



SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024



SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Southwest Louisiana Health Care System, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Southwest Louisiana Health Care System, Inc. and its affiliates (the "System"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, changes in net assets and cash flows for each of the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2024 and 2023, and the consolidated results of its operations and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of compensation, benefits, and other payments to agency head or chief executive officer on page 31 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2025, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

EISNERAMPER LLP
Metairie, Louisiana
June 19, 2025



EisnerAmper LLP
www.eisneramper.com

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**CONSOLIDATED BALANCE SHEETS**
DECEMBER 31, 2024 AND 2023**ASSETS***(in thousands)*

	<u>2024</u>	<u>2023</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 66,446	\$ 78,536
Cash and cash equivalents - restricted	1,441	1,169
Patient accounts receivable	64,372	41,728
Assets limited as to use - current portion	8,638	8,060
Inventory	10,895	7,785
Short-term investments	1,060	908
Other current assets	34,770	64,444
Total current assets	<u>187,622</u>	<u>202,630</u>
 <u>ASSETS LIMITED AS TO USE</u>		
Held by trustee in accordance with bond indentures	9,038	8,819
Internally designated for malpractice claims	2,046	1,951
Internally designated for the Foundation	2,170	2,106
Total assets whose use is limited	<u>13,254</u>	<u>12,876</u>
Less: amounts required to meet current liabilities	<u>(8,638)</u>	<u>(8,060)</u>
Noncurrent assets limited as to use	<u>4,616</u>	<u>4,816</u>
 <u>PROPERTY AND EQUIPMENT, net</u>	<u>162,405</u>	<u>153,963</u>
 <u>RIGHT OF USE ASSETS</u>	<u>6,719</u>	<u>6,417</u>
 <u>OTHER ASSETS</u>	<u>2,396</u>	<u>2,677</u>
 TOTAL ASSETS	 <u><u>\$ 363,758</u></u>	 <u><u>\$ 370,503</u></u>

(continued)

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

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**CONSOLIDATED BALANCE SHEETS****DECEMBER 31, 2024 AND 2023****LIABILITIES AND NET ASSETS**

<i>(in thousands)</i>	2024	2023
<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt	\$ 5,171	\$ 5,817
Current portion of lease liability	2,463	2,475
Accrued interest payable	372	395
Accounts payable	21,704	21,921
Accrued compensation and benefits	26,007	22,704
Estimated third-party payor settlements	11,594	10,026
Other accrued expenses	14,105	27,689
Credit balances in patient accounts receivable	3,683	867
Total current liabilities	85,099	91,894
<u>LONG-TERM LIABILITIES</u>		
Long-term debt, net of current portion	96,733	101,904
Lease liability, net of current portion	4,810	4,343
Total long-term liabilities	101,543	106,247
Total liabilities	186,642	198,141
<u>NET ASSETS</u>		
Noncontrolling interest	4	(95)
Controlling interest - without donor restrictions	175,653	171,222
Controlling interest - with donor restrictions	1,459	1,235
Total net assets	177,116	172,362
TOTAL LIABILITIES AND NET ASSETS	\$ 363,758	\$ 370,503

(concluded)

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

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS**
YEARS ENDED DECEMBER 31, 2024 AND 2023*(in thousands)*

	<u>2024</u>	<u>2023</u>
<u>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</u>		
<u>OPERATING REVENUES</u>		
Patient service revenue	\$ 447,677	\$ 423,147
Other operating revenues	82,452	93,188
Total operating revenues	<u>530,129</u>	<u>516,335</u>
<u>OPERATING EXPENSES</u>		
Salaries and wages	214,548	197,050
Employee benefits	33,306	30,911
Contract labor	5,897	4,777
Supplies	144,297	106,683
Professional fees	8,505	7,504
Service contracts	12,622	11,415
Purchased services	48,575	42,164
Management fees	7,904	5,042
Depreciation	15,480	15,164
Interest	3,748	3,591
Insurance	8,687	7,693
Other	22,258	23,182
Total operating expenses	<u>525,827</u>	<u>455,176</u>
INCOME FROM OPERATIONS	<u>4,302</u>	<u>61,159</u>
<u>NONOPERATING REVENUES</u>		
Contributions	453	262
Other revenues - net	(158)	20
	<u>295</u>	<u>282</u>
REVENUES OVER EXPENSES	4,597	61,441
Change in fair value of investments	37	84
Gain on sales and disposal of property and equipment	16	296
Net assets released from restriction	397	261
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>5,047</u>	<u>62,082</u>
<u>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</u>		
Contributions	621	374
Net assets released from restriction	(397)	(261)
Total changes in net assets with donor restrictions	<u>224</u>	<u>113</u>
CHANGE IN NET ASSETS	5,271	62,195
Change in net assets - noncontrolling interest	616	364
Change in net assets - controlling interest	<u>\$ 4,655</u>	<u>\$ 61,831</u>

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

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**
YEARS ENDED DECEMBER 31, 2024 AND 2023

<i>(in thousands)</i>	Controlling Interest		Noncontrolling Interest	Total Net Assets
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		
<u>Balance at December 31, 2022</u>	\$ 109,504	\$ 1,122	\$ (21)	\$ 110,605
Cash paid to minority shareholders	-	-	(438)	(438)
Increase in net assets for the year ended December 31, 2023	61,718	113	364	62,195
<u>Balance at December 31, 2023</u>	171,222	1,235	(95)	172,362
Cash paid to minority shareholders	-	-	(517)	(517)
Increase in net assets for the year ended December 31, 2024	4,431	224	616	5,271
<u>Balance at December 31, 2024</u>	<u>\$ 175,653</u>	<u>\$ 1,459</u>	<u>\$ 4</u>	<u>\$ 177,116</u>

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

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**
YEARS ENDED DECEMBER 31, 2024 AND 2023*(in thousands)***CASH FLOWS FROM OPERATING ACTIVITIES**

	2024	2023
Change in net assets	\$ 5,271	\$ 62,195
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	15,480	15,164
Amortization of bond premium	(725)	(725)
Amortization of right of use asset - finance leases	130	-
Net unrealized loss (gains) on investments	(37)	(84)
Loss (gain) on sales and disposal of property and equipment	(16)	(296)
Changes in operating assets and liabilities:		
Patient accounts receivable	(19,828)	(6,083)
Inventories and other current assets	26,564	(41,584)
Other assets	281	(358)
Operating lease assets and liabilities	145	1,605
Accounts payable and accrued expenses	(10,448)	(13,100)
Third party payor settlements	1,568	136
Net cash provided by operating activities	18,385	16,870

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisitions of property and equipment	(24,014)	(14,225)
Proceeds from sale of property and equipment	35	816
Sale of investments	188	628
Purchase of investments	(418)	(949)
Change in assets whose use is limited	(263)	243
Net cash used in investing activities	(24,472)	(13,487)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on revenue bonds and notes	(5,092)	(5,406)
Cash paid to minority shareholders	(517)	(438)
Principal payments on finance leases	(122)	-
Net cash used in financing activities	(5,731)	(5,844)

NET CHANGE IN CASH AND CASH EQUIVALENTS

	(11,818)	(2,461)
Cash and cash equivalents at beginning of year	79,705	82,166
Cash and cash equivalents at end of year	<u>\$ 67,887</u>	<u>\$ 79,705</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest, net of capitalized interest	<u>\$ 3,804</u>	<u>\$ 3,613</u>
Accounts payable for property and equipment	<u>\$ 195</u>	<u>\$ 195</u>

RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH REPORTED:

Cash and cash equivalents	\$ 66,446	\$ 78,536
Cash and cash equivalents - restricted	1,441	1,169
Total cash, cash equivalents, and restricted cash reported	<u>\$ 67,887</u>	<u>\$ 79,705</u>

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

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Southwest Louisiana Health Care System, Inc. (the System or the Hospital) was organized as a Louisiana non-profit corporation for the purpose of conducting charitable, scientific, and educational activities. The System is designated as the “sole member” of its affiliates with the exception of several joint ventures, and, through the actions of its Board of Trustees, has the power to change or elect the Board of Trustees, approve certain corporate actions, and amend the articles of incorporation of its affiliates, thereby functioning in the capacity of the sole shareholder.

