments – net | (68,569) | 36,968 |
| Total non-operating (losses) gains | (34,012) | 74,859 |
| Excess of revenues over expenses | $ 72,800 | $ 145,006 |

*See notes to financial statements.*

# Ochsner Clinic Foundation and Subsidiaries

## Consolidated Statements of Changes in Net Assets
*(In Thousands)*

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| **Changes in net assets without donor restrictions** | | |
| Excess of revenues over expenses | $ 72,800 | $ 145,006 |
| Net assets released from restrictions used for capital acquisitions | 15,511 | 636 |
| Pension-related changes other than net periodic pension costs | (13,180) | 2,674 |
| Increase in net assets without donor restrictions | 75,131 | 148,316 |
| **Changes in net assets with donor restrictions** | | |
| Contributions | 10,797 | 13,852 |
| Investment (loss) income | (2,836) | 5,940 |
| Net assets released from restrictions used for: | | |
| Operations | (5,155) | (6,319) |
| Capital acquisitions | (15,511) | (636) |
| (Decrease) increase in net assets with donor restrictions | (12,705) | 12,837 |
| Increase in net assets | 62,426 | 161,153 |
| Net assets – beginning of year | 872,171 | 711,018 |
| Net assets – end of year | $ 934,597 | $ 872,171 |

*See notes to financial statements.*

# Ochsner Clinic Foundation and Subsidiaries

## Consolidated Statements of Cash Flows
*(In Thousands)*

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Increase in net assets | $ 62,426 | $ 161,153 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Pension-related changes other than net periodic pension costs | 13,180 | (2,674) |
| Depreciation and amortization | 147,528 | 128,098 |
| Non-cash portion of loss on early extinguishment of debt | – | 8,793 |
| Amortization of deferred financing costs and debt premiums and discounts | (441) | (591) |
| (Income) loss from equity-method investments, net of cash received | (1,040) | 721 |
| Net realized and unrealized losses (gains) on investments | 37,910 | (88,705) |
| Other, net | (1,137) | (1,045) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Patient accounts receivable | (18,686) | 3,299 |
| Other current and non-current assets | (58,300) | (27,962) |
| Accounts payable | (12,420) | 38,924 |
| Accrued expenses and other liabilities | 16,312 | 27,332 |
| Net cash provided by operating activities | 185,332 | 247,343 |
| **Investing activities** | | |
| Purchases of assets whose use is limited and other investments | (152,872) | (389,924) |
| Sales and maturities of assets whose use is limited and other investments | 246,905 | 339,601 |
| Capital expenditures | (269,054) | (228,542) |
| Purchase of interest in equity-method investments | (35,349) | – |
| Acquisition of businesses, net of cash acquired of $2,396 and $5 in 2018 and 2017, respectively | 848 | (30,816) |
| Other | 936 | 313 |
| Net cash used in investing activities | (208,586) | (309,368) |
| **Financing activities** | | |
| Repayment of bonds payable and long-term debt | (15,885) | (323,471) |
| Proceeds from long-term borrowings | – | 458,024 |
| Payments of debt financing costs | – | (4,288) |
| Payments on capital lease obligations | (10,245) | (4,258) |
| Proceeds from contributions restricted for long-term investments | 587 | 850 |
| Net cash (used in) provided by financing activities | (25,543) | 126,857 |
| Net (decrease) increase in cash and cash equivalents | (48,797) | 64,832 |
| Cash and cash equivalents – beginning of year | 186,401 | 121,569 |
| Cash and cash equivalents – end of year | $ 137,604 | $ 186,401 |

*See notes to financial statements.*

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018

## 1. Summary of Significant Accounting Policies

### Organization

Ochsner Clinic Foundation (OCF or Ochsner) d/b/a Ochsner Health System (OHS), located in New Orleans, Louisiana, is a not-for-profit institution that, either directly or through its fully owned subsidiaries, owns and operates an acute care hospital known as Ochsner Medical Center (OMC), an 11-story clinic building, a 134-room hotel, and related medical facilities located on a main campus in Jefferson Parish at the western end of New Orleans. OCF also owns 100% of the outstanding common stock of Ochsner System Protection Company (OSPC), a captive insurance company domiciled in Louisiana. OCF owns Ochsner Medical Center West Bank and Ochsner Baptist Medical Center, which are operated as remote campuses of OMC. It also owns and operates health centers throughout southeast Louisiana; owns a hospital in Baton Rouge, Louisiana, that operates as Ochsner Medical Center Baton Rouge; owns a hospital in Slidell, Louisiana, that operates as Ochsner Medical Center – North Shore; owns a hospital in Kenner, Louisiana, that operates as Ochsner Medical Center – Kenner; operates a hospital in Raceland, Louisiana, known as Ochsner St. Anne General Hospital; operates a hospital in Bay St. Louis, Mississippi, that operates as Ochsner Hancock Medical Center; and owns several fitness centers that operate as Ochsner Fitness Center. OCF also provides management assistance and support for a hospital in Houma, Louisiana, known as Leonard J. Chabert Medical Center (Chabert); for a hospital in Luling, Louisiana, known as St. Charles Parish Hospital (SCPH); for a hospital in Chalmette, Louisiana, known as St. Bernard Parish Hospital (SBPH); and for hospitals and clinics located in Shreveport, Louisiana, and Monroe, Louisiana, known as Ochsner LSU Health System of North Louisiana (OLHS-NL).

### Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of Ochsner and its wholly owned subsidiaries.

All intercompany accounts and transactions have been eliminated upon consolidation. The assets of any member of the consolidated group may not be available to meet the obligations of other members in the group, except as disclosed in Notes 8, 9, and 10.

**1. Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation, under bond indenture agreements, or under self-insurance agreements.

**Inventories**

Inventories are stated at the lower of first-in, first-out cost or net realizable value.

**Pledges Receivable**

Unconditional promises to give are recognized as revenues at their fair values in the period received. Pledges receivable are recorded net of necessary discounts and allowances. The current portion of pledges receivable is recorded in accounts receivable other and the non-current portion is recorded in other assets in the consolidated balance sheets.

Pledges receivable as of December 31 are expected to be realized as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| In one year or less | $ 9,517 | $ 7,772 |
| Between one and five years | 17,655 | 22,103 |
| Greater than five years | 5,670 | 7,519 |
| | 32,842 | 37,394 |
| Less discount (ranging from 0.72%–4.25% at December 31, 2018 and 2017) and allowance for uncollectible pledges | (2,170) | (3,270) |
| Pledges receivable – net | $ 30,672 | $ 34,124 |

**1. Summary of Significant Accounting Policies (continued)**

**Investments**

Investments held by Ochsner are included in assets limited as to use in the consolidated balance sheets. Substantially all of Ochsner's investments are designated as other-than-trading investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include investments in private equity funds, hedge funds, real estate funds, offshore fund vehicles, and funds of funds structured as limited liability corporations or partnerships or trusts. These investments are termed alternative investments in the notes to the consolidated financial statements and are accounted for under the equity method, which approximates fair value. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in the market (market risk).

Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

If management believes a decline in the value of a particular investment is temporary, the decline is included in change in net unrealized gains (losses) on investments on the consolidated statements of operations.

If the decline is evaluated as being other than temporary, the carrying value of the investment is written down and an impairment loss is recorded in non-operating gains and losses in the consolidated statements of operations. Ochsner did not record impairment losses on investment securities for the years ended December 31, 2018 and 2017.

**Assets Limited as to Use**

Assets limited as to use primarily include assets held by trustees under indenture agreements, self-insurance trust agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees (the Board) primarily for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities have been classified in the consolidated balance sheets as current assets.

**1. Summary of Significant Accounting Policies (continued)**

**Property – Net**

Property improvements and additions are recorded at cost and capitalized and depreciated on the straight-line basis over the following estimated useful lives of the assets:

| | Years |
|---|---|
| Land improvements | 5–25 |
| Buildings and building improvements | 10–40 |
| Leasehold improvements | 12–20 |
| Equipment, furniture, and fixtures | 2–20 |

**Impairment of Long-Lived Assets**

Ochsner evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. There were no impairment charges on long-lived assets recognized for the years ended December 31, 2018 or 2017.

**Capitalization of Interest**

Ochsner capitalizes interest expense on qualifying construction-in-progress expenditures based on an imputed interest rate estimating Ochsner's average cost of borrowed funds. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled approximately $6.5 million and $4.6 million for the years ended December 31, 2018 and 2017, respectively.

**1. Summary of Significant Accounting Policies (continued)**

**Goodwill and Intangible Assets**

Goodwill and intangible assets, consisting primarily of trade name and employment contracts, were recorded mainly as a result of the merger of Alton Ochsner Medical Foundation with Ochsner Clinic LLC in 2001, which resulted in the creation of OCF. Goodwill represents the excess of the fair value of the consideration conveyed in the acquisition over the fair value of net assets acquired. Goodwill and indefinite-lived intangible assets arising from business combinations are not amortized, but rather are tested for impairment at least annually at the reporting unit level. Impairment is the condition that exists when the carrying amount of goodwill or intangible assets exceeds its implied fair value. Additional impairment assessments may be performed on an interim basis if OCF encounters events or changes in circumstances that would indicate that it is more likely than not that the carrying value of goodwill or intangible assets has been impaired. OCF has selected October 31 as its annual testing date and has determined that its reporting unit is the consolidated entity.

The first step in the impairment process is to estimate the fair value of the reporting unit and then compare it to the carrying value, including goodwill. If the fair value exceeds the carrying value, no further action is required and no impairment loss is recognized. OCF determined that the use of the income and market approaches were the most appropriate methods of measuring fair value of the reporting units. These are considered Level 3 valuations in the valuation hierarchy described in Note 2.

Under the income approach, fair value is estimated using a discounted cash flow analysis. Under the market approach, fair value is estimated using a guideline company method and a comparable transaction method. Both the income approach and the market approach require significant assumptions to determine the fair value of each reporting unit. The significant assumptions used in the income approach include estimates of future revenues, profits, capital expenditures, working capital requirements, operating plans, industry data, and an appropriate discount rate for each reporting unit. The significant assumptions used in the market approach include the determination of appropriate market comparables and estimated multiples of net revenue and earnings before interest, taxes, depreciation, and amortization. OCF engaged a third-party valuation firm to assist in these fair value calculations. OCF performed Step 1 of the impairment test using a quantitative impairment analysis and concluded the fair value exceeded the carrying value, and no further action was required for 2018 or 2017.

**1. Summary of Significant Accounting Policies (continued)**

**Deferred Revenue**

Deferred revenue includes amounts related to Medicaid supplemental payments which are yet to be recognized as revenue, as well as payments received in advance of services rendered for Ochsner's electronic health records (EHR) services agreements (see Note 15).

In June 2017 and March 2018, Ochsner entered into a series of agreements with a third-party vendor for the construction, installation, and management of energy facilities used to process and distribute chilled water and steam at OMC and Ochsner Medical Complex – The Grove (located in Baton Rouge, Louisiana), respectively. Under the terms of a concession agreement, the third-party vendor obtained the right to use, control, and manage the energy assets and associated building space. Ochsner, in turn, purchases chilled water and steam generated from the third-party vendor. As part of the concession agreements, Ochsner received payments totaling approximately $32.8 million from the third-party vendor. Ochsner recorded these payments as deferred revenue within the consolidated balance sheets. The associated revenue is being amortized and recognized over the lives of the agreements and is included in other operating revenue in the accompanying consolidated statements of operations. Deferred revenue associated with these agreements totaled $30.8 million and $20.3 million as of December 31, 2018 and 2017, respectively.

