



**Ochsner Clinic Foundation  
d/b/a Ochsner Health  
Annual Financial Information Disclosure**

**For the Year Ended  
December 31, 2019**

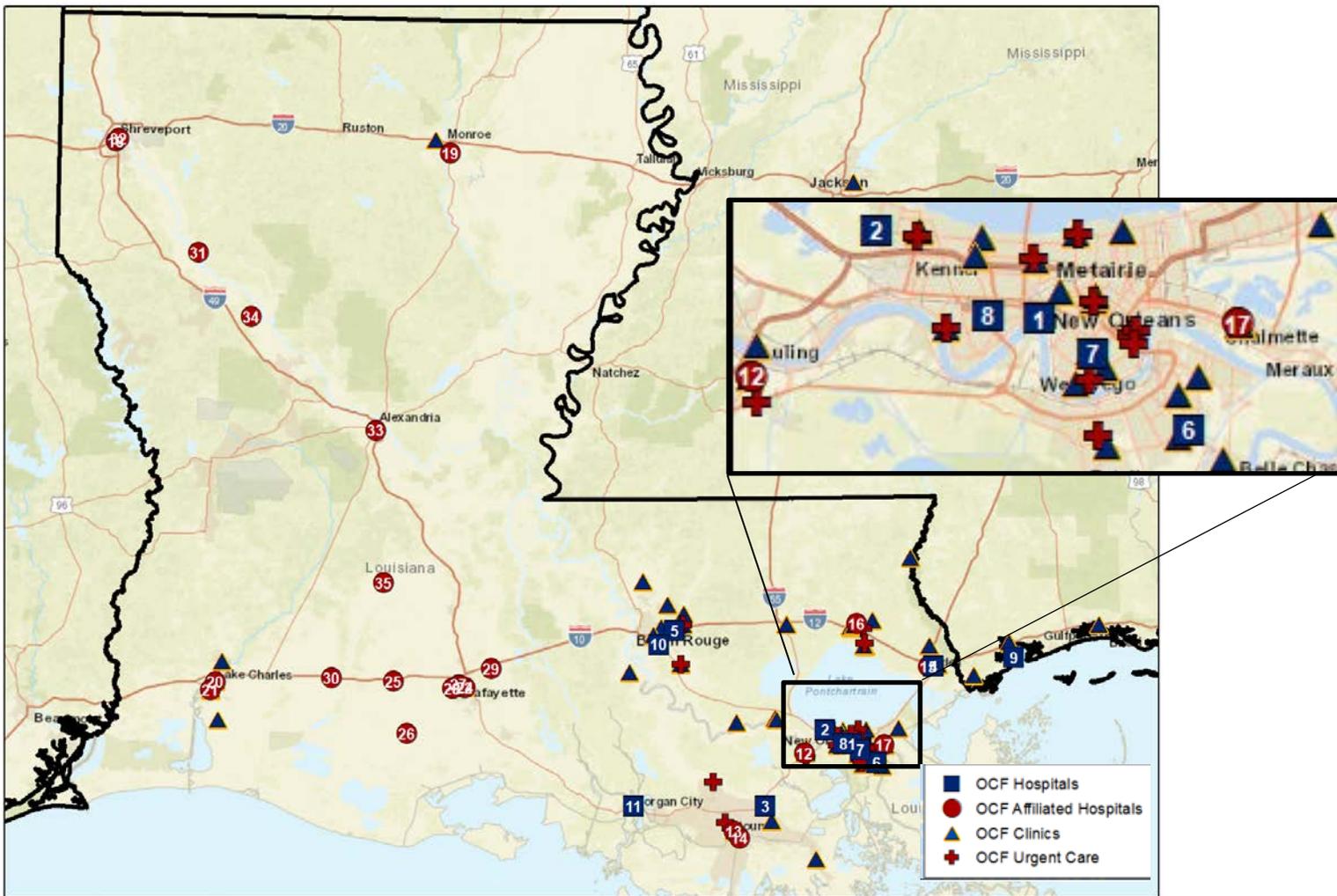
## System Overview

Ochsner Clinic Foundation d/b/a Ochsner Health (“OCF” or “Ochsner”) is a Louisiana-based nonprofit corporation and an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (the “Code”) founded on providing the best patient care, research and education. Ochsner is the largest non-profit, academic, multi-specialty, integrated healthcare delivery system in the Gulf Coast region with 11 hospitals, 103 health centers, 18 Urgent Care Clinics and five Occupational Health Clinics. When combined with affiliated hospitals, Ochsner owns, provides management assistance and support, or is affiliated with 35 hospitals. It also employs approximately 1,600 active staff physicians that have over 1,400 board certifications in 79 specialties, trains 291 medical residents and fellows annually, has 458 Doctor of Medicine students enrolled in the University of Queensland, Ochsner Clinical School, and is currently conducting over 1,200 clinical research studies. In 2019, more than 876,000 people from all 50 states and more than 70 countries visited Ochsner.

Ochsner is recognized nationally for quality. Awards and recognitions in 2019 include:

- Ochsner Medical Center, Ochsner Baptist, a campus of Ochsner Medical Center, and Ochsner Medical Center – West Bank Campus were ranked among the best hospitals in the country in two medical specialties, according to *U.S. News and World Report’s* 2019-20 Best Hospitals rankings. Ochsner Medical Center, Ochsner Baptist and Ochsner Medical Center – West Bank Campus were also ranked #1 among the best hospitals in Louisiana and #1 among the best hospitals in the New Orleans metro area as well as being recognized among the Best Hospitals in Southeastern Louisiana.
- Ochsner Medical Center was recognized for the 100 best hospitals in three specialties by the Healthgrades 2019 Report to the Nation.
- Leonard J. Chabert Medical Center (LJCMC) achieved the Healthgrades 2019 Outstanding Patient Experience Award.
- *Becker’s Hospital Review* recognized Ochsner Medical Center as one of the “100 Great Hospitals in America” for 2019. This is the eighth consecutive year that Ochsner Medical has been recognized with this award and is the only Louisiana hospital named to this list.
- *Becker’s Hospital Review* recognized Ochsner Medical Center-Baton Rouge as one of the “100 Great Community Hospitals in America” for 2019.
- Ochsner Hospital for Children was ranked among the top 50 children’s hospitals in the country for pediatric cardiology and heart surgery and gastroenterology and gastrointestinal surgery specialties in the new 2019-20 *U.S. News and World Reports* Best Children’s Hospitals rankings.
- Ten Ochsner Facilities, including three partners, received an “A’ Grade for Patient Safety from the 2019 Leapfrog Group.
- Ochsner Medical Center was awarded Magnet Designation status by the American Nurses Credentialing Center four consecutive times.

The following map indicates the locations of Ochsner’s acute care hospitals and health centers. See “Health Care Operations of the Credit Group – Facilities” herein for more information regarding Ochsner’s health care facilities.