The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America and the prevailing practices within the healthcare industry. The significant accounting policies used by the System in preparing and presenting its consolidated financial statements are summarized as follows:

Principles of consolidation

The consolidated financial statements include the Southwest Louisiana Hospital Association, d/b/a Lake Charles Memorial Hospital (the Hospital), the major operating unit in the System. The Hospital provides a wide range of inpatient and outpatient services through a 313-bed acute care facility, a 52-bed hospital for women, a 42-bed behavioral health hospital, and satellite locations. Also, included in the consolidated financial statements is Memorial Medical Group, LLC, a wholly-owned corporation formed for the purpose of entering into for-profit healthcare ventures, and the Southwest Louisiana Hospital Association Foundation, Inc. Through these entities, the System provides integrated healthcare services in southwest Louisiana. All significant intercompany transactions and balances have been eliminated upon consolidation.

The System owns greater than 50% in Lake Charles Health Plan, which was formed in 1997. The System is also a 51% owner in an MRI joint venture, which began operations in January of 2006. The joint ventures are consolidated in the accompanying financial statements due to the System’s ownership percentage exceeding 50%.

The System established the Southwest Louisiana Hospital Association Foundation, Inc. in 2009. The Foundation is organized as a non-profit corporation established to operate exclusively for the charitable, benevolent, educational and scientific purposes of Lake Charles Memorial Hospital. The Foundation has received exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code.

During 2013, the System entered into discussions with the LSU System and the State of Louisiana to lease the assets and be responsible for the operations of W.O. Moss Regional Hospital (Moss). A memorandum of understanding (MOU) was approved by the LSU Board of Supervisors, and a cooperative endeavor agreement (CEA) outlining the terms of the agreement was signed on June 24, 2013. W.O. Moss Regional ceased inpatient operations in June 2013 subject to legislative action and the System began operating ambulatory/outpatient clinics at the site effective June 24, 2013. The CEA was amended and restated in October of 2014. MOUs have been signed in 2016, 2017, 2018, and 2019 that modify some of the terms of the CEA. The Moss campus activities are included in the accompanying consolidated financial statements. The Louisiana Department of Health (LDH) and Centers for Medicare and Medicaid Services (CMS) jointly reassessed the hospital reimbursement programs in place. The revised methodologies consider LDH’s priority of maintaining reimbursement levels provided under the CEA between the System and Louisiana State University. These changes were effective July 1, 2022 (See Note 2).

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents includes all checking and savings accounts and certain investments in highly liquid debt instruments which had maturities of three months or less at the time of purchase.

Short-term investments

Short-term investments include stock and a certificate of deposit (See Note 5).

Investments and investment income

The System follows the provisions of the accounting guidance contained in the Accounting Standards Codification (ASC) for investments in equity securities with readily determinable fair values and all investments in debt securities which requires them to be measured at fair value in the consolidated balance sheets.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is recorded as an increase in net assets without donor restrictions, unless the use is restricted by the donor or law. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, are reported as other operating revenues.

Donated investments are recorded at their market value at the date of receipt, which is then treated as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. These realized gains and losses flow through the System's yearly activities.

Assets limited as to use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the System have been reclassified as current assets in the consolidated balance sheets.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Patient accounts receivable

The System provides credit in the normal course of operations to patients located primarily in Southwestern Louisiana and to third-party payors conducting operations in these areas. Due to the Hospital's geographic location, the System also participates in Texas' Medicaid programs to cover patients who are admitted.

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined for each payor. For third-party payors, including Medicare, Medicaid, and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience with consideration of reasonable and supportable forecasts. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries, and any anticipated changes in trends.

Patient accounts receivable can be impacted by the effectiveness of the System's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The System also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables, and current economic conditions and reasonable and supportable forecasts. In the absence of current economic conditions and/or forecasts that may affect future credit losses, the System has determined that recent historical experience provides the best basis for estimating credit losses. At each reporting date, the estimate is updated to reflect any changes in credit risk since the receivable was initially recorded.

The System determines if patient accounts receivable are past-due based on the discharge date; however, the System does not charge interest on past-due accounts but has entered into an agreement with a third-party vendor who charges a monthly administrative fee to the patient on extended payment plans. The System charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful.

Contract assets consist of services provided to patients who are still receiving inpatient care at the System's facilities at the balance sheet date. This represents patient charges that have not been billed and which do not meet the conditions of unconditional right to payment at the consolidated balance sheet dates.

Inventory

Inventory consist primarily of drugs, medical supplies, and general supplies and are stated at the lower of cost (using the first-in, first-out method) or net realizable value.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives or increase the value of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Depreciation of assets is computed primarily by the use of straight-line methods over the estimated useful lives of the respective assets, as follows:

Building and improvements	25 - 40 years
Furniture and fixtures	5 - 7 years
Office & Medical Equipment	3 -15 years

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gains and losses are recognized in the System's yearly operations.

The System reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the assets. No impairments were recognized for the years ended December 31, 2024 or 2023.

Other assets

Other assets consist primarily of investments in affiliated entities, including Louisiana Pet Imaging of Lake Charles, LLC (33% ownership) and CHG Hospital Sulphur, LLC, specialty hospital (49% ownership). The System accounts for investments in affiliated entities of which it owns more than 20% but not more than 50%, using the equity method.

Leases

The Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)," was issued to increase transparency and comparability among financial statements by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about lease agreements.

The System determines if an arrangement is a lease at inception of the contract. For leases with terms greater than twelve months, right of use assets and lease liabilities are recognized at contract commencement date based on the present value of lease payments over the lease term. Right of use assets represent the System's right to use the underlying assets for the lease term. Lease liabilities represent the System's obligation to make lease payments arising from these contracts. The System uses the interest rate implicit in the lease or a risk-free rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments.

Lease agreements may include rental escalation clauses or renewal options that are factored into management's determination of lease payments, when appropriate. The estimated useful life of assets is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The System's lease agreements may include payments based on usage while others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in operating expenses but are not included in the right of use asset or lease liability balances. The System's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Leases (continued)

The System has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. Additionally, the System elected the package of transition provisions available which allowed the carryforward of the System's historical assessments of whether contracts are or contain leases, the lease classification, and the treatment of initial direct costs.

The System reviews the carrying values of right of use assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the right of use assets. No impairments were recognized for the years ended December 31, 2024 or 2023.

Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Financing costs are amortized to interest expense on a straight-line basis over the period that the related obligation is outstanding.

Net assets

Net assets, revenues and gains, are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use for any purpose in performing the primary objectives and general operations of the System and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed or grantor restrictions. 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 those resources be maintained in perpetuity. The System did not have any net assets with perpetual donor restrictions at December 31, 2024 or 2023.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions.

Income (loss) from operations

The consolidated statements of operations include the line item entitled "income from operations." Income (loss) from operations includes, but is not limited to, patient revenues, investment income from unrestricted assets, cafeteria revenues, medical office rental revenues, FEMA funds and other government subsidies. Changes in net assets without donor restrictions which are excluded from income from operations include contributions, unrealized gains (losses) on investments, loss on disposal of assets, and other non-operating activities.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Patient service revenue and third-party settlements

Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services or patients receiving services in the outpatient clinics or in their homes (home care). The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services related to that sale.

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

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to examination. The System has recorded these third-party estimates based on the most likely amount to be realized. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Consequently, there is at least a reasonable possibility that recorded estimates could change by a material amount. The System applied the principles surrounding balance sheet offsetting. Therefore, the third-party receivables and payables are presented separately on the accompanying consolidated balance sheets.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Patient service revenue and third-party settlements (continued)

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The laws and regulations governing the System's operations, along with the terms of participation in various government programs, regulate how the System does business, the services offered and its interactions with patients and the public. These laws and regulations, and their interpretations, are subject to frequent change. Changes in existing laws or regulations, or their interpretations, or the enactment of new laws or regulations could materially and adversely affect the System's operations and financial condition.