**Deferred Financing Costs**

In connection with the issuance of bonds and long-term debt, certain financing costs are being amortized over the respective lives of the bonds and long-term debt. These costs are approximately $11.7 million and $12.3 million net of accumulated amortization at December 31, 2018 and 2017, respectively, and are included as a reduction to bonds payable and long-term debt in the accompanying consolidated balance sheets.

**Derivative Financial Instruments**

Ochsner utilizes interest rate swap agreements to manage its interest rate exposure. Changes in the fair value of Ochsner's swaps not designated as hedges are recorded as non-operating gains and losses in the consolidated statements of operations. Changes in the fair value of Ochsner's swaps that are designated as hedges are recorded as changes in unrestricted net assets in the consolidated statements of changes in net assets.

**1. Summary of Significant Accounting Policies (continued)**

**Estimated Workers' Compensation, Professional and General Liability, and Employee Health Claims**

Ochsner is self-insured for workers' compensation, professional and general liability, and employee health claims. The provisions for estimated workers' compensation, professional liability, and employee health claims include estimates for the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate Ochsner's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and the use of actuarial information.

**Accounting for Pension and Other Postretirement Plans**

Ochsner recognizes the overfunded or underfunded status of its pension and other postretirement plans as an asset or liability in its consolidated balance sheets. Changes in the funded status of the pension and other postretirement plans are reported as a change in unrestricted net assets presented below the excess of revenues over expenses financial statement line item in the consolidated statement of changes in net assets in the year in which the changes occur.

**Reinsurance**

OSPC relies on reinsurance to limit its retained property insurance risk. In entering into reinsurance agreements, management considers a variety of factors, including the creditworthiness of reinsurers. In preparing its financial statements, management makes estimates of amounts receivable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible by management based on an assessment of factors including an assessment of the creditworthiness of the reinsurers. OSPC cedes 100% of the underlying risk, and as a result, OSPC retains no insurance risk. However, OSPC is not relieved of its primary obligation and is subject to credit risk of its reinsurers. OSPC's last reinsurance contract ended on May 31, 2014. Its expiration coincided with the expiration of the last policy written by OSPC.

**1. Summary of Significant Accounting Policies (continued)**

**Net Assets**

Resources are classified for reporting purposes as net assets without donor restrictions and net assets with donor restrictions, according to the absence or existence of donor-imposed restrictions.

*Net Assets Without Donor Restrictions*

Net assets without donor restrictions are those whose use by OCF has not been limited by donors and are available for general operating use. Board-designated net assets are net assets without donor restrictions that have been set aside by the Board for specific purposes.

*Net Assets With Donor Restrictions*

Net assets with donor restrictions are those assets, including contributions and accumulated investment returns, whose use by OCF has been limited by donors to a specific time, period, or purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity to provide a permanent source of income. Donor-restricted gifts are recorded as an addition to net assets with donor restrictions in the period received. Earnings on donor-restricted gifts are recorded as investment income in net assets with donor restrictions and subsequently used in accordance with the donor's designation.

**Consolidated Statements of Operations**

For purposes of presentation, all revenues and expenses are reported as operating except for investment income, the loss from early extinguishment of debt, and other gains and losses – net, which are reported as non-operating.

**Excess of Revenues Over Expenses**

The consolidated statements of operations include excess of revenues over expenses, which represents Ochsner's performance indicator. Changes in net assets without donor restriction, which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions used to acquire property and equipment, and pension-related changes other than net periodic pension costs.

**1. Summary of Significant Accounting Policies (continued)**

**Patient Service Revenue**

Patient service revenue is reported at the amount that reflects the consideration Ochsner expects to be entitled for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs), and others, and include variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Generally, Ochsner bills the patients and third-party payors after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Ochsner. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Ochsner believes that this method provides a reasonable 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 receiving inpatient acute care services. Ochsner 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. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Because its performance obligations relate to contracts with a duration of less than one year, Ochsner has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-60-14(a) 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 above 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.

As provided for under the guidance, Ochsner does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

**1. Summary of Significant Accounting Policies (continued)**

Ochsner is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to patient service revenue. Ochsner accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, Ochsner has concluded that revenue for a given portfolio would not be materially different from accounting for revenue on a contract-by-contract basis.

Ochsner has agreements with third-party payors that generally provide for payments at amounts different from Ochsner's established rates. For uninsured patients who do not qualify for charity care, Ochsner recognizes revenue based on established rates, subject to certain discounts and implicit price concessions in accordance with policy. Ochsner determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration Ochsner expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductible and coinsurance, which vary in amount. Ochsner estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2018 or 2017.

Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount.

**1. Summary of Significant Accounting Policies (continued)**

*Charity Care*

Ochsner provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided. Because Ochsner does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Ochsner estimates its costs of care provided under its charity care programs by applying a ratio of direct and indirect costs to charges to the gross foregone charges associated with providing care to charity patients. Ochsner's gross charity care charges include only services provided to patients who are unable to pay and qualify under Ochsner's charity care policies. The ratio of cost to charges is calculated based on Ochsner's total expenses divided by gross patient revenue. During the years ended December 31, 2018 and 2017, the estimated costs incurred by Ochsner to provide care to patients who met certain criteria under its charity care policy were approximately $27.9 million and $29.2 million, respectively.

*Community Benefit*

Ochsner and four other health care providers have formed nonprofit organizations with the purpose of creating a vehicle to provide services to low-income and needy patients. Expenditures recorded by Ochsner to fund the organizations for the years ended December 31, 2018 and 2017, were approximately $84.0 million and $28.4 million, respectively. In 2018, OCF made a $56 million payment to OLHS-NL to promote common charitable goals through the support of educational opportunities for medical and clinical professionals in the provision of health care services for low-income and needy patients. These expenditures are included in other operating expenses in the consolidated statements of operations.

**Other Operating Revenue**

Other operating revenue includes pharmacy revenue, rental revenue, durable medical equipment rentals and sales, gift shop revenues, EHR incentive payments, revenue from joint operating agreements and management agreements, income from equity-method investees, fitness center revenue, hotel revenue, and revenues from other miscellaneous sources.

**1. Summary of Significant Accounting Policies (continued)**

**HIT Incentive Payments and Other Benefits**

Beginning in 2012, Ochsner achieved compliance with certain of the health information technology (HIT) requirements under the American Recovery and Reinvestment Act of 2009. As a result, Ochsner recognized approximately $1.0 million and $4.3 million in other operating revenue in the accompanying consolidated statements of operations for 2018 and 2017, respectively, for EHR incentives related to Medicaid and Medicare programs. These incentives partially offset the operating expenses Ochsner has incurred and continues to incur from its investment in HIT systems. Ochsner did not have any accounts receivable related to these incentives at December 31, 2018 and 2017. Ochsner accounts for EHR incentive payments under the grant accounting model as grants related to income.

Medicare and Medicaid EHR incentive payments are recognized as revenue after Ochsner has determined it is reasonably assured to comply with the meaningful use criteria over the entire applicable compliance period. Ochsner's compliance with the meaningful use criteria is subject to audit by the federal government.

**Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported within 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 as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Contributions for which restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue.

**Fair Value of Financial Instruments Other Than Investments**

The following methods and assumptions were used by Ochsner in estimating the fair value of its financial instruments:

*Current Assets and Liabilities*

Ochsner considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

**1. Summary of Significant Accounting Policies (continued)**

*Bonds Payable*

The fair values of Ochsner's revenue bonds are based on currently traded values of similar financial instruments as disclosed in Note 9.

*Notes Payable and Long-Term Debt*

Ochsner considers the carrying value of its notes payable and long-term debt to approximate fair value at December 31, 2018 and 2017, due to the variable nature of the interest rate or based on a comparison of its fixed rates to current market rates.

**Income Taxes**

Ochsner and its subsidiaries qualify as tax-exempt organizations under Section 501(a) and are described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated balance sheets. The statute of limitations remains open for tax years 2015 through 2018 in Ochsner's main tax jurisdictions. The Tax Cuts and Jobs Act (the Tax Act) was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings. For tax-exempt entities, the Tax Act also requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions. The Tax Act did not have a material impact on Ochsner's consolidated financial statements.

**Concentration of Credit Risk**

Ochsner grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

**1. Summary of Significant Accounting Policies (continued)**

**Risks and Uncertainties**

Ochsner's business could be impacted by continuing price pressure on new and renewal business, Ochsner's ability to effectively control health care costs, additional competitors entering Ochsner's markets, and federal and state legislation in the area of health care reform. Changes in these areas could adversely impact its operations in the future.

**Recently Adopted Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606),* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 supersedes most current revenue recognition guidance, including industry-specific guidance, and requires expanded disclosures about revenue recognition to enable financial statement users to understand the nature, timing, amount, and uncertainty of revenue and cash flows arising from contracts with customers. Ochsner used a full retrospective method of application to adopt ASU 2014-09 on January 1, 2018. Ochsner performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for patient service revenue, Ochsner performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts and presented as a reduction to patient service revenue on the consolidated statements of operations is treated as a price concession that reduces the transaction price, which is reported as patient service revenue. ASU 2014-09 also requires enhanced disclosures related to the disaggregation of revenue and signification judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to Ochsner's total unrestricted revenues, excess of revenues over expenses, or total net assets.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 requires that investments in equity securities, and other ownership interests in an entity that do not result in consolidation and are not accounted for under the equity method, be measured at fair value at the end of each reporting period, and the resulting changes in fair value be

**1. Summary of Significant Accounting Policies (continued)**

recognized in excess of revenues over expenses. The provisions of ASU 2016-01 were effective for Ochsner starting January 1, 2018. The adoption of ASU 2016-01 resulted in a reclassification of $4.7 million of unrealized holding gains and losses on equity securities from other changes in unrestricted net assets to excess of revenues over expenses for the year ended December 31, 2017.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard intends to simplify the presentation of financial information for not-for-profits, specifically with respect to liquidity, financial performance, and cash flows, and to provide more relevant information to donors, grantors, creditors, and other users. This includes areas such as net asset classification, investment return, expenses, and liquidity and availability of resources. Ochsner adopted ASU 2016-14 in its consolidated financial statements effective December 31, 2018, applying retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated balance sheets and consolidated statements of changes in net assets from three classes of net assets to two classes of net assets. Ochsner also added disclosure for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their nature expense classification. The impact of adopting ASU 2016-14 had no impact to Ochsner's total unrestricted revenues, excess of revenues over expenses, or total net assets.

**Pending Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on their balance sheet. The pronouncement will also require additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. The provisions of ASU 2016-02 are effective for Ochsner starting January 1, 2019, including interim periods within that reporting period, and will be applied using a modified retrospective approach. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases, which is estimated to increase assets and liabilities by approximately $230.0 million on the consolidated balance sheet.

**1. Summary of Significant Accounting Policies (continued)**

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce diversity in practice on how certain transactions are classified in the statement of cash flows. The new standard addresses eight issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investments; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for Ochsner starting January 1, 2019, including interim periods within that reporting period, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on Ochsner's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The provisions of ASU 2016-18 are effective for Ochsner for the fiscal year starting January 1, 2019, and for interim periods starting January 1, 2020, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on Ochsner's consolidated financial statements.

In January 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 Ochsner starting January 1, 2021, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on Ochsner's consolidated financial statements.