**Ochsner Clinic Foundation Hospitals**

- |   |  |                                      |
|---|--|--------------------------------------|
| Ochsner Medical Center (1)              | Ochsner Medical Center Kenner (2)                        | Ochsner St. Anne Hospital (3)        |
| Ochsner Medical Center North Shore (4)  | Ochsner Medical Center Baton Rouge (5)                   | Ochsner Medical Center West Bank (6) |
| Ochsner Baptist Medical Center (7)      | Ochsner Hospital for Orthopedics and Sports Medicine (8) | Ochsner Medical Center - Hancock (9) |
| Ochsner Medical Center – The Grove (10) | Ochsner St. Mary (11)                                    |                                      |

**Ochsner Clinic Foundation Affiliate Hospitals**

- |  |  |  |
|--|--|--|
| St. Charles Parish Hospital (12)         | Terrebonne General Medical Center (13)       | Leonard J. Chabert Medical Center (14) |
| Slidell Memorial Hospital (15)           | St. Tammany Parish Hospital (16)             | St. Bernard Parish Hospital (17)       |
| Ochsner-LSU Health – Shreveport (18)     | Ochsner-LSU Health – Monroe (19)             | CHRISTUS-Ochsner – St Patrick (20)     |
| CHRISTUS-Ochsner – Lake Area (21)        | Lafayette General Medical Center (22)        | Lafayette General Southwest (23)       |
| Lafayette General Surgical Hospital (24) | Acadia General Hospital (25)                 | Abrom Kaplan (26)                      |
| University Hospital – Lafayette (27)     | The Regional Medical Center of Acadiana (28) | St. Martin Hospital (29)               |
| American Legion Hospital (30)            | CHRISTUS Coushatta (31)                      | CHRISTUS Schumpert (32)                |
| CHRISTUS St. Francis Cabrini (33)        | Natchitoches Regional Medical Center (34)    | Savoy Medical Center (35)              |

## **Forward-Looking Information:**

*This Financial Information Disclosure contains disclosures, which contain “forward-looking statements” within the meaning of the Federal securities laws. Forward-looking statements include all statements that do not relate solely to historical or current fact and can be identified by the use of words “expect”, “anticipate”, “intend”, “project”, “likely”, “may”, “might”, “estimate”, “budget” and similar words or expressions. These forward-looking statements are based on the current plans and expectations of Ochsner Clinic Foundation d/b/a Ochsner Health (“OCF” or “Ochsner”) as of the date of this report and are subject to a number of known and unknown risks and uncertainties inherent in the operation of health care facilities, many of which are beyond OCF's control, that could significantly affect current plans and expectations and OCF's future financial position and results of operations.*

*Important factors that could cause results to differ materially from those expected by management include, but are not limited to, general, economic and business, competition from other healthcare facilities in the service areas, an unfavorable pricing environment, inability to achieve expected efficiencies in operations or effectively control health care costs, the efforts of insurers and others to contain health care costs, changes in Medicare or Medicaid reimbursement formulas, the risk that managed care provider arrangements will not be negotiated or renewed on acceptable terms, future divestitures or acquisitions which may have a financial impact, availability and terms of capital to fund future expansion and ongoing capital needs, new laws or regulations, the possible enactment of federal or state health care reform, fines or penalties related to regulatory matters, changes in accounting standards and practices, the outcome of pending and future litigation and government investigations, labor issues and the ability to attract and retain qualified management and other personnel, including physicians, nurses and medical support personnel.*

*Given these uncertainties, bondholders and prospective bondholders are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report. OCF disclaims any obligation, and makes no promise, to update any such factors or forward-looking statements or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward-looking statements, whether as a result of changes in underlying factors, to reflect new information, as a result of the occurrence of events or developments or otherwise.*

## **Description of Credit Group**

Ochsner's history began when the Ochsner Clinic opened its doors to patients on January 2, 1942 as a physician practice. Alton Ochsner Medical Foundation ("AOMF"), a Louisiana not for profit corporation exempt from taxation under Section 501(c)(3) of the IRS Code, was founded on January 21, 1944 to own and operate Ochsner Foundation Hospital. On August 31, 2001, Ochsner Clinic merged with a wholly-owned subsidiary of AOMF and Ochsner Clinic became a wholly-owned subsidiary of AOMF. As part of the acquisition of Ochsner Clinic, AOMF changed its name to Ochsner Clinic Foundation ("OCF"). Ochsner Community Hospitals ("OCH") and Ochsner Health System ("OHS"), each a Louisiana not for profit corporation exempt from taxation under Section 501(c)(3) of the IRS code, were formed in July 2006. OCH was formed for the purpose of acquiring certain medical facilities from Tenet Healthcare Corporation, and OHS was formed to be the parent company and sole corporate member of OCF and OCH. Effective December 31, 2016, OCH was merged with and into OCF, with OCF continuing as the surviving entity. Effective December 31, 2017, OHS was merged with and into OCF, with OCF continuing as the surviving entity. Ochsner Clinic Foundation operates under the trade name of Ochsner Health. All references to "Ochsner," "Ochsner Health," or "OCF" hereinafter refer to Ochsner Clinic Foundation.

OCF is the only Obligated Group Member under the Master Indenture. Certain affiliates of OCF have been designated as Designated Affiliates and Credit Group Members under the Master Indenture. Credit Group or Credit Group Members means all Obligated Group Members and Designated Affiliates. Under the Master Indenture, Obligated Group Members are jointly and severally liable to make payments with respect to Obligations issued under the Master Indenture. Designated Affiliates are not obligated to make payments with respect to Obligations but may be required to transfer to Obligated Group Members, to the extent legally available, amounts necessary to enable the Obligated Group Members to make payments under the Master Indenture. Obligated Group Members may designate entities as Designated Affiliates under the Master Indenture and may rescind such designation at any time. Designated Affiliates have not changed since the 2017 Official Statement dated May 11, 2017. OCF and Designated Affiliates constituted 96.47% of the total assets of OCF Consolidated as of December 31, 2019 and 97.07% of the total revenue of OCF Consolidated as of December 31, 2019.

## **Obligated Group Member**

OCF is the only Obligated Group Member under the Master Indenture. OCF is headquartered in New Orleans, Louisiana, and, either directly or through its fully owned affiliates or subsidiaries, owns and operates 11 hospitals and other healthcare facilities, including:

- OMC, a 658-bed acute care hospital located in New Orleans, Louisiana, which serves as the flagship of Ochsner, and includes an 11-story clinic building, a 30-bed skilled nursing facility (within Ochsner West Campus), a 134-room hotel and related medical facilities located on a main campus in Jefferson Parish at the western end of New Orleans;
- Ochsner Hospital for Orthopedics and Sports Medicine, a 15-bed satellite hospital of OMC, located in Elmwood, Louisiana, which primarily provides outpatient services;
- Ochsner Medical Center – West Bank Campus, a 162-bed acute care satellite hospital of OMC in New Orleans, Louisiana,
- Ochsner Baptist Medical Center, a 135-bed acute care satellite hospital of OMC in New Orleans, Louisiana.
- Ochsner Medical Center - Kenner, a 110-bed acute care hospital in Kenner, Louisiana;
- Ochsner Medical Center – Baton Rouge, a 152-bed acute care hospital in Baton Rouge, Louisiana;
- Ochsner Medical Complex – The Grove, a 10-bed satellite hospital of Ochsner Medical Center – Baton Rouge, located in Baton Rouge, Louisiana, which primarily provides outpatient services;
- Ochsner Medical Center – North Shore, a 150-bed acute care hospital in Slidell, Louisiana;
- 103 health centers throughout southeast Louisiana and Mississippi;
- 20 Urgent Care Clinics and five Occupational Health Clinics throughout Greater New Orleans; and
- Several fitness centers that operate as Ochsner Fitness Center.