The System is subject to various routine and non-routine governmental reviews, audits and investigations. In recent years, federal and state civil and criminal enforcement agencies have heightened and coordinated their oversight efforts related to the health care industry, including referral practices, cost reporting, billing practices, joint ventures and other financial relationships among health care providers. Violation of the laws governing the System's operations, or changes in the interpretation of those laws, could result in the imposition of fines, civil or criminal penalties, and/or termination of the System's rights to participate in federal and state-sponsored programs and suspension or revocation of the System's licenses. The System believes that it is in material compliance with all applicable laws and regulations.

Donor-restricted gifts

Unconditional promises to give cash and other assets to the System are reported at their fair values at the date the promises are received. Conditional promises to give and indications of intentions to give are reported at their fair values at the date the gifts are received or become unconditional. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

Employee health benefit claims

The provision for accrued and unpaid medical claims includes estimates of claims related to its employees who participate in the group health care benefit plan. Such provisions are estimated by management and include amounts for claims filed and not paid and an estimate of claims incurred but not filed at year end.

Professional liability claims

The provision for estimated malpractice claims includes estimates of the ultimate cost for both reported claims, including costs to defend claims, and claims incurred but not reported. The System has not experienced material losses from professional liability claims in the past.

Functional allocation of expenses

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on a square-footage basis. See Note 12.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Income taxes

The Hospital and certain affiliates are non-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Certain other affiliates are for-profit taxpaying entities. Federal income tax liabilities generated by the System's taxable activities, if any, are insignificant. Accordingly, no provision for income taxes on related income has been included in the consolidated financial statements.

The System applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The System recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The System has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions.

2. Current operating environment

Coronavirus pandemic

As a result of the coronavirus (COVID-19) pandemic, legislation on the federal and state level was passed to assist healthcare providers in providing care to COVID-19 and other patients during the public health emergency. A primary source of relief for healthcare providers was the CARES Act, an economic stimulus package signed into law on March 27, 2020. The Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded the Medicare Accelerated and Advance Payment Program to increase cash flow to providers impacted by the COVID-19 pandemic. Inpatient acute care hospitals were able to request accelerated payments of up to 100% of their Medicare payment amount for a six-month period. The Medicare Accelerated and Advanced Payment Program payments are advances that providers must repay. Medicare accelerated payments of approximately \$48,000,000 were received by the System in April 2020. As of December 31, 2023, all repayments of the Medicare accelerated payments had been repaid. The balance was repaid through and ending October 2023 incurring interest at 4%, or approximately \$215,000. As of December 31, 2024, CMS has recouped all Medicare Accelerated and Advanced Payments owed by the System.

Weather-related events

Federal Emergency Management Agency (FEMA) disaster grants have been submitted for the 2020 and 2021 weather related events impacting the System, which include Hurricane Laura, Hurricane Delta, Winter Storm Uri, and the flooding event that occurred on May 17, 2021. FEMA disaster grants are available for pre and post emergency or disaster related projects. These funds support critical recovery initiatives, in addition to innovative research, and many other programs. Grants are the principal funding mechanism FEMA uses to commit and award federal funding to eligible state, local, tribal, territorial, certain private non-profits, individuals, and institutions of higher learning. All grants received and those funds expended are subject to audits in accordance with the Single Audit Act. The System received funds from FEMA grants for Category A (debris removal), Category B (emergency protective measures and sheltering operations), and Category E (permanent buildings). The System recognizes revenue when FEMA has obligated funds to the System and the System has incurred applicable costs. All applicable Category A, Category B and Category E projects have been submitted to and are currently being reviewed by FEMA. The System is working with FEMA and State of Louisiana Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) representatives to identify expenditures that might be covered under those claims. FEMA has obligated funds to the System and the System has recognized other operating revenue of approximately \$286,000 and \$29,700,000 for these weather related events in the years ended December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023, receivables from FEMA of approximately \$16,450,000 and \$30,200,000 are included in other current assets in the consolidated balance sheets.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Current operating environment (continued)

In February 2024, the System signed a cooperative endeavor agreement with the State of Louisiana (the State). The State will provide non-federal match funding for FEMA Public Assistance grants to offset the burden of local match requirements for infrastructure repair and rebuilding projects associated with Hurricanes Laura and Delta. The System submitted applications for eligible projects, and those applications have been accepted and approved. Through an executed Cooperative Endeavor Agreement with the Louisiana Office of Community Development, the System will seek additional grant funding to aid with offsetting of weather-related repairs and rebuilding efforts. The System has not received any funds from the State nor submitted any additional grant funding requests to the State during fiscal year 2024.

Electronic medical records transition

On October 1, 2024, the System transitioned to a new electronic medical record system. This transition is part of a broader effort to enhance patient access to essential healthcare services. This initiative has included the opening of a new Diagnostic Center in Moss Bluff and the expansion of medical staff with additional physician specialists. The System secured a \$20,000,000 line of credit to support short-term capital and operational needs during its transition to a new electronic medical record system (see Note 7). Costs of approximately \$19,000,000 related to the new electronic medical record system have been incurred. The initial agreement began in April 2023 and terminates on March 31, 2028 with the option to extend for additional periods of two years. Amortization of the electronic medical record system, calculated over the estimated useful life on a straight-line basis over a period of five years (assuming one two-year renewal), is expected to be approximately \$3,700,000 in each of the next five years. The System will incur maintenance and service fees on an annual basis during the term of the contract.

Other

The Affordable Care Act provides for significant reductions in the growth of Medicare spending and reductions in Medicare and Medicaid disproportionate share hospital payments. Any shortfalls, now or in the future, whether as a result of economic changes, the expansion of Medicaid coverage under the Affordable Care Act, or otherwise, could result in additional reductions to Medicare or Medicaid payments.

As described in Note 1, the CEA related to the Moss campus provides for reimbursement for indigent patient care and effectively mitigates reductions in Medicaid reimbursements. The CEA was signed in June 2013 and last amended September 2014 and further clarified by MOU's in 2016, 2017, 2018, and 2019, and the CEA continues to remain in effect. On July 1, 2022, the funding for indigent patient care changed to the Direct Payment Program. Overall, the Hospital received approximately \$83,900,000 and \$66,900,000 in funding for indigent patient care during 2024 and 2023, respectively. These amounts are included in patient service revenue in the consolidated statements of operations.

The System recognized approximately \$0 and \$7,000,000 in Full Medicaid Payment (FMP) revenue during 2024 and 2023, respectively. Additionally, the System recognized approximately \$2,000,000 and \$3,300,000 in Upper Payment Limit revenue related to its clinic operations in 2024 and 2023, respectively. These amounts are included in patient service revenue in the consolidated statements of operations.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Current operating environment (continued)

On November 2, 2023, CMS announced the release of a final rule regarding underpayments for drugs acquired through the 340B Drug Pricing Program. This rule aimed to address the underpayments that occurred between 2018 and 2022. The final rule went into effect 60 days after it was published in the Federal Register. The rule stated that 340B entities affected by the ruling would receive a one-time, lump sum payment for the drugs acquired through the 340B program during the years 2018 to 2022. The 340B Drug Pricing Program is a federal program that allows certain healthcare organizations, known as covered entities, to purchase outpatient prescription drugs at discounted prices. These covered entities include eligible hospitals, clinics, and other healthcare facilities that serve low-income and vulnerable populations. The implementation of this rule ensured healthcare facilities were appropriately reimbursed for the drugs provided to Medicare beneficiaries, while also safeguarding the cost-sharing obligations of the beneficiaries themselves. The System received a 340B settlement payment, which is deemed to be a discount on pharmacy items purchased and is reflected within operating expenses on the consolidated statements of operations. At December 31, 2023, the settlement of approximately \$18,600,000 had not been received by the System and was reported within other current assets in the consolidated balance sheet. The settlement was received in January 2024 and there is no remaining receivable at December 31, 2024.