**1. Summary of Significant Accounting Policies (continued)**

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The provisions of ASU 2017-07 are effective for Ochsner for the fiscal year ending December 31, 2019, and for interim periods starting January 1, 2020, and early adoption is permitted. Ochsner adopted this pronouncement retrospectively effective January 1, 2019. As a result of this adoption, approximately $4.9 million of net periodic pension benefit will be reclassified out of income from operations for 2018.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in ASU 2018-08 clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 provide guidance for evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and for determining whether a contribution is conditional. The provisions of ASU 2018-08 are effective for Ochsner starting January 1, 2019, including interim periods within that reporting period. Management is currently evaluating the impact of this pronouncement on Ochsner's consolidated financial statements.

**2. Assets Limited as to Use and Related Fair Value Measurements and Disclosures**

ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

**2. Assets Limited as to Use and Related Fair Value Measurements and Disclosures (continued)**

ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

*Level 1* – Unadjusted quoted market prices in active markets for identical assets or liabilities.

*Level 2* – Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices are observable for the asset or liability.

*Level 3* – Unobservable inputs for the asset or liability.

Ochsner endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period. There were no transfers between Level 1 and Level 2 in the years ended December 31, 2018 and 2017.

## 2. Assets Limited as to Use and Related Fair Value Measurements and Disclosures (continued)

### Assets and Liabilities Measured at Fair Value

*Recurring Fair Value Measurements*

The fair values of assets measured at estimated fair value on a recurring basis are estimated as described in the preceding section. These estimated fair values and their corresponding fair value hierarchy in accordance with ASC 820 are summarized as follows (in thousands):

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)[(a)] | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Estimated Fair Value |
| **December 31, 2018** | | | | |
| Money market funds | $ 12,063 | $ – | $ – | $ 12,063 |
| Fixed income investments | 275,156 | – | – | 275,156 |
| Marketable equity securities | 92,310 | – | – | 92,310 |
| Diversifiers | 109,835 | – | – | 109,835 |
| Natural resources and other | 38,550 | – | – | 38,550 |
| Total | $ 527,914 | $ – | $ – | $ 527,914 |
| **December 31, 2017** | | | | |
| Money market funds | $ 113,938 | $ – | $ – | $ 113,938 |
| Fixed income investments | 264,626 | – | – | 264,626 |
| Marketable equity securities | 126,981 | – | – | 126,981 |
| Diversifiers | 101,232 | – | – | 101,232 |
| Natural resources and other | 34,139 | – | – | 34,139 |
| Total | $ 640,916 | $ – | $ – | $ 640,916 |

[(a)] Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Investments classified as Level 1 include mutual funds that are publicly traded.

**2. Assets Limited as to Use and Related Fair Value Measurements and Disclosures (continued)**

Alternative investments and other investments of approximately $306.9 million and $325.8 million at December 31, 2018 and 2017, respectively, are not included in these tables since they are accounted for using the equity method of accounting and not measured at fair value. As of December 31, 2018 and 2017, real estate investments of approximately $7.6 million are not included in these tables since they are accounted for at cost.

Investment income and other gains and losses are classified as non-operating and comprise interest and dividend income of approximately $13.8 million and $17.2 million and realized net gains on sales of securities of approximately $20.8 million and $29.9 million for 2018 and 2017, respectively. Unrealized (losses) gains on alternative investments were approximately $(29.1) million and $32.3 million during 2018 and 2017, respectively, and unrealized (losses) gains on investments other than alternative investments were approximately $(39.5) million and $4.7 million during 2018 and 2017, respectively.

**3. Patient Service Revenue**

A summary of the significant payment arrangements with major third-party payors follows:

**Medicare and Medicaid**

Inpatient acute care services related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare inpatient rehabilitation services are also paid at prospectively determined rates per discharge, based on a patient classification system. Psychiatric services rendered to Medicare beneficiaries are reimbursed on a prospectively determined rate per day. Outpatient services to Medicare beneficiaries are paid on a prospectively determined amount per procedure. Medicare skilled nursing care is paid on a prospectively determined amount per diem based on a patient classification system. The Medicare program's share of indirect medical education costs is reimbursed based on a stipulated formula.

The Medicare program's share of direct medical education costs is reimbursed based on a prospectively determined amount per resident. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed either on a cost basis subject to certain limits or on a prospectively determined amount per procedure.

**3. Patient Service Revenue (continued)**

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action, and, in the normal course of business, Ochsner is subject to contractual review and audits, including audits initiated by the Medicare Recovery Audit Contract program. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. Ochsner believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

Settlements with third-party payors for retroactive adjustments due to review and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. Ochsner records retroactive Medicare and Medicaid settlements based upon estimates of amounts that are ultimately determined through annual cost reports filed with and audited by the fiscal intermediary, correspondence from the payor and Ochsner's historical settlement activity, including an assessment to ensure that it is probable that a significant revenue reversal in the amount of the cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements increased patient service revenue by $1.4 million and $1.9 million in 2018 and 2017, respectively.

**Medicaid Supplemental Payment Program**

Since December 2010, Ochsner's hospitals and eight other hospitals (Baton Rouge General Medical Center, CHRISTUS Schumpert Health System, CHRISTUS St. Frances Cabrini Hospital, CHRISTUS St. Patrick Hospital, Lakeview Regional Medical Center, Women's & Children's Hospital, Rapides Regional Medical Center, and Tulane University Hospital and Clinic) entered into collaborations with the State and several units of local government in Louisiana (Jefferson Parish Hospital Service District No. 2, Natchitoches Hospital District No. 1, Jefferson Parish Human Services Authority, Terrebonne Parish Hospital Service District #1, Southern Regional Medical Corporation, Hospital Service District No. 3 of the Parish of Allen, Savoy Medical Center, Hospital Service District No. 1 of Iberia Parish, St. Tammany Parish Hospital Service District No. 1, St. Tammany Parish Hospital Service District No. 2, and Vermilion Parish Hospital Service District #2) to more fully fund the Medicaid program (the Program) to ensure services remain available to low-income and needy patients in the respective communities.

**3. Patient Service Revenue (continued)**

These collaborations enable the governmental entities to increase support for the Uncompensated Care Cost (UCC) program for hospital services to the Medicaid and uninsured populations, the Medicaid Upper Payment Limits (UPL) programs for physician services to the Medicaid fee-for-service population, and the Full Medicaid Payment (FMP) program for physician services to the Medicaid managed care population. Each State's UCC and UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Under the UCC and UPL programs, federal matching funds are not available for Medicaid payments that exceed a provider's individual UPL or UCC entitlement.

Under the FMP program, Medicaid Managed Care Organizations contracted to pay increased reimbursement for physician services that more closely aligns the reimbursement rates for the Medicaid managed care population with the equivalent total reimbursement rates for the Medicaid fee-for-service population.

In 2018 and 2017, Ochsner recognized approximately $244.0 million and $172.4 million, respectively, in patient service revenue related to the Program and recorded accounts receivable of approximately $2.2 million as of December 31, 2018 and 2017. Such amounts are included in accounts receivable other in the accompanying consolidated balance sheets.

**Humana Inc.**

Ochsner entered into a provider contract with Humana Inc. to provide services for its commercial and senior members on a fee-for-service basis for physician services and at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates for hospital services. Also, Ochsner provided services to approximately 35,000 senior members under a capitation contract for both physician and hospital services. Premium revenue from Humana Inc. under the capitation contract approximated $318.5 million and $298.8 million in 2018 and 2017, respectively, and is included in premium revenue in the accompanying consolidated statements of operations. Expenses for medical services to outside providers under the capitation contract approximated $140.5 million and $134.0 million in 2018 and 2017, respectively, and are included in medical services to outside providers in the accompanying consolidated statements of operations. Net revenue from Humana Inc. on a fee-for-service basis approximated $218.0 million and $208.5 million in 2018 and 2017, respectively, and is included in patient service revenue in the accompanying consolidated statements of operations.

**3. Patient Service Revenue (continued)**

**Managed Care**

Ochsner has also entered into contractual arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The table below shows the sources of patient service revenue for the years ended December 31 (in thousands).

| | 2018 | 2017 |
|---|---|---|
| Commercial | $ 1,259,855 | $ 1,131,976 |
| Medicaid | 522,434 | 408,593 |
| Medicare | 461,722 | 447,844 |
| Managed Medicare | 337,980 | 293,740 |
| Guarantor/patients/other | 13,684 | 19,651 |
| Patient service revenue | $ 2,595,675 | $ 2,301,804 |

**4. Patient Accounts Receivable**

At December 31, Ochsner's patient accounts receivable balances were due from the following sources (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Commercial | $ 164,171 | $ 142,355 |
| Medicaid | 28,946 | 24,004 |
| Medicare | 39,849 | 42,175 |
| Managed Medicare | 32,322 | 34,784 |
| Guarantor/patients/other | 6,043 | 5,981 |
| Total patient accounts receivable – net | $ 271,331 | $ 249,299 |

## 5. Liquidity and Availability

Financial assets available for general expenditure within one year of December 31, 2018, include the following (in thousands):

| | |
|---|---|
| Cash and cash equivalents | $ 137,604 |
| Patients accounts receivable | 271,331 |
| Accounts receivable other | 149,190 |
| Assets limited to use by Board for capital improvements, charity, research, and other | 747,572 |
| | $ 1,305,697 |

Ochsner has assets limited as to use held by trustees under self-insurance trust agreements and investments restricted by donors. These investments are not reflected in the amounts above.

As part of Ochsner's liquidity management plan, cash in excess of daily requirements for general expenditures is invested in long-term investments. Ochsner's long-term investment portfolio contains money market funds and other liquid investments that can be drawn upon, if necessary, to meet liquidity needs.

Ochsner also maintains a $53.0 million credit line as discussed in Note 8.

## 6. Property – Net

Ochsner's investment in property at December 31 is as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Land and improvements | $ 112,486 | $ 107,014 |
| Buildings and leasehold improvements | 934,174 | 832,485 |
| Equipment, furniture, and fixtures | 1,310,928 | 1,142,190 |
| Construction-in-progress | 217,600 | 124,664 |
| Total property – at cost | 2,575,188 | 2,206,353 |
| Less accumulated depreciation | 1,403,393 | 1,278,374 |
| Property – net | $ 1,171,795 | $ 927,979 |

Depreciation and amortization expense totaled approximately $147.5 million and $128.1 million for the years ended December 31, 2018 and 2017, respectively.

**6. Property – Net (continued)**

At December 31, 2018 and 2017, Ochsner has purchase commitments totaling approximately $49.5 million and $105.7 million, respectively, toward additional capital expenditures.

Ochsner leases certain real estate, software, and equipment under capital leases. Capital lease assets are included in equipment, furniture, and fixtures in the accompanying consolidated balance sheets as of December 31 and are as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Real estate | $ 63,340 | $ – |
| Software and equipment | 29,816 | 26,158 |
| Accumulated amortization | (18,736) | (10,322) |
| Net carrying value of capital lease assets | $ 74,420 | $ 15,836 |

Amortization expense applicable to the capital lease asset is included in depreciation and amortization in the accompanying consolidated statements of operations.

**7. Goodwill and Intangible Assets**

On August 31, 2001, Alton Ochsner Medical Foundation and Ochsner Clinic LLC effected a merger transaction resulting in the creation of OCF and the net assets of Ochsner Clinic LLC being acquired by Alton Ochsner Medical Foundation.