OCF, through its fully owned subsidiaries, operates three hospitals:

- Ochsner St. Anne Hospital, a 35-bed critical access hospital in Raceland, Louisiana;
- Ochsner Medical Center - Hancock, a 102-bed acute care hospital in Bay St. Louis, Mississippi; and
- Ochsner St. Mary, a 164-bed acute care hospital in Morgan City, Louisiana.

OCF, either directly or through its fully owned affiliates or subsidiaries, provides management assistance and support to five hospitals:

- Leonard J. Chabert Medical Center (“LJCMC”), a 156-bed public, safety net hospital in Houma, Louisiana;
- St. Charles Parish Hospital (“SCPH”), a 59-bed public, safety net hospital in Luling, Louisiana;
- St. Bernard Parish Hospital (“SBPH”), a 40-bed public, safety net hospital in Chalmette, Louisiana; and
- Ochsner LSU Health System of North Louisiana (“OLHS-NL”), which includes a 452-bed hospital in Shreveport, Louisiana, a 244-bed hospital in Monroe, Louisiana and healthcare operations in Shreveport, Louisiana and Monroe, Louisiana.

OCF also has joint operating agreements with three hospitals:

- Terrebonne General Medical Center (“TGMC”), a 321-bed acute care hospital in Houma, Louisiana;
- St. Tammany Parish Hospital (“STPH”), a 232-bed acute care hospital in Covington, Louisiana; and
- Slidell Memorial Hospital (“SMH”), a 223-bed public acute care hospital in Slidell, Louisiana.

In recent years, OCF has entered into several strategic partnerships, affiliation agreements, and acquisitions that increase local access to care, improve quality, reduce the cost of healthcare, and share best practices and resources in order to improve the health of Louisiana communities. Agreements signed or completed in 2020, 2019, and 2018 are as follows:

- Lafayette General Health System. On March 31, 2020, Ochsner and Lafayette General Health System, Inc. (“LGHS”) signed a Shared Mission Agreement to create a combined integrated healthcare delivery system. Pursuant to the agreement, Ochsner will become the sole corporate member of LGHS, with both parties having appointment rights to the Board of Directors. The closing is expected to occur before the end of the third quarter of 2020, subject to completing additional due diligence and regulatory approvals.
- Hospital Service District No. 2 of the Parish of St. Mary. Effective October 1, 2019, OCF, through a wholly-owned subsidiary, began to lease and operate the facilities formerly known as Teche Regional Medical Center from the Hospital Service District No. 2 of the Parish of St. Mary. The hospital is a 164-bed acute care hospital located in Morgan City, Louisiana and was renamed Ochsner St. Mary. The lease agreement is for an initial term of 10 years. As part of the transaction, OCF acquired certain current assets, including the provider number of the hospital.
- Select Medical Corporation, STPH, and SMH. On August 22, 2018, OCF entered into a joint venture, NSR Louisiana, LLC, with Select Medical Corporation, STPH, and SMH to operate a \$3.9 million, 30-bed acute inpatient rehabilitation hospital in Lacombe, Louisiana. The facility began operations during the third quarter of 2019. On June 15, 2015, Ochsner entered into a joint venture, OSR Louisiana, LLC, with Pennsylvania-based Select Medical Corporation to open a new \$35 million, 60-bed acute inpatient rehabilitation hospital. The facility began operations during the second quarter of 2018.
- LHC Group, STPH, and SMH. On July 5, 2019, Ochsner entered into a joint venture, Northshore Extended Care Hospital, LLC, with LHC Group, STPH, and SMH to acquire and operate a \$2.3 million, 58-bed duly licensed long-term acute care hospital (LTACH) and skilled nursing facility (SNF) in Lacombe, Louisiana. The facility began operations during the third quarter of 2019.

- Louisiana State University. Effective October 1, 2018, OCF entered into management agreement with a newly formed nonprofit entity Ochsner LSU Health System of North Louisiana (“OLHS-NL”) to provide management services, billing and collection services and administrative support for certain hospital and healthcare operations in Shreveport and Monroe. OCF and the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (“LSU”) formed OLHS-NL to assume overall responsibility for the operations and clinical activities of the former University Health hospitals and clinics in Shreveport and Monroe and coordinate the activities between LSU Medical School, the parties’ physicians, and the healthcare operations in Shreveport and Monroe. OLHS-NL is a standalone nonprofit organization and is not a subsidiary of either LSU or OCF. OLHS-NL’s Bylaws require that LSU and OCF each appoint an equal number of directors to the OLHS-NL Board to oversee, coordinate, and manage OLHS-NL’s activities. In conjunction with the management agreement of OLHS-NL, Ochsner acquired the licenses for the electronic health records and related liabilities and hired the Information Services (IS) employees of OLHS-NL in exchange for a note payable of approximately \$6.2 million to the Biomedical Research Foundation on October 1, 2018. With this acquisition, Ochsner fully manages the IS function of OLHS-NL.
- CHRISTUS Health. Effective September 1, 2018, Ochsner entered into a membership interest purchase agreement with CHRISTUS Health (“CHRISTUS”) and acquired a 40% minority ownership interest in CHRISTUS Health Southwestern Louisiana (“SWLA”) in exchange for cash of \$35 million and a promissory note of \$27.4 million. SWLA owns and operates healthcare facilities and operations related to physician practices in Lake Charles, Louisiana, including CHRISTUS Ochsner St. Patrick Hospital, CHRISTUS Ochsner Lake Area Medical Center and various clinical facilities. CHRISTUS Ochsner St. Patrick Hospital is a 50-bed hospital and CHRISTUS Ochsner Lake Area Medical Center is an 88-bed, full-service acute care hospital in Lake Charles, Louisiana. CHRISTUS Health manages the hospitals, CHRISTUS Ochsner St. Patrick, and CHRISTUS Ochsner Lake Area Medical Center. Ochsner began managing all physician and clinic operations in February of 2019.
- Hancock Medical Center. On April 1, 2018, OCF, through a wholly-owned subsidiary, closed an agreement with the Hancock County Board of Supervisors to operate Hancock Medical Center, a 102-bed acute care hospital, under a 25-year lease agreement, and OCF will own the property at the end of the lease term. This lease expands upon the strategic partnership the two organizations created in 2013 through a management agreement under which Ochsner managed Hancock Medical Center. As part of this transaction, OCF acquired the current assets, liabilities and provider number of Hancock. The hospital was renamed Ochsner Medical Center - Hancock.

## **Governance**

As of the release date of this document, there have been no changes to Governance since the Quarterly Information Disclosure dated March 31, 2019.

## **Executive Leadership**

As of the release date of this document, there have been no changes to Executive Leadership since the Quarterly Information Disclosure dated March 31, 2019.