3. Liquidity and availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date at December 31, are as follows (in thousands):

	2024	2023
Cash and cash equivalents - unrestricted	\$ 66,446	\$ 78,536
Patient accounts receivable	64,372	41,728
Short-term investments	1,060	908
Assets limited to use:		
Internally designated	4,216	4,057
Funds held by trustee	9,038	8,819
Total financial assets	<u>145,132</u>	<u>134,048</u>
Less amounts not available to be used within one year:		
Internally designated and donor restricted	(5,276)	(4,965)
Funds held by trustee	<u>(9,038)</u>	<u>(8,819)</u>
Financial assets not available to be used within one year	<u>(14,314)</u>	<u>(13,784)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 130,818</u>	<u>\$ 120,264</u>

The System has other assets limited as to use for donor-restricted purposes, debt service, and for malpractice claims. These assets limited as to use, which are more fully described in Note 5, are not available for general expenditure within the next year. However, the internally designated amounts could be made available, if necessary.

Additionally, the System maintains a \$10,000,000 line of credit and \$20,000,000 line of credit, as discussed in more detail in Note 7.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Patient service revenue and receivables

The System's patient revenues generally relate to contracts with patients in which the performance obligations are to provide health care services to patients and the System records revenues as performance obligations are satisfied. The performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. The performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans, and commercial insurance companies, including plans offered through the health insurance exchanges).

The estimates for implicit price concessions are based upon management's assessment of historical write offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write offs and collections (the "hindsight analysis") as a primary source of information in estimating the collectability of accounts receivable.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare - Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid - Reimbursements for Medicaid services are generally paid at prospectively determined rates per day, or per occasion of service.
- Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

For the years ended December 31, 2024, and 2023, the System recorded approximately \$1,320,927,000 and \$1,253,760,000, respectively, of implicit and explicit price concessions as a direct reduction of patient service revenues.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of 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 (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Estimated settlement liabilities were \$11,594,000 and \$10,026,000 at December 31, 2024 and 2023, respectively.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****4. Patient service revenue and receivables (continued)**

Patient service revenue decreased approximately \$583,000 in 2024 and decreased approximately \$654,000 in 2023 due to prior-year retroactive adjustments in excess of amounts previously estimated.

The Emergency Medical Treatment and Labor Act ("EMTALA") requires any hospital participating in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency room for treatment and, if the individual is suffering from an emergency medical condition, to either stabilize the condition or make an appropriate transfer of the individual to a facility able to handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of an individual's ability to pay for treatment. Federal and state laws and regulations require, and the System's commitment to providing quality patient care encourages, the System to provide services to patients who are financially unable to pay for the health care services they receive. The System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. For the years ended December 31, the System's patient revenue was comprised of:

	Years Ended December 31,	
	2024	2023
Inpatient	28.38%	30.24%
Outpatient	67.22%	64.56%
Other	4.40%	5.20%
Total	<u>100.00%</u>	<u>100.00%</u>

The composition of patient service revenue by primary payor for the years ended December 31 is as follows (in thousands):

	Years Ended December 31,			
	2024	Ratio	2023	Ratio
Medicare	\$ 165,330	37%	\$ 156,730	37%
Medicaid	67,374	15%	64,812	15%
Managed care	195,914	44%	181,764	43%
Self-pay patients	19,059	4%	19,841	5%
Total Net Revenues	<u>\$ 447,677</u>	<u>100%</u>	<u>\$ 423,147</u>	<u>100%</u>

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****4. Patient service revenue and receivables (continued)**

Assets from contracts with patients and governments are as follows (in thousands):

	At December 31		
	2024	2023	2022
<u>Accounts Receivable from Contracts:</u>			
Patient Accounts Receivable	\$ 64,372	\$ 41,728	\$ 36,336
Contract Assets included	\$ 13,785	\$ 15,010	\$ 12,004

5. Investments/Assets limited as to use

The composition of assets limited as to use at December 31, 2024 and 2023 is set forth in the following tables. Investments are stated at fair value (in thousands).

	2024	2023
Assets held by the trustee in accordance with bond indenture agreements:		
Cash and cash equivalents	\$ 9,038	\$ 8,819
Less: amount classified as current	(8,638)	(8,060)
	<u>400</u>	<u>759</u>
Assets internally designated by the Board of Trustees for professional liability claims and the Foundation:		
Cash and cash equivalents	2,379	2,309
Equity mutual funds	451	404
U.S. Government agencies	1,386	1,344
	<u>4,216</u>	<u>4,057</u>
Total non-current assets limited as to use	\$ <u>4,616</u>	\$ <u>4,816</u>

Use of the above funds is limited by trust indentures as well as internal designations. Bond trust funds of \$9,038,000 and \$8,819,000 in 2024 and 2023, respectively, are generally limited to payment of debt service, maintenance of reserve funds, and security for bondholders. Use of the professional liability funds of \$2,046,000 and \$1,951,000 at 2024 and 2023, respectively, is limited by the Board of Trustees for the payment of professional liability claims and related expenses. Funds totaling \$2,170,000 and \$2,106,000, in 2024 and 2023, respectively are designated for the Hospital's foundation.

Included in short-term investments is an investment in stock which totaled approximately \$532,000 and \$508,000 as of December 31, 2024 and 2023, respectively. Also included in short-term investments are certificates of deposit totaling \$528,000 and \$400,000 as of December 31, 2024 and 2023, respectively.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****6. Property and equipment**

Property and equipment at December 31 consisted of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Land and land improvements	\$ 19,827	\$ 18,121
Buildings and improvements	232,393	228,150
Equipment, furniture, and fixtures	<u>200,177</u>	<u>193,092</u>
	452,397	439,363
Less: accumulated depreciation	<u>(307,641)</u>	<u>(292,378)</u>
	144,756	146,985
Construction-in-progress	<u>17,649</u>	<u>6,978</u>
Property and equipment, net	<u>\$ 162,405</u>	<u>\$ 153,963</u>

Depreciation expense amounted to approximately \$15,480,000 and \$15,164,000 during the years ended December 31, 2024 and 2023, respectively.

The Board has approved a series of construction, renovation, and rebuilding projects throughout the System. Several of those projects were in progress in 2024 and 2023 and will continue into future years. See Note 15 regarding these construction commitments outstanding on December 31, 2024.

7. Long-term liabilities

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

	<u>2024</u>	<u>2023</u>
Promissory note of up to \$3,600,000, due in monthly installments through December 5, 2024, at a prime rate, 5.59% at December 31, 2023 (secured by Oak Park Blvd property, Floors 2 & 3).	\$ -	\$ 675
Promissory note of up to \$4,815,000, due in monthly installments through July 30, 2026, at a rate of 3.8%. (secured by 1717 Oak Park Blvd, 4345 Nelson Rd. 133 Sid Lane, and 217 Sam Houston Jones Pkwy properties).	1,620	2,598
Hospital Revenue Bonds (Series 2019); term bonds due at various dates through December 1, 2039, at rates ranging from 4% to 5%.	<u>89,655</u>	<u>93,095</u>
	91,275	96,368
Less: current portion of long-term liabilities	(5,171)	(5,817)
Less: unamortized debt issuance costs	(1,349)	(1,441)
Add: unamortized bond premium	<u>11,978</u>	<u>12,794</u>
Long-term liabilities, net	<u>\$ 96,733</u>	<u>\$ 101,904</u>

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Long-term liabilities (continued)

During September of 2019, the Hospital completed an offering of \$104,935,000 of hospital revenue and refunding bonds. The Series 2019 bonds include \$38,270,000 in serial bonds with rates ranging from 4.0% to 5.0%, and \$66,665,000 in fixed rate term bonds with a 5.0% interest rate. The bonds are scheduled to mature at various times through December 1, 2039. The bonds are collateralized by the Hospital's gross receipts and a collateral mortgage on System property. The proceeds of the Series 2019 bonds were used, along with other available funds, to advance refund previous bond issues and to provide funds for new capital improvements.