The cost to acquire Ochsner Clinic LLC was allocated to the assets acquired and liabilities assumed according to their estimated fair values. In addition, the carrying values of certain other assets and liabilities of Ochsner Clinic LLC were changed to reflect management's estimate of fair value under purchase accounting.

On January 9, 2017, Ochsner completed the acquisition of Millennium Healthcare Management, Inc. (MHM). As part of this transaction, Ochsner recorded approximately $28.0 million of goodwill and $0.9 million of other intangible assets related to the acquisition.

On January 2, 2018, Ochsner completed the acquisition of New Orleans Urgent Care (NOUC). As part of this transaction, Ochsner recorded approximately $1.1 million of goodwill related to the acquisition.

**7. Goodwill and Intangible Assets (continued)**

On January 19, 2018, Ochsner completed an asset purchase agreement with NOLA Weightloss, LLC. As part of this transaction, Ochsner recorded approximately $0.1 million of goodwill related to the acquisition.

Amounts recorded as goodwill and other indefinite and definite-lived intangible assets as of December 31 are as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Goodwill | $ 72,411 | $ 71,195 |
| Trade name – intangible assets | $ 11,433 | $ 11,433 |
| Other – intangible assets | 44 | 921 |
| | $ 11,477 | $ 12,354 |

**8. Notes Payable**

Ochsner has a loan agreement with a bank that provides a credit line with maximum borrowings of $53.0 million. The line of credit currently expires on June 9, 2019. Borrowings under the arrangement are unsecured; however, Ochsner must meet certain financial covenants. Management believes Ochsner was in compliance with these covenants at December 31, 2018 and 2017. As of December 31, 2018 and 2017, Ochsner had borrowings outstanding under this arrangement of approximately $52.4 million. The interest rate on outstanding borrowings is based on the London Interbank Offered Rate (LIBOR) and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 3.60% and 2.86% at December 31, 2018 and 2017, respectively. All amounts are classified as current at December 31, 2018 and 2017.

## 9. Bonds Payable

At December 31, bonds payable consisted of the following tax-exempt and taxable bonds (in thousands). The tax-exempt revenue bonds were issued by the Louisiana Public Facilities Authority (LPFA) on behalf of Ochsner. The taxable bonds were issued by Ochsner.

| | 2018 | 2017 |
|---|---|---|
| Series 2017 tax-exempt bonds issued by the LPFA May 2017, due serially 2019–2037, then on term in 2042 and 2046, annual interest rates ranging from 4.00% to 5.00% | $ 421,555 | $ 421,555 |
| Series 2016 tax-exempt bonds issued by the LPFA May 2016, due serially 2023–2036, then on term in 2041 and 2047, annual interest rates ranging from 3.00% to 5.00% | 154,060 | 154,060 |
| Series 2015 tax-exempt bonds issued by the LPFA August 2015, due serially 2016–2035, then on term in 2040 and 2047, annual interest rates ranging from 2.00% to 5.00% | 108,680 | 110,775 |
| Series 2015 taxable bonds issued June 2015, due in 2045, annual interest rate at 5.90% | 252,820 | 252,820 |
| Unamortized net bond premium | 57,216 | 59,416 |
| Total | 994,331 | 998,626 |
| Less deferred financing costs | 9,440 | 9,801 |
| Less current portion | 4,060 | 2,095 |
| Non-current portion of bonds payable | $ 980,831 | $ 986,730 |

All of the bonds included in the table above are general obligations of Ochsner. The security includes a pledge of all present and future accounts receivable of Ochsner and a mortgage of certain property.

Also, under the terms of the bond indenture, Ochsner is required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the consolidated financial statements. The bond indenture also places limits on the incurrence of additional borrowings by Ochsner and requires that it satisfy certain measures of financial performance as long as the bonds are outstanding. Management is not aware of any noncompliance with these requirements.

**9. Bonds Payable (continued)**

In May 2017, the LPFA issued tax-exempt revenue bonds in the amount of $421.6 million under a loan agreement with Ochsner. Ochsner used a portion of the proceeds to pay the cost of refunding the Series 2007-A and 2007-B bonds in the amounts of approximately $246.6 million and $52.7 million, respectively, resulting in a loss on extinguishment of approximately $9.1 million. The remainder of the bonds were used to provide funding for various Ochsner capital projects.

At December 31, 2018, scheduled repayments of principal and sinking fund installments to retire the bonds payable for the next five fiscal years are as follows (in thousands):

| Years ending December 31: | |
|---|---|
| 2019 | $ 4,060 |
| 2020 | 5,590 |
| 2021 | 7,210 |
| 2022 | 7,580 |
| 2023 | 7,955 |

The estimated fair value of the Series 2015 tax-exempt bonds, Series 2015 taxable bonds, Series 2016 tax-exempt bonds, and Series 2017 tax-exempt bonds as of December 31, 2018 and 2017, is approximately $1.1 billion. This fair value is based on quoted market prices for similarly rated health care revenue bond issues, a Level 2 input.

## 10. Long-Term Debt

A summary of long-term debt at December 31 is as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Working capital note, due May 2026 (subject to six additional 5-year extensions), including accrued interest at rates varying from 1.71% to 2.33% during 2018 with a rate of 2.16% as of December 31, 2018 | $ 8,912 | $ 8,732 |
| Note payable 4.61% Senior Secured Note, entered into March 2013, due March 2033 | 5,596 | 5,868 |
| Note payable 5.26% Senior Secured Note, entered into December 2013, due December 2028 | 47,212 | 50,709 |
| Promissory note entered into December 2013, due December 2020 with interest synthetically fixed at 3.97% | 10,548 | 12,623 |
| Note payable 5.09% Senior Secured Note, entered into July 2014, due August 2034 | 68,820 | 71,622 |
| Promissory note entered into October 2014, due October 2021 with interest at 3.75% | 16,133 | 17,600 |
| Promissory note entered into September 2015, due September 2022 with interest synthetically fixed at 4.13% | 21,000 | 24,000 |
| Promissory note entered into September 2018, due September 2023 with interest at 2.47% | 27,424 | – |
| Promissory note entered into October 2018, due September 2021 with interest at 5.50% | 5,767 | – |
| Software and equipment loans, due varying dates in 2016–2019 | 148 | 341 |
| Total long-term debt | 211,560 | 191,495 |
| Less deferred financing costs | 2,281 | 2,470 |
| Less unamortized discount | 1 | 4 |
| Less current portion | 15,606 | 13,299 |
| Non-current portion of long-term debt | $ 193,672 | $ 175,722 |

### St. Anne

On May 1, 2006, Ochsner entered into lease and management services agreements with Lafourche Parish Hospital Service District No. 2 (Lafourche), which owned and operated St. Anne General Hospital and related facilities (St. Anne) of Raceland, Louisiana. Under the agreements, Ochsner leases the St. Anne buildings and facilities, purchased working capital and certain equipment of

**10. Long-Term Debt (continued)**

St. Anne, and operates the hospital for a specified period of time. As part of the agreement, Ochsner entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment for $7.1 million. On June 1, 2015, Ochsner and Lafourche executed an amendment in which the aggregate principal and accrued interest amount of approximately $8.4 million was extended to 2026 with six 5-year renewal options, to coincide with the lease agreement. The interest rate on the working capital note, based on the 5-Year Yield Tax Exempt Insured Revenue Bond Rate published by Bloomberg, was 2.16% and 1.76% at December 31, 2018 and 2017, respectively. All amounts are classified as non-current at December 31, 2018 and 2017, and are included in long-term debt on the consolidated balance sheets.

**March 2013 Note Payable**

Pursuant to its purchase of two Medical Office Buildings on November 15, 2012, OCF entered into a loan in the principal amount of $7.0 million on March 12, 2013. The loan is secured by first mortgage liens on medical office building properties at 1850 East Gause Boulevard (North Shore Medical Office Building 1) and 105 Medical Center Drive (North Shore Medical Office Building 2), both in Slidell, Louisiana, and both in close proximity to Ochsner Medical Center – North Shore. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 4.61%. Principal and interest payments are due monthly based upon a 20-year (240-month) amortization period and actual/360-day interest period.

**December 2013 Note Payable**

Ochsner entered into a loan in the principal amount of $63.0 million on December 30, 2013. The loan is secured by first mortgage liens on Ochsner facilities at 2005 Veterans Memorial Boulevard, Metairie, Louisiana, and 1950 Gause Boulevard, Slidell, Louisiana. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 5.26%. Principal and interest payments are due monthly based upon a 15-year (180-month) amortization period and actual/360-day interest period.

**10. Long-Term Debt (continued)**

**December 2013 Promissory Note**

Ochsner entered into a loan with a financial institution (the 2013 Loan) in the principal amount of $20.8 million on December 31, 2013. The 2013 Loan is in the form of a promissory note bearing stated interest of 30-day LIBOR plus 2.00%. The security includes a pledge of all present and future accounts receivable of Ochsner and a mortgage of certain property. Principal and interest payments are due monthly based upon a 15-year (180-month) fixed principal payment amortization period with the balance of the outstanding principal due on a 7-year maturity date of December 30, 2020, and actual/360-day interest period. As part of a program to manage interest rate risk, OHS entered into an interest rate swap agreement on December 19, 2013, effective as of December 30, 2013. Ochsner pays a 1.97% fixed interest rate on the outstanding notional amount based on the outstanding principal balance of the 2013 Loan to the counterparty and receives the floating amount of 30-day LIBOR as of the date of rate-set. The effect of the swap agreement is to fix Ochsner's interest rate on the 2013 Loan at 3.97%. At December 31, 2018 and 2017, the fair value of the interest rate swap agreement was an asset of $84,000 and $8,000, respectively, and is included within other assets in the consolidated balance sheet.

**July 2014 Note Payable**

Ochsner entered into a loan in the principal amount of $80.0 million on July 31, 2014. The loan is secured by first mortgage liens on Ochsner facilities at 17000 Medical Center Drive, Baton Rouge, Louisiana, and 16777 Medical Center Drive, Baton Rouge, Louisiana. The loan is in the form of a Senior Secured Note bearing interest at the fixed annual rate of 5.09%. Principal and interest payments are due monthly based upon a 20-year (240-month) amortization period and actual/360-day interest period.

**October 2014 Promissory Note**

Ochsner entered into a loan with a financial institution (the 2014 Loan) in the principal amount of $22.0 million on October 30, 2014. The 2014 Loan is in the form of a promissory note bearing stated interest of 3.75%. The security includes a pledge of all present and future accounts receivable of Ochsner and a mortgage of certain property. Principal and interest payments are due quarterly with the first payment due on February 1, 2015, and based upon a 15-year fixed principal payment amortization period. The balance of the outstanding principal is due on a 7-year maturity date of October 31, 2021, and actual/360-day interest period.

**10. Long-Term Debt (continued)**

**September 2015 Promissory Note**

Ochsner entered into a loan with a financial institution (the 2015 Loan) in the principal amount of $30.0 million on September 30, 2015. The 2015 Loan is in the form of a promissory note bearing stated interest of 3-month LIBOR plus 2.25%. The security includes a pledge of all present and future accounts receivable of Ochsner and a mortgage of certain property. Principal and interest payments are due quarterly beginning January 1, 2016, based upon a 10-year fixed quarterly principal payment amortization period, with the balance of the outstanding principal due on a 7-year maturity date of September 30, 2022, and actual/360-day interest period. As part of a program to manage interest rate risk, OHS entered into an interest rate swap agreement on September 1, 2015, effective as of September 30, 2015. Ochsner pays a 1.88% fixed interest rate on the outstanding notional amount based on the outstanding principal balance of the 2015 Loan to the counterparty and receives the floating amount of 3-month LIBOR as of the date of rate-set. The effect of the swap agreement is to fix Ochsner's interest rate on the 2015 Loan at 4.13%. The fair value of the interest rate swap agreement was an asset of $367,000 and $212,000 at December 31, 2018 and 2017, respectively, and is included within other assets in the consolidated balance sheets.