## Management Discussion and Analysis of Financial Results

### Executive Summary:

Excess Revenue over Expenses was \$221.9 million (5.8% of Total Revenues) compared to \$72.8 million (2.1% of Total Revenues) for 2018, a \$149.1 million increase and a \$161.6 million increase after adjusting for the \$12.5 million business economic loss claim due to the BP Deepwater Horizon oil spill recorded in 2018. EBIDA was \$422.9 million (11.0% of Total Revenues) for 2019 compared to \$272.7 million (8.0% of Total Revenues) for 2018.

OCF had Income from Operations of \$132.0 million (3.4% of Total Revenues) for 2019 compared to \$102.0 million (2.98% of Total Revenues) for 2018, a \$30.0 million increase and a \$42.5 million increase after adjusting for the \$12.5 million business economic loss claim due to the BP Deepwater Horizon oil spill recorded in 2018. Operating EBITDA was \$333.6 million (8.7% of Total Revenues) for 2019 compared to \$303.1 million (8.9% of Total Revenues) for 2018.

OCF retrospectively adopted Accounting Standards Update (ASU) 2017-07, *Compensation – Retirement Benefits (Topic 715)* on January 1, 2019, which requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension costs and net periodic postretirement benefits cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. For more information, please see Note A of the Consolidated Statements of Operations.

OCF adopted ASU 2016-02, *Leases (Topic 842)* on January 1, 2019, which requires companies that lease assets to recognize a right-of-use assets and a lease liability, initially measured at the present value of the lease payments, on the balance sheet. For more information, please see Note B of the Consolidated Balance Sheets.

### Statement of Operations:

OCF achieved Total Revenues of approximately \$3.8 billion for 2019, an increase of \$415.5 million or 12.1% over 2018 due to organic growth, an increase in patients referred from affiliates and outlying facilities, and an increase in Other Operating Revenue. Patient Service Revenue increased \$101.9 million or 3.9%, including a 7.6% increase in commercial revenue. Premium Revenue increased \$22.6 million or 7.1%. In 2019 Ochsner served over 637,000 unique patients, an 11% increase over 2018. Ochsner considers its unique patients as a leading indicator of future growth. Unique patients are calculated by tracking the number of patients seen in the previous twelve months while consolidating all visits for the same person as one unique patient. When comparing 2019 to 2018, discharges decreased 0.8%, patient days increased 1.7%, inpatient surgical procedures decreased 4.7%, outpatient surgical procedures increased 7.3%, emergency room visits increased 12.1%, clinic relative value units increased 10.6%, and clinic visits increased 10.9%. Outpatient revenue continues to be a major driver of Patient Service Revenue growth. When comparing 2019 to 2018, outpatient revenue increased 16% and went from 56% of Patient Service Revenue to 61% of Patient Service Revenue. Revenue received from any of OCF's managed or affiliated hospitals is not included within Patient Service Revenue.

Other Operating Revenue for 2019 was \$793.8 million, a \$289.4 million increase over 2018. Other Operating Revenue for 2019 includes a \$73.6 million increase in pharmacy revenue, a \$49.5 million increase related to the management agreement with OLHS-NL, \$17.2 million increase related to the management agreement with SWLA, a \$72.5 million increase in management fees for LJC MC, SBPH and SCPH, and a \$9.5 million increase related to the joint operating agreements with STPH and SMH. Other Operating Revenue for 2018 includes \$14.5 million related to a business economic loss claim due to the BP Deepwater Horizon oil spill. During 2019, Ochsner recognized \$59.8 million of Other Operating Revenue related to milestones achieved by and from serving as a manager in the Medicaid Managed Care Incentive Payment ("MCIP") program. The MCIP program was established during 2019 by the Louisiana Department of Health to achieve quality reforms that increase access to healthcare, improve the quality of care, and enhance the health of members of the Louisiana Medicaid managed care organizations. Contracted hospitals receive payments from an accountable care organization based on their participation and contributions to the outcomes.

Salaries and Wages for 2019 were \$1.7 billion, a \$172.4 million increase over 2018. This increase is partially related to additional staffing and additional providers needed to meet increased patient demand. Total providers increased by 10.4% or 175 full-time equivalents (“FTEs”). That includes a 9.5% increase in physicians, or 103 FTEs, and a 12.0% increase in the number of other providers, or 72 FTEs. Ochsner employs approximately 1,600 active staff physicians and over 800 Other Providers. This increase is also due to the addition of FTEs associated with OCF’s management of the SWLA physician and clinic operations.

Medical Services to Outside Providers expense for 2019 increased by \$9.8 million from 2018. OCF currently provides services to approximately 37,000 senior members under a capitation contract for both physician and hospital services.

Medical Supplies and Services increased by \$118.2 million when comparing 2019 to 2018. Medical Supplies and Services as a percentage of Total Revenues was 20.1% for 2019 and 19.1% for 2018. Approximately \$68.7 million of the increase is due to increased drug expenses primarily due to an increased volume of infusion drugs and increased volume for the retail pharmacies. Approximately \$36.2 million of the increase is related to medical supplies primarily due to an increase in volume.

Other operating expenses which includes building and equipment, insurance, professional services and general and administrative expenses for 2019 increased by \$54.5 million over 2018. Approximately \$27.3 million of this increase relates to expenses for Ochsner’s new hospitals and management agreements including Ochsner Medical Center – the Grove in Baton Rouge, OLHS-NL, the SWLA clinics in Lake Charles, and Ochsner St. Mary. Approximately \$10.5 million of the increase is related to software expenses associated with clinical system implementations and upgrades.

OCF had net non-operating gains of \$89.8 million and non-operating losses of \$29.2 million for 2019 and 2018, respectively. Non-operating gains and losses include realized gains and losses, changes in the market value of the pooled investment portfolio, as well as pension costs and credits.

## **Ratings**

On November 20, 2019, Moody’s Investors Service, Inc. affirmed its rating for the Bonds of A3 with a stable outlook. On April 30, 2019, S&P Global Ratings assigned an Issuer Credit Rating of A with a stable outlook.

## **Liquidity and Cash Position**

At December 31, 2019, OCF had unrestricted cash and investments of \$1.1 billion which equates to 108 days cash on hand. Cash and Investments increased by \$170.7 million from \$885.2 million or 102 days cash on hand at December 31, 2018. The 6-day increase in days cash on hand includes a 19 day increase due to the increase in cash and a 13-day decrease due to the increase in expense per day. Sources of cash include operating earnings before interest, depreciation and amortization for 2019 of \$333.1 million, a \$93.2 million gain on the Pooled Investment Portfolio and the proceeds from a \$47 million increase in the line of credit. Uses of cash includes \$90.5 million of total debt service and \$200.3 million of capital expenditures. As of December 31, 2019, OCF had \$100.2 million of donor restricted investments.