The System has a line of credit of \$10,000,000, secured by medical equipment at December 31, 2024 and 2023. The line of credit has an interest rate based on the Wall Street Journal (WSJ) Prime rate (7.50% and 8.50% at December 31, 2024 and 2023, respectively). The \$10,000,000 line matures on July 1, 2025. As amounts are drawn on the line, they convert to promissory notes and are included in the above notes payable summary. The amount of unused line of credit was \$10,000,000 for both years at December 31, 2024 and 2023.

As described in Note 2, in July 2024, the System obtained a \$20,000,000 line of credit with a bank, secured by all current and future funds held on deposit with the Lender, including certificates of deposit and other deposit accounts in which the Borrower is an account holder. The line of credit has an interest rate based on the Wall Street Journal (WSJ) Prime rate (7.50% at December 31, 2024). The \$20,000,000 line matured on March 28, 2025. Effective March 13, 2025, the System renewed the line of credit to extend the maturity date to June 28, 2025. Interest payments are due on the first day of each month and principal is due at maturity. The amount of unused line of credit was \$20,000,000 at December 31, 2024.

The System capitalized interest expense of \$236,000 and \$204,000 in 2024 and 2023, respectively, in connection with its construction-in-progress projects.

The System is required to maintain certain deposits in accordance with bond agreements, and such deposits are included with assets limited as to use (see Note 5). The revenue bond indentures also place limits on the incurrence of additional borrowings, place limits on the amount of assets that can be disposed of outside the normal course of business and require the restricted group to satisfy measures of financial performance as long as the bonds are outstanding. The System was in compliance with these covenants at December 31, 2024.

The long-term debt obligations are scheduled to mature as follows (in thousands):

<u>Year ending December 31st,</u>	<u>Bonds & Notes Payable</u>
2025	\$ 5,171
2026	4,976
2027	4,580
2028	4,810
2029	5,080
Thereafter	<u>66,658</u>
	91,275
Plus: unamortized bond premium	11,978
Less: unamortized debt issuance costs	<u>(1,349)</u>
Total long-term debt	<u>\$ 101,904</u>

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Insurance programs

Any exposure under \$100,000 per claim for professional liability is covered by the System. Additional professional liability coverage is provided by the Louisiana Patient's Compensation Fund up to the present statutory maximum of \$500,000 per claim (exclusive of additional amounts for future medical expense provided by law). The preceding policies are on an occurrence basis. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims.

The System is self-insured for group health insurance and pays all claims up to \$300,000 per person. A stop loss policy pays claims in excess of this amount. The System is also self-insured for workers' compensation liability up to the deductible of its excess workers' compensation policy of \$750,000 per claim.

The System also maintains various other insurance programs typical of the industry.

The System has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying consolidated financial statements.

9. Retirement plans

The Hospital has a defined contribution plan under IRS Code Section 401(a) that covers substantially all full-time employees who are over the age of twenty-one and who have met eligibility requirements. Discretionary contributions by the Hospital include matching contributions to the employee 401(a) plan up to certain limits of compensation. Total contributions were approximately \$5,080,000 and \$4,757,000 for the years ended December 31, 2024 and 2023, respectively.

The Hospital also maintains a pretax retirement plan under code Section 403(b) in which substantially all of the employees of the System can participate. All contributions to the 403(b) are made by employees through tax deferred contributions and the employees are 100% vested in these amounts from the inception of their participation.

10. Business and credit concentrations

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of unsecured accounts receivable and temporary cash investments.

The System maintains its cash investments with several financial institutions operating primarily in southern Louisiana. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

The System grants credit to patients, substantially all of whom are regional residents. The System generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, and commercial insurance policies).

The mix of receivables from patients and third-party payors at December 31 was as follows:

	<u>2024</u>	<u>2023</u>
Medicare	20.93%	20.41%
Medicaid	18.63%	25.33%
Commercial insurance and managed care organizations*	53.17%	44.74%
Self-pay patients and other	7.27%	9.52%
	<u>100.00%</u>	<u>100.00%</u>

*Medicaid replacement plans are included in the Commercial insurance and managed care organizations payor classification in 2024.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11. Leases**

The following table presents the components of the right-of-use assets and liabilities related to leases in the System's consolidated balance sheets at December 31 (in thousands):

<u>Assets:</u>	<u>2024</u>	<u>2023</u>
Operating lease assets	\$ 6,157	\$ 6,417
Finance lease assets	562	-
Total leased assets	<u>\$ 6,719</u>	<u>\$ 6,417</u>
 <u>Liabilities:</u>		
Operating lease liabilities:		
Current	\$ 2,330	\$ 2,475
Long-term	4,372	4,343
Total operating lease liabilities	<u>\$ 6,702</u>	<u>\$ 6,818</u>
 Finance lease liabilities:		
Current	\$ 133	\$ -
Long-term	438	-
Total finance lease liabilities	<u>\$ 571</u>	<u>\$ -</u>
Total lease liabilities	<u>\$ 7,273</u>	<u>\$ 6,818</u>

Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The right of use assets and lease liabilities were recognized based on the present value of lease payments over the lease term at commencement date.

Lease costs included in the consolidated statement of operations were approximately \$3,537,000 and \$4,298,000, for the years ended December 31, 2024 and 2023, including short-term lease expense of approximately \$1,000,000 and \$815,000, respectively, related to equipment rentals, finance lease rent, and the operating lease rent described as follows.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11. Leases (continued)**

The System's operating leases are primarily for real estate, including off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices, as well as medical and office equipment. The finance leases are for medical equipment. Other information related to leases is as follows (in thousands, except lease term and discount rate) as of December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term (years)		
Operating leases	3.59	4.43
Finance leases	4.05	-
Weighted average discount rate		
Operating leases	3.46%	3.45%
Finance leases	4.00%	-
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 2,503	\$ 3,247
Cash paid for amounts included in the measurement of operating lease liabilities	2,276	3,090
Operating cash outflows from finance leases	24	-
Financing cash outflows from finance leases	122	-
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 1,367	\$ 726
Finance leases	692	-

As lessee, operating and finance lease liabilities under non-cancellable leases (excluding short-term leases) are as follows (in thousands):

<u>Year ending December 31st,</u>	<u>Operating Lease Liabilities</u>	<u>Finance Lease Liabilities</u>
2025	\$ 2,503	\$ 152
2026	2,213	152
2027	1,339	152
2028	758	152
2029	113	8
Thereafter	201	-
Total lease payments	7,127	616
Less: Interest	(425)	(45)
Present value of lease liabilities	<u>\$ 6,702</u>	<u>\$ 571</u>

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****12. Functional allocation of expenses**

The following table approximates the functional allocation of operating expenses incurred during the year ended December 31, 2024 (in thousands):

	Health Care Services				Support Services		
	Acute	Ambulatory	Physician	Post-Acute	MG&A	Fundraising	Total
Salaries and wages	\$ 58,317	\$ 11,922	\$ 86,463	\$ 11,127	\$ 46,412	\$ 307	\$ 214,548
Employee benefits	11,872	2,576	7,173	2,254	9,354	77	33,306
Contract labor	1,719	491	242	114	3,331	-	5,897
Supplies	122,470	3,210	5,422	483	12,689	23	144,297
Professional fees	1,864	1,161	3,978	(26)	1,528	-	8,505
Service contracts	4,233	1,620	317	40	6,412	-	12,622
Purchased services	10,928	2,449	2,151	198	32,836	13	48,575
Management fees	3,411	99	2,051	76	2,267	-	7,904
Depreciation	6,361	2,227	334	465	6,093	-	15,480
Interest expense	1,568	490	82	114	1,494	-	3,748
Insurance	-	3	3,106	-	5,578	-	8,687
Other	7,165	2,350	2,692	518	9,083	450	22,258
	<u>\$229,908</u>	<u>\$ 28,598</u>	<u>\$114,011</u>	<u>\$ 15,363</u>	<u>\$ 137,077</u>	<u>\$ 870</u>	<u>\$ 525,827</u>

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****12. Functional allocation of expenses (continued)**

The following table approximates the functional allocation of operating expenses incurred during the year ended December 31, 2023 (in thousands):