**September 2018 Promissory Note**

OCF entered into a promissory note with CHRISTUS Health for the principal amount of approximately $27.8 million on September 1, 2018, in connection with Ochsner's equity method investment in CHRISTUS Health Southwestern Louisiana discussed in Note 14. The CHRISTUS Health promissory note bears stated interest of 2.47% on the outstanding principal balance. The security includes a pledge of all present and future accounts receivable of OCF and a mortgage of certain property. Interest-only payments are due quarterly with the first payment due on October 1, 2018, based upon a 5-year fixed interest payment amortization period. The balance of the outstanding principal is due on a 5-year maturity date of September 1, 2023, and actual/360-day interest period.

**October 2018 Promissory Note**

OCF entered into a promissory note with Biomedical Research Foundation of Northwest Louisiana (BRF) for an unsecured loan with the principal amount of approximately $6.3 million on October 1, 2018, in connection with Ochsner's acquisition of EHR licenses for the management of OLHS-NL as discussed in Note 13. The BRF promissory note bears stated interest of 5.50% on

**10. Long-Term Debt (continued)**

the outstanding principal balance. Principal and interest payments are due monthly with the first payment due on October 31, 2018, based upon a three-year fixed interest payment amortization period. The balance of the outstanding principal is due on a 3-year maturity date of September 30, 2021, and actual/360-day interest period.

At December 31, 2018, scheduled repayments of long-term debt for the next five fiscal years are as follows (in thousands):

| | | |
|---|---|---|
| Years ending December 31: | | |
| 2019 | $ | 15,606 |
| 2020 | | 22,334 |
| 2021 | | 25,530 |
| 2022 | | 20,075 |
| 2023 | | 35,925 |

**11. Employee Benefit Plans**

**Defined Benefit Pension Plan**

Certain employees of Ochsner and its subsidiaries are covered under a defined benefit pension plan (the Defined Benefit Plan). The Defined Benefit Plan is non-contributory and provides benefits that are based on the participants' credited service and average compensation during the last five years of covered employment. As of December 31, 2006, benefit accruals ceased for all plan participants under age 40 and those over age 40 who elected to freeze their retirement plan benefits. Ochsner made an additional change to the Defined Benefit Plan, and as of December 31, 2009, benefit accruals ceased for all plan participants under age 55 with less than 10 years of service (rounded to the nearest 6 months). Physician/executive participants are frozen as of December 31, 2009, regardless of age or service. Participants who were not frozen as of December 31, 2009, accrued benefits until the earlier of age 65 or December 31, 2015. No new participants are allowed to enter the Defined Benefit Plan. Ochsner makes contributions to its qualified plan that satisfy the minimum funding requirements under the Employee Retirement Income Security Act of 1974. These contributions are intended to provide not only for benefits attributed to services rendered to date but also those expected to be earned in the future.

**11. Employee Benefit Plans (continued)**

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost (in thousands):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation – beginning of year | $ 577,926 | $ 553,815 |
| Interest cost | 21,074 | 22,477 |
| Actuarial (gain) loss | (35,009) | 27,296 |
| Benefits paid | (26,915) | (25,662) |
| Benefit obligation – end of year | 537,076 | 577,926 |
| Change in plan assets: | | |
| Fair value of plan assets – beginning of year | 446,352 | 404,409 |
| Actual return on plan assets | (22,584) | 52,514 |
| Employer contributions | 13,883 | 15,091 |
| Benefits paid | (26,914) | (25,662) |
| Fair value of plan assets – end of year | 410,737 | 446,352 |
| Funded status | $ (126,339) | $ (131,574) |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Amounts recognized in the consolidated balance sheets consist of: | | |
| Pension and postretirement obligations – non-current portion | $ (126,339) | $ (131,574) |
| Unrestricted net assets | N/A | N/A |
| Amounts recognized in unrestricted net assets: | | |
| Net actuarial loss | 265,183 | 251,647 |
| Total amounts recognized | 265,183 | 251,647 |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets: | | |
| Net loss | 21,546 | 5,518 |
| Recognized loss | (8,010) | (7,716) |
| Total amounts recognized | $ 13,536 | $ (2,198) |

**11. Employee Benefit Plans (continued)**

Weighted average assumptions used to determine projected benefit obligations at December 31 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Weighted average discount rate | 4.33% | 3.70% |
| Rate of compensation increase | N/A | N/A |

Net periodic pension cost (benefit) for the years ended December 31 includes the following components (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Interest cost | $ 21,074 | $ 22,477 |
| Expected return on plan assets | (33,972) | (30,735) |
| Amortization of net loss | 8,010 | 7,716 |
| Net periodic pension benefit | $ (4,888) | $ (542) |

Weighted average assumptions used to determine net periodic pension cost for the years ended December 31 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Weighted-average discount rate | 3.70% | 4.15% |
| Expected return on plan assets | 7.70% | 7.70% |
| Rate of compensation increase | N/A | N/A |

**11. Employee Benefit Plans (continued)**

The fair values of the Defined Benefit Plan assets at December 31 are included in the tables below (in thousands).

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| | **Quoted Prices in Active Markets for Observable Identical Assets and Liabilities (Level 1)[a]** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Estimated Fair Value** |
| **2018** | | | | |
| Money market funds | $ 7,953 | $ – | $ – | $ 7,953 |
| Fixed income investments | 15,263 | – | – | 15,263 |
| Marketable equity securities | 31,242 | – | – | 31,242 |
| Absolute return | 39,272 | – | – | 39,272 |
| Natural resources | 26,846 | – | – | 26,846 |
| Total | $ 120,576 | $ – | $ – | $ 120,576 |
| **2017** | | | | |
| Money market funds | $ 22,960 | $ – | $ – | $ 22,960 |
| Fixed income investments | 17,649 | – | – | 17,649 |
| Marketable equity securities | 48,531 | – | – | 48,531 |
| Absolute return | 28,411 | – | – | 28,411 |
| Natural resources | 28,029 | – | – | 28,029 |
| Total | $ 145,580 | $ – | $ – | $ 145,580 |

[a] Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available.

These tables do not include Level 2 or 3 alternative investments of $290.2 million and $300.8 million at December 31, 2018 and 2017, respectively, which are measured at fair value using net asset value as a practical expedient.

**11. Employee Benefit Plans (continued)**

The Defined Benefit Plan asset allocation as of the measurement dates (December 31, 2018 and 2017) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

| | 2018 | 2018 Target Allocation | 2017 |
|---|---|---|---|
| Debt securities | 13% | 15% | 13% |
| Equity securities | 38 | 40 | 42 |
| Private equity/venture capital | 3 | 2 | 3 |
| Hedge funds | 34 | 33 | 27 |
| Natural resources/REITs | 10 | 10 | 10 |
| Other | 2 | – | 5 |

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings several times during the year by the Investment Committee of Ochsner. Ochsner utilizes an investment consultant and multiple managers for different asset classes. The Investment Committee takes into account liquidity needs of the plan to pay benefits in the short term and the anticipated long-term obligations of the Defined Benefit Plan.

The primary financial objectives of the Defined Benefit Plan are to (1) provide a stream of relatively predictable, stable, and constant earnings in support of the Defined Benefit Plan's annual benefit obligations and (2) preserve and enhance the real (inflation-adjusted) value of the assets of the Defined Benefit Plan. The long-term investment objectives of the Defined Benefit Plan are to (1) attain the average annual total return assumed in the Defined Benefit Plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods, (2) outperform the Defined Benefit Plan's custom benchmark, and (3) outperform the median return of a pool of retirement funds to be identified in conjunction with Ochsner's investment consultant.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed income securities, real estate investment trusts (REITs), natural resources, cash, and funds to hedge against deflation and inflation. Risk management practices include various criteria for each asset class, including measurement against several benchmarks, achievement of a positive risk-adjusted return, and investment guidelines for each class of assets that enumerate types of investment allowed in each category.

**11. Employee Benefit Plans (continued)**

The Ochsner Retirement Plan Statement of Investment Policies and Objectives provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving the expected long-term rate of return. Historical return patterns and correlations, consensus return forecast, and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to ensure that the probability of meeting actuarial assumptions is reasonable. Ochsner Treasury staff oversees the day-to-day activities involving assets of the Defined Benefit Plan and the implementation of any changes adopted by the Investment Committee.

Ochsner currently expects to make a contribution to the Defined Benefit Plan of approximately $11.6 million in 2019.

For 2018 and 2017, Ochsner's Defined Benefit Plan had accumulated benefit obligations of approximately $537.1 million and $577.9 million, respectively.

The estimated net loss for the Defined Benefit Plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is approximately $8.7 million.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2018, are as follows (in thousands):

| Years ending December 31: | |
|---|---|
| 2019 | $ 29,296 |
| 2020 | 30,637 |
| 2021 | 31,988 |
| 2022 | 33,197 |
| 2023 | 34,349 |
| 2024–2028 | 180,126 |
| | $ 339,593 |

**11. Employee Benefit Plans (continued)**

**Defined Contribution Plans**

All employees of Ochsner meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the Plan). Ochsner may annually elect to make a retirement contribution on behalf of eligible employees in an amount up to 2% of the participant's annual eligible compensation. In addition, Ochsner may annually elect to make a match for eligible employees of 50% of the first 4% the employees contribute into the Plan. At December 31, 2018 and 2017, OHS has accrued approximately $32.4 million and $30.2 million, respectively, for matching contributions to the Plan for the 2018 and 2017 fiscal years, respectively.

Certain Ochsner employees are also covered under a 457(f) plan. The 457(f) plan was created to replace 100% of the benefit target for employees under age 65 as of December 31, 2009, whose benefits in the Defined Benefit Plan were frozen. The participant pays taxes at vesting and payout occurs at the later of age 65 or retirement. Participants of the 457(f) plan also participate in the 401(k) contributions. OHS' accompanying consolidated balance sheets reflect a liability of approximately $14.3 million and $13.9 million for the 457(f) plan at December 31, 2018 and 2017, respectively.

**Other Postretirement Benefits**

Ochsner also provides certain health care and life insurance benefits for retired employees. Ochsner funds these benefits on a pay-as-you-go basis. The obligations under the postretirement plan are approximately $1.2 million and $1.6 million at December 31, 2018 and 2017, respectively.

**12. Endowment Funds and Net Assets With Donor Restrictions**

Ochsner has 917 donor-restricted funds established for a variety of purposes. Endowment funds are classified and reported based on donor-imposed restrictions as net assets with donor restrictions. Net assets with donor restrictions include funds dedicated to Medical Education, Nursing Education, Pastoral Care, Biomedical Research, Cancer Research, Cardiology Research, Transplant Research, and Alzheimer's Research, and other purposes.

**12. Endowment Funds and Net Assets With Donor Restrictions (continued)**

ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which the state of Louisiana enacted on July 1, 2010.