## **COVID-19**

On March 11, 2020, Governor John Bel Edwards issued a state of emergency due to the COVID-19 pandemic and subsequently issued a stay at home order effective March 23, 2020 that included limiting elective medical care and treatment through April 26, 2020. Ochsner has been in close contact with Local, State and National officials to help coordinate efforts in responding to the state of emergency including working with the Louisiana Governor’s office to ensure adequate ICU beds in the state and with the Trump administration and other hospitals to share ventilators through a dynamic ventilator reserve. OCF experienced a constant increase of COVID-19 patients in its hospitals until a peak of 973 patients on April 7<sup>th</sup>. Since then the COVID-19 census has declined steadily reaching 378 COVID-19 patients in its hospitals as of April 28<sup>th</sup>. OCF’s disaster response team was able to leverage its experiences from prior disasters to respond quickly to the community and patient needs arising from the pandemic by creating

capacity to care for these patients by opening additional ICU beds and redeploying staff to care for COVID-19 patients. Physicians, nurses and support staff transferred from other units to take care of COVID patients in the ICU. Non-clinical team members were redeployed to support the high demand areas. Supply chain quickly obtained personal protective equipment and ventilators to ensure an adequate supply. Ochsner's regional referral center provided centralized bed management for all Ochsner hospitals, moving patients between facilities to ensure adequate capacity at each hospital. The Greater New Orleans metropolitan area has seen a disproportionate share of COVID-19 cases and OCF has taken care of over 60% of the COVID-19 patients in the area.

OCF has also taken steps to meet patient needs during the stay at home order by ramping up virtual visits and testing. Ochsner increased patient availability to urgent care virtual visits through Ochsner Anywhere Care and virtual visits with providers through MyOchsner. Virtual visits went from less than 300 per day before the crisis to almost 4,000 virtual visits per day in a few weeks. Ochsner provided approximately 23,000 virtual visits during the first three months of 2020, compared to approximately 3,200 for the entire twelve months of 2019. Additionally, the system provided over 50,000 virtual visits in the month of April 2020 alone. At the end of March, Ochsner began performing COVID-19 testing in house and processed up to 1,600 COVID-19 tests per day. This helped alleviate the backlog of testing available in the region and provided results within 24 hours. In April, Ochsner started processing COVID-19 antibody tests and is planning a phased approach for testing providers, employees, patients and the community. Additionally, OCF is ensuring it is available to meet the needs of its patients by making sure facilities and staff are operational when time sensitive elective procedures resumed on April 27<sup>th</sup> and when the stay at home order is lifted, which currently expires May 15<sup>th</sup>. This includes extra measures for patient safety including mobile check in, dedicated hours for high risk patients, redesigned waiting rooms, increased environmental services and patient safety stations with personal protective equipment and hand sanitizer.

Ochsner continues to evaluate and take advantage of various programs, loans, grants and other payment acceleration programs. It will benefit from the suspension of Medicare sequestration, the delay of Disproportionate Share Hospital payments reduction and the 20% add-on to the DRG payment for inpatients admitted with COVID-19. In April it received \$200 million from the CMS Accelerated and Advance Payment Program. Ochsner also received \$50.7 million from the CARES Act, \$29.1 million from the first \$30 billion made available to hospitals under the CARES Act and \$21.6 million from the second \$20 billion made available to hospitals under the CARES Act. The Greater New Orleans MSA has seen the second highest number of per capita COVID-19 cases in the country, 31% higher than the third highest MSA and double the fourth highest MSA. OCF feels this disproportionate share of cases will make it eligible for a portion of the next CARES Act distribution of \$10 billion dedicated to hot spots. Ochsner also plans to take advantage of the delayed due dates for paying the employer portion of Social Security tax and defined benefit pension plan contributions until 2021. It is also in the process of applying for federal aid from the Federal Emergency Management Agency ("FEMA").

Ochsner has also taken steps to control spending that includes limiting travel, a hiring freeze on non-clinical employees and reductions to other general and administrative expenses. It has reduced the 2020 budget for capital projects by \$70 million, from \$220 million to \$150 million. It has also obtained payment advances from commercial payors. Additionally, it is in the process of renewing its existing operating line of credit with a commercial bank and has received a commitment for a second line of credit with another commercial bank of \$100 million.

OCF expects that the COVID-19 pandemic and the stay at home order will have a negative impact on near-term operations and its financial condition, but the ultimate impact is unknown.

## **Cash and Investments; Days Cash on Hand**

The table below includes Cash and Investments and Days Cash on Hand. Dollar amounts are in thousands.

	<b>Cash and Investments</b>		<b>Days Cash on Hand</b>	
	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2018</b>	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2018</b>
Monthly Liquidity	\$ 857,423	\$ 700,787	88	81
Liquidity greater than 30 days and less than one year	183,489	169,480	18	19
Locked Up (liquidity one year or more)	14,951	14,909	2	2
Total	\$ 1,055,863	\$ 885,176	108	102

## **Debt and Debt Service Coverage**

As of December 31, 2019 and 2018, OCF had \$1.3 billion in total long-term debt outstanding. The long-term debt to capitalization ratio for OCF was 58.0% in 2019 versus 62.0% in 2018.

<b>Debt Service Coverage Calculation:</b>	<b>2019</b>	<b>2018</b>
Income Available for Debt Service	\$347,316	\$341,233
Annual Debt Service	\$77,552	\$72,097
Annual Debt Service Coverage Ratio	4.5x	4.7x

As of December 31, 2019, and 2018, OCF had \$1.3 billion in total long-term debt outstanding.

<b>Series</b>	<b>Par Amt O/S</b>	<b>Final Maturity</b>	<b>Interest Mode</b>
<b>OCHSNER CLINIC FOUNDATION</b>			
Series 2015 Taxable New Money	252,820,000	5/15/2045	Fixed
Series 2015 Tax Exempt Refunding	106,505,000	5/15/2047	Fixed
Series 2016	154,060,000	5/15/2047	Fixed
Series 2017 New Money	160,220,000	5/15/2046	Fixed
Series 2017 Tax Exempt Refunding	259,450,000	5/15/2042	Fixed
March 2013 Note Payable <sup>(1)</sup>	5,311,451	3/31/2033	Fixed
December 2013 Note Payable <sup>(1)</sup>	43,525,677	12/31/2028	Fixed
July 2014 Note Payable <sup>(1)</sup>	65,871,199	8/15/2034	Fixed
December 2013 Promissory Note	8,472,916	12/30/2020	Variable <sup>(3)</sup>
October 2014 Promissory Note	14,666,667	10/31/2021	Fixed
September 2015 Promissory Note	18,000,000	9/30/2022	Variable <sup>(3)</sup>
September 2018 Promissory Note	27,423,636	9/1/2023	Fixed
October 2018 Promissory Note	3,770,233	9/30/2021	Fixed
2006 Working Capital Note <sup>(2)</sup>	9,041,840	5/1/2026	Variable
Software and Equipment Loans <sup>(2)</sup>	3,336,124	N/A	N/A
Financing Lease Obligations <sup>(2)(4)</sup>	118,392,591	N/A	N/A
<b>SUBTOTAL</b>	<b>1,250,867,334</b>		

Note:

(1) Not an obligation of a credit group member or a supplemental obligation of the Master Indenture.

(2) Not secured by an Obligation issued under the Master Indenture.

(3) Interest on this loan has been fixed through an interest rate swap agreement.

(4) Excludes operating lease liabilities.