	Health Care Services				Support Services		
	Acute	Ambulatory	Physician	Post-Acute	MG&A	Fundraising	Total
Salaries and wages	\$ 53,458	\$ 10,929	\$ 79,259	\$ 10,200	\$ 42,827	\$ 377	\$197,050
Employee benefits	11,022	2,391	6,660	2,092	8,746	-	30,911
Contract labor	1,392	398	196	92	2,699	-	4,777
Supplies	90,838	2,381	4,022	358	9,078	6	106,683
Professional fees	1,800	1,121	3,133	(25)	1,475	-	7,504
Service contracts	3,828	1,465	287	36	5,799	-	11,415
Purchased services	9,395	2,106	1,849	170	28,613	31	42,164
Management fees	2,176	63	1,309	48	1,446	-	5,042
Depreciation	6,231	2,182	327	456	5,968	-	15,164
Interest expense	1,498	470	79	110	1,434	-	3,591
Insurance	-	3	2,676	-	5,014	-	7,693
Other	6,766	2,213	2,847	478	10,236	642	23,182
	<u>\$188,404</u>	<u>\$ 25,722</u>	<u>\$102,644</u>	<u>\$ 14,015</u>	<u>\$ 123,335</u>	<u>\$ 1,056</u>	<u>\$455,176</u>

13. Disclosures about the fair value of financial instruments

In Accordance with the *Fair Value Measurements and Disclosure* topic of the FASB ASC, disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. Therefore, the aggregate fair value amounts presented do not represent the underlying value of the System.

The fair value guidance provides a consistent definition of fair value. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Disclosures about the fair value of financial instruments (continued)

Fair Value Hierarchy

In accordance with this guidance, the System groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the System has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the System in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents - the carrying amounts approximate fair values because of the short maturity of these instruments.

Assets limited as to use and short-term investments - the carrying amounts reported on the consolidated balance sheets for assets limited as to use and stocks included in short-term investments are fair values based on quoted market prices. The carrying amounts reported on the consolidated balance sheets for certificates of deposit included in short-term investments is cost, which is deemed to approximate fair value because these assets are highly liquid.

Long-term liabilities - the fair value of the Hospital's revenue bonds is estimated based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The System's financial instruments whose estimated fair value differs from its carrying amount are summarized as follows at December 31st:

	2024		2023	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Bonds Payable				
(in thousands)	\$ <u>101,633</u>	\$ <u>101,679</u>	\$ <u>105,889</u>	\$ <u>98,928</u>

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Disclosures about the fair value of financial instruments (continued)

For remaining long-term debt, the carrying value estimates fair value at December 31, 2024 and 2023.

Limitations - fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table presents for each fair-value hierarchy level the System's financial assets that are measured at fair value on a recurring basis as of (in thousands).

	Level 1	Level 2	Total
<u>December 31, 2024</u>			
Cash and Cash Equivalents	\$ 11,417	\$ -	\$ 11,417
Mutual Fund Shares	2,370	-	2,370
Certificates of Deposit	-	528	528
Total	<u>\$ 13,787</u>	<u>\$ 528</u>	<u>\$ 14,315</u>
<u>December 31, 2023</u>			
Cash and Cash Equivalents	\$ 11,129	\$ -	\$ 11,129
Mutual Fund Shares	2,255	-	2,255
Certificates of Deposit	-	400	400
	<u>\$ 13,384</u>	<u>\$ 400</u>	<u>\$ 13,784</u>

14. Related party transactions

The System has transactions with related parties, in the normal course of business, for which the System believes the terms and conditions are comparable to terms that would have been available from a third party that was unaffiliated with the System.

15. Commitments and contingencies

The provision of health care services entails an inherent risk of liability. Participants in the health care industry are subject to lawsuits alleging malpractice, violations of false claims acts, product liability, or related legal theories, many of which involve large claims and significant defense costs. Like many other companies engaged in the health care industry in the United States, the System has the potential for liability claims, disputes and legal actions for professional liability and other related issues. It is expected that the System will continue to be subject to such suits as a result of the nature of the services provided. Further, as with all health care providers, the System is periodically subject to regulatory actions seeking fines and penalties for alleged violations of health care laws and are potentially subject to the increased scrutiny of regulators for issues related to compliance with health care fraud and abuse laws and with respect to the quality of care provided to patients.

Like other health care providers, in the ordinary course of business, the System is also subject to claims made by employees and other disputes and litigation arising from the conduct of business.

The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the System.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Commitments and contingencies (continued)

The System identified suspicious activity on its network on October 21, 2022, subsequently determined to be an attempted ransomware attack. There have been multiple class action lawsuits filed in relation to this event. During 2024, mediation was held and subsequent settlements were reached between all parties. The System's insurance policy fully covered payments required in the settlement.

As referred to in Note 6, the Hospital has begun a series of construction and renovation projects. Contracts related to these projects totaled approximately \$27,083,000 at December 31, 2024. Approximately \$19,501,000 has been paid on these contracts as of December 31, 2024, with approximately \$7,582,000 to be completed in future years.

16. Subsequent events

Management has evaluated events through the date that the consolidated financial statements were available to be issued, April 28, 2025 and determined that no additional disclosures are necessary. No events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

17. Community service (unaudited)

As a non-profit, community based health system, the Hospital provides significant programs and health-related services for the indigent and medically underserved in Southwest Louisiana, which represents the Hospital's financial commitment to those in the community with inadequate resources or who are uninsured or underinsured. In addition, the Hospital operates an emergency room which is open to the public, 24 hours a day and seven days a week.

Charity Care represents the cost of free or discounted health related services for those who cannot afford to pay for those services and who meet the Hospital's criteria for financial assistance. Under the Hospital's criteria for determining assistance, the Hospital provides full charity care for those whose income levels are at or below 200.99% of the Federal Poverty Guidelines (FPG). Discounted services are available to those people whose income is above 201% of the FPG up to and including 500% of the FPG. Charity Care services provided to these people are reported as income in the consolidated statements of operations to the extent of the estimated cost recovery allowed under the Moss Cooperative Endeavor Agreement (Moss CEA). The Hospital also provides some services at a reduced rate that does not cover the costs. For example, the Hospital provides free or significantly discounted vaccinations for children and elderly patients. The unreimbursed Medicaid Costs have been reduced by funds received that approximate the difference between Medicaid payments and the costs allowed under the Moss CEA.

Additionally, the Hospital provides the clinical and financial resources for the Memorial/LSUHSC Family Practice Residency Program, through an affiliation agreement with the Louisiana State University Health Sciences Center – New Orleans. The Hospital also provides the clinical and financial resources for a Radiology Technology and Medical Technology program in affiliation with other state universities. The Hospital is also involved in providing services to the community at large by supplementing professional medical staffing at community clinics and through the provision of support groups, community health education classes, staffing support at McNeese State University School of Nursing and SOWELA Technical Community College, and cash donations to local non-profit organizations.

The Hospital continues to fulfill its obligations under Internal Revenue Service guidelines to participate in Community Health Needs Assessment (CHNA) and has updated its CHNA in 2022. This report is available on its website at www.lcmh.com.

SUPPLEMENTARY INFORMATION

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY HEAD OR
CHIEF EXECUTIVE OFFICER
FOR THE YEAR ENDED DECEMBER 31, 2024**

Chief Executive Officer: Devon Hyde, President / Chief Executive Officer

Purpose	Amount
Salary	-
Benefits-insurance	-
Benefits-retirement	-
Benefits-other	-
Car allowance	-
Vehicle provided by government	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-

R.S. 24:513 (A) (3) requires reporting of the total compensation, reimbursements, and benefits paid to the agency head or chief executive officer. This law was further amended by Act 462 of the 2015 Regular Session which clarified that nongovernmental or not for profit local auditees are required to report only the compensation, benefits, and other payments paid to the agency head or chief executive officer paid from public funds.

There were no compensation, benefits, and other payments paid from January 1, 2024 to December 31, 2024 from public funds.