UPMIFA requires that Ochsner preserve the historic dollar value of the donor-restricted endowed funds. As a result of this interpretation, Ochsner classifies as net assets with donor restrictions the aggregate fair market value of (1) an endowment fund at the time it became an endowment fund, (2) each subsequent donation to the fund at the time it is made, and (3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanent endowment is available for appropriation for expenditure by Ochsner in a manner consistent with the standard for expenditure prescribed by UPMIFA. Net assets with donor restriction available for appropriations as of December 31, 2018 and 2017, total approximately $8.7 million and $7.8 million, respectively.

**Restricted Net Assets as of December 31, by Purpose**

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Research | $ 34,704 | $ 35,904 |
| Education | 9,653 | 9,793 |
| Other | 69,826 | 81,192 |
| Total | $ 114,183 | $ 126,889 |

**Endowment Net Asset Composition by Type of Fund as of December 31, 2018**

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| | | *(In Thousands)* | |
| Donor-restricted funds | $ – | $ 38,377 | $ 38,377 |
| Board-designated funds | 1,434 | – | 1,434 |
| Total | $ 1,434 | $ 38,377 | $ 39,811 |

**12. Endowment Funds and Net Assets With Donor Restrictions (continued)**

**Endowment Net Asset Composition by Type of Fund as of December 31, 2017**

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| | *(In Thousands)* | | |
| Donor-restricted funds | $ – | $ 41,246 | $ 41,246 |
| Board-designated funds | 1,559 | – | 1,559 |
| Total | $ 1,559 | $ 41,246 | $ 42,805 |

**Changes in Endowment Net Assets for the Year Ended December 31, 2018**

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| | *(In Thousands)* | | |
| Beginning balance | $ 1,559 | $ 41,246 | $ 42,805 |
| Investment loss | (97) | (2,532) | (2,629) |
| Contributions | – | 595 | 595 |
| Appropriations for expenditures | (28) | (932) | (960) |
| Ending balance | $ 1,434 | $ 38,377 | $ 39,811 |

**Changes in Endowment Net Assets for the Year Ended December 31, 2017**

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| | *(In Thousands)* | | |
| Beginning balance | $ 1,391 | $ 36,232 | $ 37,623 |
| Investment gain | 194 | 5,046 | 5,240 |
| Contributions | – | 835 | 835 |
| Appropriations for expenditures | (26) | (867) | (893) |
| Ending balance | $ 1,559 | $ 41,246 | $ 42,805 |

**12. Endowment Funds and Net Assets With Donor Restrictions (continued)**

**Funds With Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires Ochsner to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2018 or 2017.

**Return Objectives and Risk Parameters**

Ochsner has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Ochsner must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. Ochsner expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, Ochsner relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. Ochsner uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

It is Ochsner's objective to establish a payout rate from endowment accounts that provides a stable, predictable level of spending for the endowed purposes that will increase with the rate of inflation, and to continue to invest in accordance with policy goals of providing for a rate of growth in the endowment earnings that meets or exceeds the rate of inflation. The annual spending appropriation will be subject to a minimum rate of 4% and a maximum rate of 7% of each endowment fund's current market value. Net assets with donor restrictions include the spending appropriation and investment income of the endowments and are pending appropriation for expenditure consistent with the specific purpose of the fund.

## 13. Business Combinations, Strategic Partnerships, and Affiliation Agreements

### Business Combinations

On January 9, 2017, Ochsner completed the acquisition of MHM. MHM is a leading provider of urgent care and occupational medicine in Louisiana and consists of 12 urgent care and 4 occupational health clinics. Under the terms of the acquisition, Ochsner paid approximately $30.8 million in cash. Results of operations of MHM have been included in Ochsner's consolidated financial statements from the date of acquisition.

On January 2, 2018, Ochsner completed the acquisition of NOUC, which consists of two urgent care clinics, for approximately $1.2 million in cash. Results of operations of NOUC have been included in Ochsner's consolidated financial statements from the date of acquisition.

On January 19, 2018, Ochsner completed an asset purchase agreement with NOLA Weightloss, LLC for approximately $167,000. Ochsner acquired the seller's interest in and rights to operate a Medi-Weightloss franchise business, as well as other considerations.

On April 1, 2018, Ochsner completed an agreement to lease Hancock Medical Center (Hancock), a 102-bed acute care hospital, six related medical office buildings, and equipment. This new agreement terminated the existing management agreement. The net present value of lease payments to be paid over the life of the 25-year capital lease is approximately $12.5 million, and Ochsner will own the property at the end of the lease term. As part of this transaction, Ochsner acquired the current assets, liabilities, and provider number of Hancock, and received $2.4 million in cash. Results of operations of Hancock have been included in Ochsner's consolidated financial statements from the transaction date.

During 2018 and 2017, Ochsner completed several physician practice acquisitions, none of which were material to the results of operations.

### Strategic Partnerships and Affiliation Agreements

In recent years, Ochsner has entered into several strategic partnership and affiliation agreements. While the direct financial impact of these agreements is not material, they are a component of Ochsner's efforts to increase local access to care, improve quality, reduce the cost of health care, and share best practices and resources in order to improve the health of Louisiana communities. Ochsner now has strategic partnerships and clinical affiliations with Lafayette General Health, and CHRISTUS Health Louisiana.

**13. Business Combinations, Strategic Partnerships, and Affiliation Agreements (continued)**

Ochsner also has Joint Operating Agreements (JOA) with St. Tammany Parish Hospital (STPH), Terrebonne General Medical Center (TGMC), and Slidell Memorial Hospital (SMH). These JOAs are intended to coordinate resources with the goal of lowering costs, improving quality, and creating a seamless clinical environment for patients in each of their respective local regions. STPH, TGMC, and SMH all remain public hospitals governed by their respective Boards. Ochsner is financially integrated with these hospitals and recognizes other operating revenue or other operating expense related to the JOAs in its consolidated statements of operations.

Ochsner also provides management assistance and support for Chabert, SCPH, SBPH, and, beginning October 2018, OLHS-NL. Under the management agreements for Chabert, SCPH, and SBPH, Ochsner receives management fees and any excess of revenues over expenses generated by each of the facilities annually, as well as reimbursement of purchased services incurred on behalf of the facilities. Prior to April 1, 2018, Ochsner had a management agreement with Hancock. Under its management agreement with Hancock, Ochsner received management fees as well as reimbursement of expenses incurred for providing management assistance and support services.

Effective October 1, 2018, OCF entered into management agreements with a newly formed nonprofit entity OLHS-NL to provide management services, billing and collection services, and administrative support for certain hospital and health care operations in Shreveport and Monroe. OCF and the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU) formed OLHS-NL to assume overall responsibility for the operations and clinical activities of the former University Health hospitals and clinics in Shreveport and Monroe and coordinate the activities between LSU Medical School, the parties' physicians, and the health care operations in Shreveport and Monroe. OLHS-NL is a stand-alone nonprofit organization and is not a subsidiary of either LSU or OCF. OLHS-NL's Bylaws require that LSU and OCF each appoint an equal number of directors to the OLHS-NL Board to oversee, coordinate, and manage OLHS-NL's activities.

In conjunction with the management agreement of OLHS-NL, Ochsner acquired the EHR licenses and related liabilities, and hired the Information Services (IS) employees of OLHS-NL in exchange for a note payable of approximately $6.2 million to the BRF on October 1, 2018. With this acquisition, Ochsner fully manages the IS function of OLHS-NL.

## 13. Business Combinations, Strategic Partnerships, and Affiliation Agreements (continued)

*Subsequent Event*

On March 27, 2019, Ochsner announced its intent to partner with St. Mary Parish Hospital Service District 2 to lease and operate Teche Regional Medical Center, located in Morgan City, Louisiana. The agreement is expected to close during the fourth quarter of 2019 once approved by the Attorney General.

## 14. Equity Method Investments and Joint Ventures

### Investment in Equity Investees

Ochsner's investment in unconsolidated affiliates at December 31 and its income from equity investees for the years then ended are as follows (in thousands):

| | Ownership Interest | Investment in Equity Investees | Equity in Income of Equity Investees |
|---|---|---|---|
| **2018** | | | |
| Southeast Louisiana Homecare LLC | 25% | $ 2,981 | $ 307 |
| Louisiana Extended Care Hospital of Kenner, LLC | 25% | – | (356) |
| OSR Louisiana, LLC | 49% | – | (172) |
| Ochsner-Acadia, LLC | 25% | 5,878 | (708) |
| OMC West JV, LLC | 49% | 5,380 | 47 |
| NSR Louisiana LLC | 30% | 237 | – |
| CHRISTUS Health Southwestern Louisiana | 40% | 65,850 | 3,426 |
| | | $ 80,326 | $ 2,544 |
| **2017** | | | |
| Southeast Louisiana Homecare LLC | 25% | $ 2,999 | $ (122) |
| Louisiana Extended Care Hospital of Kenner, LLC | 25% | 356 | 17 |
| OSR Louisiana, LLC | 49% | – | (156) |
| Ochsner-Acadia, LLC | 25% | 6,586 | 458 |
| OMC West JV, LLC | 49% | 5,860 | – |
| | | $ 15,801 | $ 197 |

**14. Equity Method Investments and Joint Ventures (continued)**

Ochsner has two joint ventures with LHC Group, Inc. Ochsner owns a 25% interest in Southeast Louisiana Homecare, LLC, and Louisiana Extended Care Hospital of Kenner, LLC, while LHC Group, Inc. owns 75% interest in these entities. The results of these joint ventures were not material to Ochsner's consolidated financial statements in 2018 or 2017.

On June 15, 2015, Ochsner entered into a joint venture, OSR Louisiana, LLC, with Pennsylvania-based Select Medical Corporation to jointly open a new, 60-bed, acute inpatient rehabilitation hospital. Construction began in early 2016 and the joint venture commenced patient service operations at the new facility in April 2018. The results of this joint venture were not material to Ochsner's consolidated financial statements in 2018 or 2017.

On May 17, 2016, Ochsner formed a joint venture, Ochsner-Acadia, LLC, with Acadia Healthcare (Acadia) to open and operate an 82-bed behavioral health facility in Laplace, Louisiana. Ochsner contributed the facility for a 25% interest in the joint venture and Acadia contributed the facility build-out, equipment, and working capital. Construction began in 2016 and the facility opened in November 2017. The results of the joint venture's operations were not material to its consolidated financial statements in 2018 or 2017.

On December 20, 2017, Ochsner entered into a joint venture with a commercial real estate company to form OMC West JV, LLC (OMC West). The focus of the new partnership is to own and provide property management for a medical building located at 2614 Jefferson Highway in Jefferson, Louisiana. The five-story, 129,875 square-foot medical building houses three separate health care components, including long-term acute care, inpatient rehabilitation, and a skilled nursing facility. Ochsner is the lessee of the building and makes minimum lease payments to OMC West for this lease totaling approximately $43.5 million at inception over 10 years. Ochsner also subleases space to its equity-method investments OSR Louisiana, LLC, and Louisiana Extended Care Hospital of Kenner, LLC, and at inception, will receive approximately $39.8 million over 10 years. These lease amounts are included in Ochsner's lessee and lessor commitments disclosed in Note 18 to the consolidated financial statements. The results of Ochsner's equity-method investment in OMC West were not material in 2018 or 2017.