**Ochsner Clinic Foundation and Subsidiaries**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2019 and 2018**  
**(\$ In Thousands)**

	<u>2019</u>	<u>2018<sup>A</sup></u>	<u>Difference</u>
Revenues:			
Patient service revenue	\$2,697,582	\$2,595,675	\$ 101,907
Premium revenue	341,052	318,453	22,599
Other operating revenue	793,763	504,342	289,421
Net assets released from restriction used for operations	6,769	5,155	1,614
Total revenues	<u>3,839,166</u>	<u>3,423,625</u>	<u>415,541</u>
Expenses:			
Salaries and wages	1,678,085	1,505,643	172,442
Benefits	180,111	150,727	29,384
Medical services to outside providers	150,312	140,491	9,821
Medical supplies and services	771,553	653,371	118,182
Other operating expenses	726,011	671,492	54,519
Depreciation and amortization	144,627	147,528	(2,901)
Interest	56,451	52,411	4,040
Total expenses	<u>3,707,150</u>	<u>3,321,663</u>	<u>385,487</u>
Income from operations	<u>132,016</u>	<u>101,962</u>	<u>30,054</u>
Non-operating gains (losses):			
Investment and other realized gains - net	14,933	34,557	(19,624)
Unrealized gains (losses) on investments - net	75,728	(68,569)	144,297
Pension (costs) credits	(823)	4,850	(5,673)
Total non-operating gains (losses)	<u>89,838</u>	<u>(29,162)</u>	<u>119,000</u>
Excess of revenues over expenses	<u>\$ 221,854</u>	<u>\$ 72,800</u>	<u>\$ 149,054</u>

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

**Ochsner Clinic Foundation and Subsidiaries**  
**Consolidated Balance Sheets**  
**As of December 31, 2019 and 2018**  
**(\$ In Thousands)**

	<b>2019</b>	<b>2018<sup>B</sup></b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 298,038	\$ 137,604
Assets limited as to use, required for current liabilities	10,180	7,630
Patient accounts receivable, net	282,705	271,331
Other receivables	202,338	149,190
Inventories	81,618	69,757
Prepaid expenses and other current assets	55,169	40,814
Estimated third-party payor settlements	32,565	27,448
Total current assets	962,613	703,774
Assets limited as to use:		
By Board for capital improvements, charity, research, and other	757,825	747,572
Under self-insurance trust fund	8,285	10,024
Donor-restricted long-term investments	100,220	82,010
Total assets limited as to use	866,330	839,606
Less assets limited as to use required for current liabilities	(10,180)	(7,630)
Non-current assets limited as to use	856,150	831,976
Investments in unconsolidated affiliates, real estate, and other	81,130	83,409
Property, net	1,244,864	1,171,795
Right of use asset from operating leases	229,050	-
Goodwill	72,411	72,411
Intangible assets	11,437	11,477
Other assets	38,009	50,167
Total assets	<b>\$3,495,664</b>	<b>\$2,925,009</b>

**Ochsner Clinic Foundation and Subsidiaries**  
**Consolidated Balance Sheets**  
**As of December 31, 2019 and 2018**  
**(\$ In Thousands)**

	<b>2019</b>	<b>2018<sup>B</sup></b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 220,219	\$ 205,582
Accrued salaries, wages, and benefits	213,407	190,359
Deferred revenue	43,371	39,476
Estimated third-party payor settlements	5,404	5,079
Notes payable, current	99,430	52,430
Long-term debt and bonds payable, current portion	32,471	19,666
Operating lease current liabilities	40,855	-
Other current liabilities	54,337	43,230
Total current liabilities	709,494	555,822
Pension and postretirement obligations	165,412	141,993
Bonds payable	973,402	980,831
Long-term debt	173,884	193,672
Operating lease long-term liabilities	201,025	-
Other long-term liabilities	138,727	118,094
Total liabilities	2,361,944	1,990,412
Net assets:		
Without donor restrictions	1,012,412	820,414
With donor restrictions	121,308	114,183
Total net assets	1,133,720	934,597
Total liabilities and net assets	\$3,495,664	\$2,925,009

Note B: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on their balance sheet. The provisions of ASU 2016-02 are effective for Ochsner starting January 1, 2019, including interim periods within that reporting period, and are being applied using a modified retrospective approach. As a result of adopting this ASU, operating lease assets and liabilities are shown separately above within the following financial statement line items: Right of use assets from operating leases, Operating lease current liabilities, and Operating lease long-term liabilities. Financing lease assets are \$128.4 million and are included within Property, net above. Current financing lease liabilities are \$8.9 million and are included within Other current liabilities above. Non-current financing lease liabilities are \$109.5 million and are included within Other long-term liabilities above.

**Ochsner Clinic Foundation**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2019 and 2018**  
**(In Thousands)**

	<u>2019</u>	<u>2018</u>
<u>Cash Flows from Operating Activities:</u>		
Increase in net assets	\$ 199,123	\$ 62,426
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Pension related changes other than net periodic pension costs	33,904	13,180
Depreciation and amortization	144,627	147,528
Loss (income) from equity-method investments, net of cash received	3,938	(1,040)
Net realized and unrealized (gains) losses on investments	(94,752)	37,910
Other reconciling items, net	2,566	(1,578)
Changes in operating assets and liabilities, net of acquisitions:		
Patient accounts receivable	(11,374)	(18,686)
Other current and noncurrent assets	(54,227)	(58,300)
Accounts payable	31,061	(12,420)
Accrued expenses and other liabilities	32,192	16,312
Net cash provided by operating activities	<u>287,058</u>	<u>185,332</u>
<u>Cash Flows from Investing Activities:</u>		
Purchases of assets whose use is limited and other investments	(249,051)	(152,872)
Sales and maturities of assets whose use is limited and other investments	316,579	246,905
Capital expenditures	(200,297)	(269,054)
Purchase of interest in equity-method investments	(1,075)	(35,349)
Acquisitions of businesses, net of cash acquired of \$2 and \$2,396 in 2019 and 2018, respectively	(1,217)	848
Other	2,344	936
Net cash used in investing activities	<u>(132,717)</u>	<u>(208,586)</u>
<u>Cash Flows from Financing Activities:</u>		
Proceeds from line of credit	47,000	-
Repayment of bonds payable and long-term debt	(26,455)	(15,885)
Payments on finance lease obligations	(16,264)	(10,245)
Proceeds from contributions restricted for long-term investments	1,812	587
Net cash provided by (used in) financing activities	<u>6,093</u>	<u>(25,543)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	160,434	(48,797)
Cash and Cash Equivalents, Beginning of Year	137,604	186,401
Cash and Cash Equivalents, End of Year	<u>\$298,038</u>	<u>\$137,604</u>

## OCHSNER CLINIC FOUNDATION UTILIZATION STATISTICS

	2017	2018	2019
Licensed Beds (1)	1,388	1,556	1,693
Average Number of Beds in Use (2)	1,365	1,527	1,677
Discharges Including Newborn	70,052	69,861	69,749
Discharges Excluding Newborn	63,597	63,329	62,854
Patient Days Including Newborn	342,561	343,507	349,713
Patient Days Excluding Newborn	327,929	328,927	334,552
Average Daily Census (3)	898	903	935
Percent Occupancy (3)	65.79%	59.16%	55.75%
Average Length of Stay	4.9	4.9	5.0
Adjusted Patient Days (3)	699,547	739,904	806,524
Clinic Visits (4)	2,012,588	2,243,621	2,488,343
Clinic RVUs	6,584,475	7,226,658	7,990,377
Unique Clinic Patients (5)	513,328	573,754	637,151
Employed Physician FTEs	995	1,080	1,183
Transfers through Regional Referral Center	10,691	11,173	11,688