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

To the Board of Trustees
Southwest Louisiana Health Care System, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southwest Louisiana Health Care System, Inc. and its affiliates (the System) (a nonprofit organization), which comprise the consolidated balance sheet as of December 31, 2024, 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 June 19, 2025.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EisnerAmper LLP

EISNERAMPER LLP
Baton Rouge, Louisiana
June 19, 2025





**SOUTHWEST LOUISIANA HEALTH
CARE SYSTEM, INC**

**UNIFORM GUIDANCE REPORT ON INTERNAL
CONTROL AND ON COMPLIANCE
AND OTHER MATTERS**

DECEMBER 31, 2024



Southwest Louisiana Health Care System, Inc.

December 31, 2024

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To Board of Trustees
Southwest Louisiana Health Care System, Inc.

Report on Compliance for Each Major Federal Program

Opinion on the Major Federal Program

We have audited Southwest Louisiana Health Care System Inc.'s (the "System") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the System's major federal program for the year ended December 31, 2024. The System's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System 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, 2024.

Basis for Opinion the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to System's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.



Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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

We have audited the financial statements of the System as of and for the year ended December 31, 2024, and have issued our report thereon dated June 19, 2025, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

EisnerAmper LLP

EISNERAMPER LLP
Baton Rouge, Louisiana
June 19, 2025



SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2024

Federal Grantor/Pass-Through Program Title/Grant Name	Federal Assistance Listing Number	Identifying Number	Federal Expenditure
U.S. Department of Homeland Security			
<u>Passed Through the Louisiana Governor's Office of Homeland Security and Emergency Preparedness</u>			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4559-DR	\$ <u>767,952</u>
Total Department of Homeland Security			<u>767,952</u>
Total Federal Assistance Expended			<u>\$ 767,952</u>

The System did not pass through any amounts to sub-recipients.

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

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2024

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Southwest Louisiana Health Care System, Inc. and its affiliates (the System) under programs of the federal government for the year ended December 31, 2024. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System. The System's reporting entity is defined in Note 1 to the financial statements for the year ended December 31, 2024.

2. Summary of Significant Accounting Policies

Except as noted in Note 3, expenditures on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the System's financial statements for the year ended December 31, 2024. Such expenditures are recognized following the cost principles contained in accordance with the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Financial Statements

FEMA funds obligated were \$767,952 during the period of January 1, 2024 to December 31, 2024. FEMA funds obligated during the period of January 1, 2024 to December 31, 2024 are for expenditures incurred during the fiscal years 2020, 2021, and 2022, and were accrued as incurred in the applicable reporting period. Such amounts were recognized as revenue in the System's financial statements in other operating revenue for the year ended December 31, 2024.

4. De Minimis Cost Rate

During the year ended December 31, 2024, the System did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2024

(1) Summary of Independent Auditors' Results

Financial Statements

The type of report issued on the financial statements: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Noncompliance material to the financial statements noted? No

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Type of auditors' report issued on compliance for major programs: Unmodified opinion

Any audit findings which are required to be reported under the Uniform Guidance? No

Identification of major programs:

- 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee under Section 530 of The Uniform Guidance: No

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2024

Findings– Financial Statements

- None noted.

Findings and Questioned Costs – Major Federal Awards Programs

- None noted.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Findings– Financial Statements

- None noted.

Findings and Questioned Costs – Major Federal Awards Programs

- None noted.



SOUTHWEST LOUISIANA HEALTH
CARE SYSTEM, INC.

REPORT ON STATEWIDE
AGREED-UPON PROCEDURES ON COMPLIANCE
AND CONTROL AREAS

FOR THE YEAR ENDED DECEMBER 31, 2024



**SOUTHWEST LOUISIANA HEALTH
CARE SYSTEM, INC.**

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Trustees of Southwest Louisiana Health Care System, Inc.
and the Louisiana Legislative Auditor

We have performed the procedures enumerated in Schedule A on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) of Southwest Louisiana Health Care System, Inc. (the System) for the fiscal period January 1, 2024 through December 31, 2024. The System's management is responsible for those C/C areas identified in the SAUPs.

The System has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of performing specified procedures on the C/C areas identified in the LLA's SAUPs for the fiscal period January 1, 2024 through December 31, 2024. Additionally, the LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed, and the associated findings are summarized in the attached Schedule A, which is an integral part of this report.

We were engaged by the System to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs of the System for the fiscal period January 1, 2024 through December 31, 2024. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

The purpose of this report is intended solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.



EISNERAMPER LLP
Baton Rouge, Louisiana
June 19, 2025

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read “*no exception noted*” or for step 13 “*we performed the procedure and discussed the results with management.*” If not, then a description of the exception ensues.

1) Written Policies and Procedures

- A. Obtain and inspect the System’s written policies and procedures and observe whether they address each of the following categories and subcategories (if applicable to public funds and the System’s operations):

- i. **Budgeting**, including preparing, adopting, monitoring, and amending the budget.

No exception noted.

- ii. **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes.

No exception noted. Attribute (4) controls to ensure compliance with the Public Bid Law, and (5) documentation required to be maintained for all bids and price quotes are not applicable, as the System is a nonprofit entity. The other attributes were addressed in the written policies and procedures.

- iii. **Disbursements**, including processing, reviewing, and approving

No exception noted.

- iv. **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management’s actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

This C/C area is not applicable as the System did not receive governmental funds as cash deposits on-site during the fiscal period January 1, 2024 through December 31, 2024. Thus, this procedure was not performed.

- v. **Payroll/Personnel**, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee rates of pay or approval and maintenance of pay rate schedules.

No exception noted.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

- vi. **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

The System has written policies and procedures for contracting. However, the written policies and procedures do not contain attribute (3) regarding legal review. The other attributes were addressed in the written policies and procedures.

- vii. **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

No exception noted.

- viii. **Credit Cards (and debit cards, fuel cards, purchase cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

No exception noted.

- ix. **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the System's ethics policy.

This C/C area is not applicable for the System, as the System is a nonprofit entity. Thus, this procedure was not performed.

- x. **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

This C/C area is not applicable for the System, as the System is a nonprofit entity. Thus, this procedure was not performed.

- xi. **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

We reviewed the written policies and procedures and discussed the results with management.

- xii. **Prevention of Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

This C/C area is not applicable for the System, as the System is a nonprofit entity. Thus, this procedure was not performed.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

2) Board or Finance Committee

Procedures were not performed in the current year (Year 2) in accordance with LLA guidelines.

- A. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
- i. Observe whether the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
 - ii. For those entities reporting on the not-for-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the System's collections during the fiscal period.
 - iii. For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.
 - iv. Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

3) Bank Reconciliations

- A. Obtain a listing of System bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the System's main operating account. Select the System's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

A listing of bank accounts was provided. Management identified the System's main operating account. No exceptions were noted as a result of performing this procedure. From the listing provided, we selected 5 bank accounts (1 main operating and 4 randomly) and obtained the bank reconciliations for the month ended May 31, 2024, resulting in 5 bank reconciliations obtained and subjected to the below procedures.

- i. Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

No exception noted.

- ii. Bank reconciliations include written evidence that a member of management or a board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

Exception noted. For the five bank reconciliations tested, the System does not have written documentation supporting the date reviewed and the name of the person who reviewed each bank reconciliation.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

- iii. Management has documentation reflecting it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

The bank reconciliations selected for testing did not have reconciling items that have been outstanding for more than 12 months from the statement closing date. Thus, this procedure is not applicable and was not performed.

4) Collections (excluding electronic funds transfers)

Collections procedures are not applicable to the System as it did not receive governmental funds as cash deposits on-site during the fiscal period January 1, 2024 through December 31, 2024.

- A. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
- B. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (e.g. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if there are no written policies or procedures, then inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - i. Employees responsible for cash collections do not share cash drawers/registers;
 - ii. Each employee responsible for collecting cash is not also responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit;
 - iii. Each employee responsible for collecting cash is not also responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit; and
 - iv. The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, is (are) not also responsible for collecting cash, unless another employee verifies the reconciliation.
- C. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe that the bond or insurance policy for theft was in force during the fiscal period.
- D. Randomly select two deposit dates for each of the 5 bank accounts selected for Bank Reconciliations procedure #3A (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternatively, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
 - i. Observe that receipts are sequentially pre-numbered.
 - ii. Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

- iii. Trace the deposit slip total to the actual deposit per the bank statement.
- iv. Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).
- v. Trace the actual deposit per the bank statement to the general ledger.