In March 2018, Ochsner signed a membership interest purchase agreement with CHRISTUS Health (CHRISTUS) to acquire a 40% minority ownership interest in CHRISTUS Health Southwestern Louisiana (SWLA) in exchange for cash of $35.0 million and a promissory note of $27.8 million. SWLA owns and operates health care facilities and operations related to physician

**14. Equity Method Investments and Joint Ventures (continued)**

practices in Louisiana, including CHRISTUS St. Patrick Hospital, CHRISTUS Lake Area Medical Center, and various clinical facilities. CHRISTUS St. Patrick Hospital is a 50-bed hospital and CHRISTUS Lake Area Medical Center is an 88-bed, full-service acute care hospital in Lake Charles, Louisiana. This agreement was finalized September 1, 2018, once regulatory approval was received.

On August 22, 2018, Ochsner entered into a joint venture with Select Medical Corporation, St. Tammany Parish Hospital, and Slidell Memorial Hospital to own and operate an inpatient rehabilitation hospital on the Northshore, NSR Louisiana, LLC. Ochsner purchased a 30% interest in this new entity for $237,000. The rehabilitation hospital is expected to open in Lacombe, Louisiana, in the fall of 2019.

**15. Electronic Health Records Services Agreements**

In order to develop a better clinical integration and provide cost savings for its JOA partners and equity-method investments, Ochsner has entered into EHR services and hosting agreements to implement and support a common EHR system. During 2015, Ochsner implemented its EHR system at STPH and continues to host and maintain it. During 2017, Ochsner implemented its EHR system at TGMC, the clinics of SMH, and its equity-method investment with Acadia and continues to host and maintain them. During 2018, Ochsner implemented its EHR system with its equity method investment in Louisiana Extended Care Hospital of Kenner, LLC and continues to host and maintain it.

## 16. Functional Expenses

Ochsner provides general health care services primarily to residents within its geographic location.

**Functional Expenses as of December 31, 2018**

| | Health Care Services | Medical Education | Research | Fitness Center | Hotel | General and Administrative | Total |
|---|---|---|---|---|---|---|---|
| | | | *(In Thousands)* | | | | |
| Salaries, wages, and benefits | $ 1,267,307 | $ 22,472 | $ 13,399 | $ 6,429 | $ 1,403 | $ 340,510 | $ 1,651,520 |
| Medical services to outside providers | 140,491 | – | – | – | – | – | 140,491 |
| Medical supplies and services | 653,164 | 61 | 128 | 15 | 3 | – | 653,371 |
| Other operating expenses | 212,790 | 6,730 | 2,594 | 4,779 | 1,575 | 443,024 | 671,492 |
| Depreciation and amortization | 47,708 | 820 | 579 | 747 | 472 | 97,202 | 147,528 |
| Interest | 2,166 | – | – | – | 233 | 50,012 | 52,411 |
| | $ 2,323,626 | $ 30,083 | $ 16,700 | $ 11,970 | $ 3,686 | $ 930,748 | $ 3,316,813 |

**Functional Expenses as of December 31, 2017**

| | Health Care Services | Medical Education | Research | Fitness Center | Hotel | General and Administrative | Total |
|---|---|---|---|---|---|---|---|
| | | | *(In Thousands)* | | | | |
| Salaries, wages, and benefits | $ 1,106,530 | $ 21,192 | $ 11,990 | $ 6,263 | $ 1,305 | $ 350,022 | $ 1,497,302 |
| Medical services to outside providers | 133,952 | – | – | – | – | – | 133,952 |
| Medical supplies and services | 566,225 | 21 | 155 | 7 | 3 | 3,744 | 570,155 |
| Other operating expenses | 211,596 | 8,174 | 2,506 | 4,634 | 1,659 | 332,425 | 560,994 |
| Depreciation and amortization | 40,374 | 632 | 550 | 730 | 508 | 85,304 | 128,098 |
| Interest | 141 | – | – | – | 143 | 49,478 | 49,762 |
| | $ 2,058,818 | $ 30,019 | $ 15,201 | $ 11,634 | $ 3,618 | $ 820,973 | $ 2,940,263 |

## 17. Supplemental Disclosures of Cash Flow Information

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Cash paid for interest (net of amounts capitalized) | $ 52,859 | $ 49,871 |
| Supplemental non-cash investing and financing activities: | | |
| Property purchases included in accounts payable | $ 37,553 | $ 14,186 |
| Property purchases financed by capital leases and long-term debt | $ 72,361 | $ 2,852 |
| Purchase of interest in equity-method investment financed by long-term note | $ 27,424 | $ – |
| Acquisitions of businesses financed by capital leases and long-term debt | $ 20,839 | $ – |

## 18. Commitments and Contingencies

### Professional and General Liability Insurance

Professional and general liability claims have been asserted against Ochsner by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. Incidents occurring through December 31, 2018, may result in the assertion of additional claims.

Ochsner participates in a risk management program to provide for professional and general liability coverage.

Under this program, Ochsner carries professional and general liability insurance coverage for up to $65.0 million each of annual aggregate claims subject to certain deductible provisions. Ochsner is self-insured with respect to the first $3.0 million of each claim for professional liability with an annual aggregate exposure of $6.0 million. General liability claims are subject to a retention of $1.0 million per claim and $2.0 million annual aggregate. Ochsner also carries additional coverage on certain leased and managed hospitals that carry similar coverage with lower self-retention and aggregate levels.

**18. Commitments and Contingencies (continued)**

Professional liability claims are limited by Louisiana statute to $500,000 per occurrence, the first $100,000 of which is payable by the health care provider and the remainder of which is payable by the Patient's Compensation Fund (the Fund) for participants in the Fund. The Fund was established by the Medical Malpractice Act (the Act), which was enacted in 1975 by the state of Louisiana. The Act established the Fund and limited recovery in medical malpractice cases to $500,000. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by Ochsner for participation in the Fund for the years ended December 31, 2018 and 2017, were approximately $18.2 million and $18.8 million, respectively, and are included in other operating expenses in the accompanying consolidated statements of operations.

Ochsner has an established trust fund held by a financial institution. Disbursements are made from the trust fund for self-insured professional and general liability claims, claims administration costs, and legal fees. The amounts to be contributed to the trust funds are determined annually by an independent actuary. The trust fund assets for Ochsner in the aggregate totaled approximately $10.0 million and $9.3 million at December 31, 2018 and 2017, respectively. The trust fund assets are included in assets limited as to use under self-insurance trust fund in the accompanying consolidated balance sheets. The estimated liability recorded by Ochsner in the aggregate for claims, based on the actuarial report, is approximately $14.3 million with no estimated reinsurance recoveries at December 31, 2018, and $14.1 million with no estimated reinsurance recoveries at December 31, 2017. The estimated liability is included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. The estimated liability for Ochsner was discounted at approximately 2.5% at both December 31, 2018 and 2017. If the risk management program is terminated, the trust fund balances, if any, revert to Ochsner after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

**Estimated Workers' Compensation and Employee Health Claims**

Ochsner is self-insured for workers' compensation and employee health claims. The estimated liability for workers' compensation and employee health claims totaled approximately $21.1 million and $17.6 million at December 31, 2018 and 2017, respectively, which is included in accrued salaries, wages, and benefits; other current liabilities; and other long-term liabilities in the accompanying consolidated balance sheets.

**18. Commitments and Contingencies (continued)**

**Property Insurance**

Ochsner carries property insurance coverage through third-party insurers. The policy limit is $750.0 million and is subject to a deductible of $250,000 per occurrence for property damage and 24 hours for the time element. The Named Wind sublimit is $160.0 million. The Named Wind deductible is 3% for property damage and 72 hours for the time element, subject to a minimum of $500,000 and a maximum of $50.0 million. Ochsner also carried coverage on certain community hospitals with self-retention and aggregate levels.

**Lease Commitments**

Ochsner leases certain software and equipment under capital leases. The capital lease obligations are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets.

Additionally, Ochsner leases assets under various rental agreements. Ochsner leases have varying terms, which may include renewal or purchase options and escalation clauses that are factored into determining minimum lease payments. The following schedule summarizes its future annual minimum rental commitments on outstanding leases as of December 31, 2018 (in thousands):

| | Lease Obligations | |
|---|---|---|
| | Capital | Operating |
| 2019 | $ 12,451 | $ 44,867 |
| 2020 | 10,874 | 36,967 |
| 2021 | 9,927 | 32,497 |
| 2022 | 7,685 | 29,264 |
| 2023 | 6,953 | 23,999 |
| Thereafter | 83,414 | 155,273 |
| Total minimum lease payments | 131,304 | $ 322,867 |
| Less amounts representing interest | (31,326) | |
| | 99,978 | |
| Less current maturities | (9,648) | |
| Capital lease obligations – non-current | $ 90,330 | |

**18. Commitments and Contingencies (continued)**

Rent expense, which includes operating leases and cancelable short-term rental agreements, was approximately $64.0 million for the years ended December 31, 2018 and 2017.

**Operating Leases – Lessor**

Ochsner leases office space to other businesses. Lease terms generally range from one to four 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. Following is a schedule by year of future minimum rental payments under non-cancelable operating leases as of December 31, 2018 (in thousands):

| | | |
|---|---|---|
| Years ending December 31: | | |
| 2019 | $ | 9,720 |
| 2020 | | 7,844 |
| 2021 | | 7,325 |
| 2022 | | 6,932 |
| 2023 | | 6,162 |
| Thereafter | | 37,574 |
| Total minimum lease payments to be received | $ | 75,557 |

**Contingencies**

The health care industry as a whole is subject to numerous complex laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. Ochsner and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of their business. Management of Ochsner believes the reserves it has established for these issues are adequate and does not believe, based on current facts and circumstances and after review with counsel, that these matters will have a material adverse effect on its consolidated statements of financial position or results of operations.

**18. Commitments and Contingencies (continued)**

The Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare and Medicaid overpayments and underpayments made to providers. RACs are compensated based on the amount of both overpayments and underpayments they identify by reviewing claims submitted to Medicare for correct coding and medical necessity. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes. Payment recoveries and denials resulting from RAC reviews can be appealed through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, Ochsner will incur additional costs to respond to requests for records and to pursue the reversal of payment denials. Ochsner expects the RACs will continue to seek CMS approval to review additional issues.

Management of Ochsner believes that the reserves it has established for RAC reviews, which are included in other long-term liabilities in the accompanying consolidated balance sheets, are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on its future consolidated results of operations or cash flows.

**19. Subsequent Events**

Ochsner has evaluated subsequent events through April 29, 2019, the date the accompanying consolidated financial statements were available for issuance.

# Ochsner Clinic Foundation and Subsidiaries

## Schedule of Compensation Information

Year Ended December 31, 2018

**Chief Executive Officer:** Warner L. Thomas

None of the Chief Executive Officer's compensation is paid from public funds received by Ochsner Clinic Foundation and subsidiaries.

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# Report of Independent Auditors 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*

The Board of Directors and Management
Ochsner Clinic Foundation and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States 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 Ochsner Clinic Foundation and its subsidiaries (Ochsner Clinic Foundation), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2019.

## Internal Control Over Financial Reporting

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



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## Compliance and Other Matters

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

## 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.

Ernst & Young LLP

April 29, 2019



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# Report of Independent Auditors on Compliance for the Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors and Management
Ochsner Clinic Foundation and Subsidiaries

## Report on Compliance for the Major Federal Program

We have audited Ochsner Clinic Foundation and its subsidiaries' (Ochsner Clinic Foundation) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Ochsner Clinic Foundation's major federal program for the year ended December 31, 2018. Ochsner Clinic Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for Ochsner Clinic Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ochsner Clinic Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Ochsner Clinic Foundation's compliance.