	Ochsner Medical Center (6)	OMC West Bank	Ochsner St. Anne	OMC Baton Rouge (7)	OMC North Shore	OMC Kenner	Ochsner Baptist Med. Ctr.	OMC Hancock	Ochsner St. Mary	TOTAL
Licensed Beds (1)	673	162	35	162	150	110	135	102	164	1,693
Average Number of Beds in Use (2)	687	181	35	165	134	110	154	47	164	1,677
Discharges Including Newborn	27,057	8,218	1,983	8,123	4,208	7,443	10,996	1,223	498	69,749
Discharges Excluding Newborn	27,057	7,141	1,626	6,880	4,208	6,470	7,990	1,038	444	62,854
Patient Days Including Newborn	176,206	33,826	7,162	29,476	19,427	28,483	49,006	3,777	2,350	349,713
Patient Days Excluding Newborn	176,206	31,339	6,478	26,909	19,427	26,208	42,271	3,463	2,251	334,552
Average Daily Census (3)	483	86	18	74	53	72	116	9	24	935
Percent Occupancy (3)	70.23%	47.44%	50.71%	44.73%	39.72%	65.28%	75.20%	20.19%	14.92%	55.74%
Average Length of Stay	6.5	4.1	3.6	3.6	4.6	3.8	4.5	3.1	4.7	5
Adjusted Patient Days (3)	348,315	83,035	36,210	99,339	42,235	78,587	93,726	17,965	7,111	806,524

(1) Data excludes NICU and Nursery Beds.

(2) Data excludes Nursery beds, but includes NICU beds, a large number of beds in use will yield an amount greater than the number of licensed beds.

(3) Data excludes Normal Newborn Days.

(4) Data includes physician visits and resident visits. 2016 was restated to conform to the 2017 presentation.

(5) Data includes the numbers of patients seen in a 12 months rolling period.

(6) Data includes OMC, Ochsner West Campus, and Ochsner Hospital for Orthopedics and Sports Medicine.

(7) Data includes Ochsner Medical Center - Baton Rouge and Ochsner Medical Complex - The Grove.

**OCHSNER CLINIC FOUNDATION GROSS REVENUE BY PAYOR  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

<b>Payor Groupings</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Commercial	33%	33%
Managed Medicare	25%	26%
Medicare	20%	20%
Medicaid	18%	17%
Guarantor / Patients / Other	4%	4%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

CONSOLIDATED FINANCIAL STATEMENTS

Ochsner Clinic Foundation and Subsidiaries  
Years Ended December 31, 2019 and 2018  
With Report of Independent Auditors

Ernst & Young LLP



Ochsner Clinic Foundation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

**Contents**

Report of Independent Auditors .....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations .....	5
Consolidated Statements of Changes in Net Assets .....	6
Consolidated Statements of Cash Flows .....	7
Notes to Consolidated Financial Statements .....	8



Ernst & Young LLP  
3900 Hancock Whitney Center  
701 Poydras Street  
New Orleans, LA 70139

Tel: +1 504 581 4200  
Fax: +1 504 596 4233  
ey.com

## Report of Independent Auditors

The Board of Directors  
Ochsner Clinic Foundation and Subsidiaries

We have audited the accompanying consolidated financial statements of Ochsner Clinic Foundation and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management’s Responsibility for the Consolidated Financial Statements**

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

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ochsner Clinic Foundation and subsidiaries at December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Adoption of ASU No. 2016-02, *Leases (Topic 842)***

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

*Ernst + Young LLP*

April 21, 2020

Ochsner Clinic Foundation and Subsidiaries

Consolidated Balance Sheets  
(In Thousands)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 298,038	\$ 137,604
Assets limited as to use required for current liabilities	10,180	7,630
Patient accounts receivable	282,705	271,331
Accounts receivable other	202,338	149,190
Inventories	81,618	69,757
Prepaid expenses and other current assets	55,169	40,814
Estimated third-party payor settlements	32,565	27,448
Total current assets	<u>962,613</u>	<u>703,774</u>
Assets limited as to use:		
By Board for capital improvements, charity, research, and other	757,825	747,572
Under self-insurance trust fund	8,285	10,024
Donor-restricted long-term investments	100,220	82,010
Total assets limited as to use	<u>866,330</u>	<u>839,606</u>
Less assets limited as to use required for current liabilities	<u>(10,180)</u>	<u>(7,630)</u>
Non-current assets limited as to use	856,150	831,976
Investments in unconsolidated affiliates, real estate, and other	81,130	83,409
Property – net	1,244,864	1,171,795
Right of use asset from operating leases	229,050	–
Goodwill	72,411	72,411
Intangible assets	11,437	11,477
Other assets	38,009	50,167
Total assets	<u>\$ 3,495,664</u>	<u>\$ 2,925,009</u>

Ochsner Clinic Foundation and Subsidiaries

Consolidated Balance Sheets  
(In Thousands)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 220,219	\$ 205,582
Accrued salaries, wages, and benefits	213,407	190,359
Deferred revenue	43,371	39,476
Estimated third-party payor settlements	5,404	5,079
Notes payable – current	99,430	52,430
Long-term debt and bonds payable – current portion	32,471	19,666
Operating lease current liabilities	40,855	–
Other current liabilities	54,337	43,230
Total current liabilities	<u>709,494</u>	<u>555,822</u>
Pension and postretirement obligations	165,412	141,993
Bonds payable	973,402	980,831
Long-term debt	173,884	193,672
Operating lease long-term liabilities	201,025	–
Other long-term liabilities	138,727	118,094
Total liabilities	<u>2,361,944</u>	<u>1,990,412</u>
Commitments and contingencies (Notes 6 and 19)		
Net assets:		
Without donor restrictions	1,012,412	820,414
With donor restrictions	121,308	114,183
Total net assets	<u>1,133,720</u>	<u>934,597</u>
Total liabilities and net assets	<u>\$ 3,495,664</u>	<u>\$ 2,925,009</u>

See notes to financial statements.