5) *Non-payroll Disbursements (excluding card purchases, travel reimbursements, and petty cash purchases)*

- A. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

The listing of locations that process payments for the fiscal period was provided. No exceptions were noted as a result of performing this procedure. From the listing provided, we selected the single location and performed the procedures below.

- B. For each location selected under #5A above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, then inquire of employees about their job duties), and observe that job duties are properly segregated such that:

The listing of employees involved with non-payroll purchasing and payment functions for the single payment processing location selected in procedure #5A was provided. No exceptions were noted as a result of performing this procedure. Review of the System's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- i. At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order or making the purchase;

No exception noted.

- ii. At least two employees are involved in processing and approving payments to vendors;

No exception noted.

- iii. The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files;

No exception noted.

- iv. Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments; and

No exception noted.

- v. Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means.

No exception noted.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

- C. For each location selected under #5A above, obtain the System's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and

A listing of non-payroll disbursements for each payment processing location selected in procedures #5A was provided related to the fiscal period. No exceptions noted as a result of performing this procedure. From the listing provided, we randomly selected 5 disbursements and performed the procedures below.

- i. Observe whether the disbursement, whether by paper or electronic means, matched the related original itemized invoice, and that supporting documentation indicates that deliverables included on the invoice were received by the System, and

No exception noted.

- ii. Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under procedure #5B above, as applicable.

For one of the five disbursements selected for testing, the employee initiating the purchase request is the same employee who approved the purchase.

- D. Using the System's main operating account and the month selected in Bank Reconciliations procedure #3A, randomly select 5 non-payroll-related electronic disbursements (or all electronic disbursements if less than 5) and observe that each electronic disbursement was (a) approved by only those persons authorized to disburse funds (e.g., sign checks) per the System's policy, and (b) approved by the required number of authorized signers per the System's policy. Note: If no electronic payments were made from the main operating account during the month selected the practitioner should select an alternative month and/or account for testing that does include electronic disbursements.

A listing of non-payroll disbursements for each payment processing location selected in procedures #3A was provided related to the fiscal period. No exceptions noted as a result of performing this procedure. From the listing provided, we randomly selected 5 disbursements and performed the specified procedures. No exception noted.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

6) Credit Cards/Debit Cards/Fuel Cards/Purchase Cards (Cards)

- A. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and purchase cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

A listing of active cards used during the fiscal period January 1, 2024 through December 31, 2024 was provided. No exceptions were noted as a result of performing this procedure.

- B. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement). Obtain supporting documentation, and

From the listing provided, we randomly selected 5 cards used in the fiscal period. We randomly selected one monthly statement for each of the 5 cards selected and performed the procedures below.

- i. Observe whether there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) were reviewed and approved, in writing (or electronically approved) by someone other than the authorized card holder (those instances requiring such approval that may constrain the legal authority of certain public officials, such as the mayor of a Lawrason Act municipality, should not be reported; and

No exception noted.

- ii. Observe that finance charges and late fees were not assessed on the selected statements.

No exception noted.

- C. Using the monthly statements or combined statements selected under procedure #6B above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (e.g., each card should have 10 transactions subject to inspection). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and observe whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

We randomly selected transactions for the 5 cards selected in procedure #6B, which resulted in 42 transactions subjected to the specified procedures. Of the 42 transactions selected for testing, 4 transactions did not meet attribute (1) an original itemized receipt that identifies precisely what was purchased, 3 transactions did not meet attribute (2) written documentation of the business/public purpose and 2 transactions did not meet attribute (3) documentation of the individuals participating in meals.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

7) Travel and Travel-Related Expense Reimbursements (excluding card transactions)

Procedures were not performed in the current year (Year 2) in accordance with LLA guidelines.

- A. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, and obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
- i. If reimbursed using a per diem, observe that the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov);
 - ii. If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased;
 - iii. Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by "Written Policies and Procedures", procedure #1A(vii); and
 - iv. Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

8) Contracts

Procedures were not performed in the current year (Year 2) in accordance with LLA guidelines.

- A. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternatively, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and
- i. Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law;
 - ii. Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter);
 - iii. If the contract was amended (e.g., change order), observe that the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, the documented approval); and
 - iv. Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

9) Payroll and Personnel

Procedures were not performed in the current year (Year 2) in accordance with LLA guidelines.

- A. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
- B. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under procedure #9A above, obtain attendance records and leave documentation for the pay period, and
 - i. Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory);
 - ii. Observe whether supervisors approved the attendance and leave of the selected employees or officials;
 - iii. Observe that any leave accrued or taken during the pay period is reflected in the System's cumulative leave records; and
 - iv. Observe the rate paid to the employees or officials agrees to the authorized salary/pay rate found within the personnel file.
- C. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials and obtain related documentation of the hours and pay rates used in management's termination payment calculations and the System's policy on termination payments. Agree the hours to the employee's or official's cumulative leave records, agree the pay rates to the employee's or official's authorized pay rates in the employee's or official's personnel files, and agree the termination payment to System policy.
- D. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

10) Ethics

Ethics procedures are not applicable to the System as it is a nonprofit entity.

- A. Using the 5 randomly selected employees/officials from procedure "Payroll and Personnel" procedure #9A, above obtain ethics documentation from management, and
 - i. Observe whether the documentation demonstrates that each employee/official completed one hour of ethics training during the calendar year as required by R.S. 42:1170; and
 - ii. Observe whether the System maintains documentation which demonstrates that each employee and official were notified of any changes to the System's ethics policy during the fiscal period, as applicable.
- B. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

11) Debt Service

Debt Service procedures are not applicable to the System as it is a nonprofit entity with no public debt.

- A. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued as required by Article VII, Section 8 of the Louisiana Constitution.
- B. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

12) Fraud Notice

Procedures were not performed in the current year (Year 2) in accordance with LLA guidelines.

- A. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the System reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the System is domiciled as required by R.S. 24:523.
- B. Observe that the System has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

13) Information Technology Disaster Recovery/Business Continuity

- A. Perform the following procedures, **verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."**

- i. Obtain and inspect the System's most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government's local server or network, and (c) was encrypted.

We performed the procedure and discussed the results with management.

- ii. Obtain and inspect the System's most recent documentation that it has tested/verified that its backups can be restored (if there is no written documentation, then inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

We performed the procedure and discussed the results with management.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule A

- iii. Obtain a listing of the System's computers currently in use and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

We performed the procedure and discussed the results with management.

- B. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in procedure #9C. Observe evidenced that the selected terminated employees have been removed or disabled from the network.

We performed the procedure and discussed the results with management.

14) Prevention of Sexual Harassment

The requirements of LA RS 42:341 – 344 apply to governmental entity public officers and employees and is therefore not applicable to the Organization as it is a nonprofit entity.

- A. Using the 5 randomly selected employees/officials from "Payroll and Personnel" procedure #9A, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year as required by R.S. 42:343.
- B. Observe that the System has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the System's premises if the System does not have a website).
- C. Obtain the System's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that the report includes the applicable requirements of R.S. 42:344:
 - i. Number and percentage of public servants in the agency who have completed the training requirements;
 - ii. Number of sexual harassment complaints received by the agency;
 - iii. Number of complaints which resulted in a finding that sexual harassment occurred;
 - iv. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and
 - v. Amount of time it took to resolve each complaint.

SOUTHWEST LOUISIANA HEALTH CARE SYSTEM, INC.
MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN
DECEMBER 31, 2024

Schedule B

Southwest Louisiana Health Care System, Inc. (the Entity or the System) provided a response and corrective action plan for the exceptions noted in Schedule A as set forth below:

System management concurs with the exceptions noted in the Statewide Agreed Upon Procedures report. The System will evaluate each exception and implement policies and procedures where appropriate and necessary to strengthen internal controls over financial operations of the System.