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***Opinion on the Major Federal Program***

In our opinion, Ochsner Clinic Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

**Report on Internal Control Over Compliance**

Management of Ochsner Clinic Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ochsner Clinic Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ochsner Clinic Foundation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Ochsner Clinic Foundation as of and for the year ended December 31, 2018, and have issued our report thereon dated April 29, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 audit 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. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

June 26, 2019



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# Ochsner Clinic Foundation and Subsidiaries

## Schedule of Expenditures of Federal Awards

### Year Ended December 31, 2018

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Research and Development Cluster | Other Federal Expenditures | Total Federal Expenditures | Amounts Provided to Subrecipients |
|---|---|---|---|---|---|---|
| **U.S. Department of Defense** | | | | | | |
| Pass-Through From: | | | | | | |
| *Mayo Clinic Cancer Center* | | | | | | |
| Military Medical Research and Development | 12.420 | W81XWH-15-1-0293 | $ 1,174 | $ – | $ 1,174 | $ – |
| Total U.S. Department of Defense | | | 1,174 | – | 1,174 | – |
| **U.S. Department of Health and Human Services** | | | | | | |
| Pass-Through From: | | | | | | |
| *Mount Sinai Medical Center of Florida, Inc.* | | | | | | |
| Research and Training in Complementary and Integrative Health | 93.213 | 4UH3AT009149-02 | 86,341 | – | 86,341 | – |
| *New York University School of Medicine* | | | | | | |
| Research and Training in Complementary and Integrative Health | 93.213 | 1UG3AT009844-01 | 4,353 | – | 4,353 | – |
| *Total CFDA 93.213* | | | 90,694 | – | 90,694 | – |
| Direct Awards: | | | | | | |
| Alcohol Research Programs | 93.273 | | 5,341 | – | 5,341 | – |
| Drug Abuse and Addiction Research Programs | 93.279 | | 19,859 | – | 19,859 | – |
| Pass-Through From: | | | | | | |
| *University of Pittsburgh* | | | | | | |
| Minority Health and Health Disparities Research | 93.307 | 5R01MD009118-04 | 13,620 | – | 13,620 | – |
| Direct Award: | | | | | | |
| National Center for Advancing Translational Sciences | 93.350 | | 60,539 | – | 60,539 | – |
| Pass-Through From: | | | | | | |
| *Baylor Research Institute* | | | | | | |
| Cancer Cause and Prevention Research | 93.393 | 5U01CA214254-02 | 18,496 | – | 18,496 | – |
| Direct Award: | | | | | | |
| Cancer Treatment Research | 93.395 | | 732,824 | – | 732,824 | – |

# Ochsner Clinic Foundation and Subsidiaries

## Schedule of Expenditures of Federal Awards (continued)

### Year Ended December 31, 2018

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Research and Development Cluster | Other Federal Expenditures | Total Federal Expenditures | Amounts Provided to Subrecipients |
|---|---|---|---|---|---|---|
| **U.S. Department of Health and Human Services (continued)** | | | | | | |
| Pass-Through From: | | | | | | |
| *Alliance for Clinical Trials in Oncology* | | | | | | |
| Cancer Treatment Research | 93.395 | 1U10CA180821 | $ 2,810 | $ – | $ 2,810 | $ – |
| *Children's Hospital of Philadelphia (CHOP)* | | | | | | |
| Cancer Treatment Research | 93.395 | U10CA180886 | 234 | – | 234 | – |
| *Radiation Therapy Oncology Group Community Clinical Oncology Program* | | | | | | |
| Cancer Treatment Research | 93.395 | U10 CA0037422 | 391 | – | 391 | – |
| *Total CFDA 93.395* | | | 736,259 | – | 736,259 | – |
| Pass-Through From: | | | | | | |
| *Eastern Cooperative Oncology Group* | | | | | | |
| Cancer Control | 93.399 | 3U10 CA37403-15 | 7,274 | – | 7,274 | – |
| *Brigham and Women's Hospital* | | | | | | |
| Cardiovascular Diseases Research | 93.837 | 5U01HL130163-03 | 24,260 | – | 24,260 | – |
| *Duke University/Duke Clinical Research Institute* | | | | | | |
| Cardiovascular Diseases Research | 93.837 | 4U10HL084904 | 42,815 | – | 42,815 | – |
| *University of Alabama* | | | | | | |
| Cardiovascular Diseases Research | 93.837 | 5UH01HL120338-03 | 62,777 | – | 62,777 | – |
| *New England Research Institutes, Inc.* | | | | | | |
| Cardiovascular Diseases Research | 93.837 | U01HL107407 | 6,957 | – | 6,957 | – |
| *Northwestern University* | | | | | | |
| Cardiovascular Diseases Research | 93.837 | 5R01HL126117-02 & 5R01HL131771-02 | 81,599 | – | 81,599 | – |
| *Columbia University Health Sciences* | | | | | | |
| Cardiovascular Diseases Research | 93.837 | 1R01HL130500-01A1 REVISED | 56,715 | – | 56,715 | – |
| *Total CFDA 93.837* | | | 275,123 | – | 275,123 | – |

# Ochsner Clinic Foundation and Subsidiaries

## Schedule of Expenditures of Federal Awards (continued)

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Research and Development Cluster | Other Federal Expenditures | Total Federal Expenditures | Amounts Provided to Subrecipients |
|---|---|---|---|---|---|---|
| **U.S. Department of Health and Human Services (continued)** | | | | | | |
| Pass-Through From: | | | | | | |
| *Emory University* | | | | | | |
| Blood Diseases and Resources Research | 93.839 | 5U01HL128566-03 | $ 2,928 | $ – | $ 2,928 | $ – |
| *University of Alabama at Birmingham* | | | | | | |
| Arthritis, Musculoskeletal and Skin Diseases Research | 93.846 | 5UM1AR065705-05 | 2,832 | – | 2,832 | – |
| *University of South Florida* | | | | | | |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | 1UC4DK097835-01 | 26,275 | – | 26,275 | – |
| *Mayo Clinic Jacksonville* | | | | | | |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 5U01NS080168-05 | 68,283 | – | 68,283 | – |
| *Massachusetts General Hospital* | | | | | | |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 1U01NS090259-01A1 | 14,314 | – | 14,314 | – |
| *University of Cincinnati* | | | | | | |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 5U01NS095869-02 | 7,407 | – | 7,407 | – |
| *Total CFDA 93.853* | | | 90,004 | – | 90,004 | – |
| Pass-Through From: | | | | | | |
| *Duke University/Duke Clinical Research Institute* | | | | | | |
| Allergy and Infectious Diseases Research | 93.855 | UM1AI104681 | 1,870 | – | 1,870 | – |
| *Washington University* | | | | | | |
| Child Health and Human Development Extramural Research | 93.865 | 5R01HD086007-02 | 36,117 | – | 36,117 | – |
| *The University of North Carolina At Chapel Hill* | | | | | | |
| Child Health and Human Development Extramural Research | 93.865 | 1R01HD086139-01A1 | 5,352 | – | 5,352 | – |
| *Trustees of Indiana University* | | | | | | |
| Child Health and Human Development Extramural Research | 93.865 | 7R01HD086007-04 | 30,613 | – | 30,613 | – |
| *George Washington University* | | | | | | |
| Child Health and Human Development Extramural Research | 93.865 | U10HD036801 | 88,824 | – | 88,824 | – |
| *Total CFDA 93.865* | | | 160,906 | – | 160,906 | – |

# Ochsner Clinic Foundation and Subsidiaries

## Schedule of Expenditures of Federal Awards (continued)

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Research and Development Cluster | Other Federal Expenditures | Total Federal Expenditures | Amounts Provided to Subrecipients |
|---|---|---|---|---|---|---|
| **U.S. Department of Health and Human Services (continued)** | | | | | | |
| Pass-Through From: | | | | | | |
| *Case Western Reserve University* | | | | | | |
| Aging Research | 93.866 | R01AG055606 | $ 125 | $ – | $ 125 | $ – |
| Total U.S. Department of Health and Human Services | | | 1,512,145 | – | 1,512,145 | – |
| **U.S. Department of Homeland Security** | | | | | | |
| Pass-Through From: | | | | | | |
| *State of Louisiana Governor's Office of Homeland Security & Emergency Preparedness* | | | | | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 1603-11777 | – | 89,242 | 89,242 | – |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 4080-1047 | – | (400) | (400) | – |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 4080-1056 | – | (15,454) | (15,454) | – |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 4080-1138 | – | (2,055) | (2,055) | – |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 1603-12204 | – | (11,986) | (11,986) | – |
| *Total CFDA 97.036* | | | – | 59,347 | 59,347 | – |
| Total Expenditures of Federal Awards | | | $ 1,513,319 | $ 59,347 | $ 1,572,666 | $ – |

*See accompanying notes to schedule of expenditures of federal awards.*

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

### 1. General

The schedule of expenditures of federal awards (SEFA) includes the federal award activity of Ochsner Clinic Foundation and its subsidiaries (Ochsner Clinic Foundation) under programs of the federal government for the year ended December 31, 2018. The information in the SEFA is presented in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

### 2. Basis of Accounting

Expenditures reported on the SEFA are reported on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Expenditures are recognized following the cost principles contained in the Uniform Guidance or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

### 3. Indirect Cost Rate

Ochsner Clinic Foundation did not use the 10% de minimis indirect cost rate allowed by the Uniform Guidance.

### 4. Subrecipients

Of the federal expenditures presented in the SEFA, Ochsner Clinic Foundation provided no federal awards to subrecipients.

### 5. Disaster Grants – Public Assistance (Presidentially Declared Disasters)

In fiscal year 2018, Ochsner Clinic Foundation received approval from the State of Louisiana Governor's Office of Homeland Security and Emergency Preparedness for an increase in the funding for one project worksheet related to the reimbursement of additional eligible costs of $89,242 incurred in previous fiscal years. These previous years' expenditures are included on the SEFA in the current year in accordance with guidance provided by the Department of Homeland Security. The remaining amounts included on the SEFA for CFDA 97.036 are de-obligations made in 2018 related to original obligations prior to 2018.

Ochsner Clinic Foundation and Subsidiaries

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

## Section I—Summary of Auditor's Results

### Financial Statements

| | | | | |
|---|---|---|---|---|
| Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | **Unmodified** | | | |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | | **yes** | X | **no** |
| Significant deficiency(ies) identified? | | **yes** | X | **none reported** |
| Noncompliance material to financial statements noted? | | **yes** | X | **no** |

### Federal Awards

| | | | | |
|---|---|---|---|---|
| Internal control over major federal programs: | | | | |
| Material weakness(es) identified? | | **yes** | X | **no** |
| Significant deficiency(ies) identified? | | **yes** | X | **none reported** |
| Type of auditor's report issued on compliance for major federal programs: | **Unmodified** | | | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | | **yes** | X | **no** |

### Identification of major federal programs:

| **CFDA Number(s)** | **Name of Federal Program or Cluster** |
|---|---|
| 12.420, 93.213, 93.273, 93.279, 93.307, 93.350, 93.393, 93.395, 93.399, 93.837, 93.839, 93.846, 93.847, 93.853, 93.855, 93.865, 93.866 | Research and Development Cluster |
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 |

| | | | | |
|---|---|---|---|---|
| Auditee qualified as low-risk auditee? | X | **yes** | | **no** |

**Section II—Financial Statement Findings**

There were no financial statement findings.

**Section III—Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs.

**EY** | Assurance | Tax | Transactions | Advisory

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Ochsner Health System

# Summary Schedule of Prior Audit Findings

## For the Year Ended December 31, 2018

There were no findings in 2017 or 2016.