Ochsner Clinic Foundation and Subsidiaries

Consolidated Statements of Operations  
(In Thousands)

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues:		
Patient service revenue	\$ 2,697,582	\$ 2,595,675
Premium revenue	341,052	318,453
Other operating revenue	793,763	504,342
Net assets released from restrictions used for operations	6,769	5,155
Total revenues	<u>3,839,166</u>	<u>3,423,625</u>
Expenses:		
Salaries and wages	1,678,085	1,505,643
Benefits	180,111	150,727
Medical services to outside providers	150,312	140,491
Medical supplies and services	771,553	653,371
Other operating expenses	726,011	671,492
Depreciation and amortization	144,627	147,528
Interest	56,451	52,411
Total expenses	<u>3,707,150</u>	<u>3,321,663</u>
Operating income	132,016	101,962
Non-operating gains (losses):		
Investment and other realized gains – net	14,933	34,557
Pension (cost) credit	(823)	4,850
Unrealized gains (losses) on investments – net	75,728	(68,569)
Total non-operating gains (losses)	<u>89,838</u>	<u>(29,162)</u>
Excess of revenues over expenses	<u>\$ 221,854</u>	<u>\$ 72,800</u>

*See notes to financial statements.*

Ochsner Clinic Foundation and Subsidiaries

Consolidated Statements of Changes in Net Assets  
(In Thousands)

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Changes in net assets without donor restrictions</b>		
Excess of revenues over expenses	\$ 221,854	\$ 72,800
Net assets released from restrictions used for capital acquisitions	4,307	15,511
Investment loss	(259)	–
Pension-related changes other than net periodic pension costs	(33,904)	(13,180)
Increase in net assets without donor restrictions	<u>191,998</u>	<u>75,131</u>
<b>Changes in net assets with donor restrictions</b>		
Contributions	12,826	10,797
Investment income (loss)	5,373	(2,836)
Net assets released from restrictions used for:		
Operations	(6,767)	(5,155)
Capital acquisitions	(4,307)	(15,511)
Increase (decrease) in net assets with donor restrictions	<u>7,125</u>	<u>(12,705)</u>
Increase in net assets	199,123	62,426
Net assets – beginning of year	934,597	872,171
Net assets – end of year	<u>\$ 1,133,720</u>	<u>\$ 934,597</u>

*See notes to financial statements.*

# Ochsner Clinic Foundation and Subsidiaries

## Consolidated Statements of Cash Flows (In Thousands)

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Increase in net assets	\$ 199,123	\$ 62,426
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension costs	33,904	13,180
Depreciation and amortization	144,627	147,528
Loss (income) from equity-method investments, net of cash received	3,938	(1,040)
Net realized and unrealized (gains) losses on investments	(94,752)	37,910
Other, net	2,566	(1,578)
Changes in operating assets and liabilities, net of acquisitions:		
Patient accounts receivable	(11,374)	(18,686)
Other current and non-current assets	(54,227)	(58,300)
Accounts payable	31,061	(12,420)
Accrued expenses and other liabilities	32,192	16,312
Net cash provided by operating activities	287,058	185,332
<b>Investing activities</b>		
Purchases of assets whose use is limited and other investments	(249,051)	(152,872)
Sales and maturities of assets whose use is limited and other investments	316,579	246,905
Capital expenditures	(200,297)	(269,054)
Purchase of interest in equity-method investments	(1,075)	(35,349)
Acquisition of businesses, net of cash acquired of \$2 and \$2,396 in 2019 and 2018, respectively	(1,217)	848
Other	2,344	936
Net cash used in investing activities	(132,717)	(208,586)
<b>Financing activities</b>		
Proceeds from line of credit	47,000	–
Repayment of bonds payable and long-term debt	(26,455)	(15,885)
Payments on finance lease obligations	(16,264)	(10,245)
Proceeds from contributions restricted for long-term investments	1,812	587
Net cash provided by (used in) financing activities	6,093	(25,543)
Net increase (decrease) in cash and cash equivalents	160,434	(48,797)
Cash and cash equivalents – beginning of year	137,604	186,401
Cash and cash equivalents – end of year	\$ 298,038	\$ 137,604

*See notes to financial statements.*

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2019

### **1. Summary of Significant Accounting Policies**

#### **Organization**

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

#### **Basis of Presentation and Principles of Consolidation**

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

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

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

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

#### Inventories

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

#### Pledges Receivable

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

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

	<b>2019</b>	<b>2018</b>
In one year or less	\$ 8,777	\$ 9,517
Between one and five years	16,152	17,655
Greater than five years	3,319	5,670
	<u>28,248</u>	<u>32,842</u>
Less discount (ranging from 0.00%–4.25% at December 31, 2019 and 2018) and allowance for uncollectible pledges	(1,773)	(2,170)
Pledges receivable – net	<u>\$ 26,475</u>	<u>\$ 30,672</u>

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

#### Investments

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

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

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

If the decline is evaluated as being other than temporary, the carrying value of the investment is written down and an impairment loss is recorded in non-operating gains and losses in the consolidated statements of operations. Ochsner did not record impairment losses on investment securities for the years ended December 31, 2019 and 2018.

#### Assets Limited as to Use

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Property – Net

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

	<u>Years</u>
Land improvements	5–25
Buildings and building improvements	10–40
Leasehold improvements	12–20
Equipment, furniture, and fixtures	2–20

##### Impairment of Long-Lived Assets

Ochsner evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. There were no impairment charges on long-lived assets recognized for the years ended December 31, 2019 or 2018.

##### Capitalization of Interest

Ochsner capitalizes interest expense on qualifying construction-in-progress expenditures based on an imputed interest rate estimating Ochsner's average cost of borrowed funds. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled approximately \$4.4 million and \$6.5 million for the years ended December 31, 2019 and 2018, respectively.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Goodwill and Intangible Assets**

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

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

Under the income approach, fair value is estimated using a discounted cash flow analysis. Under the market approach, fair value is estimated using a guideline company method and a comparable transaction method. Both the income approach and the market approach require significant assumptions to determine the fair value of the reporting unit. The significant assumptions used in the income approach include estimates of future revenues, profits, capital expenditures, working capital requirements, operating plans, industry data, and an appropriate discount rate for the reporting unit. The significant assumptions used in the market approach include the determination of appropriate market comparables and estimated multiples of net revenue and earnings before interest, taxes, depreciation, and amortization. OCF engaged a third-party valuation firm to assist in these fair value calculations. OCF performed Step 1 of the impairment test using a quantitative impairment analysis and concluded the fair value exceeded the carrying value, and no further action was required for 2019 or 2018.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Deferred Revenue**

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

In June 2017 and March 2018, Ochsner entered into a series of agreements with a third-party vendor for the construction, installation, and management of energy facilities used to process and distribute chilled water and steam at OMC and Ochsner Medical Complex – The Grove (located in Baton Rouge, Louisiana), respectively. Under the terms of a concession agreement, the third-party vendor obtained the right to use, control, and manage the energy assets and associated building space. Ochsner, in turn, purchases chilled water and steam generated from the third-party vendor. As part of the concession agreements, Ochsner received payments totaling approximately \$32.8 million from the third-party vendor. Ochsner recorded these payments as deferred revenue within the consolidated balance sheets. The associated revenue is being amortized and recognized over the lives of the agreements and is included in other operating revenue in the accompanying consolidated statements of operations. Deferred revenue associated with these agreements totaled \$28.5 million and \$30.8 million as of December 31, 2019 and 2018, respectively.

##### **Deferred Financing Costs**

In connection with the issuance of bonds and long-term debt, certain financing costs are being amortized over the respective lives of the bonds and long-term debt. These costs are approximately \$11.2 million and \$11.7 million net of accumulated amortization at December 31, 2019 and 2018, respectively, and are included as a reduction to bonds payable and long-term debt in the accompanying consolidated balance sheets.

##### **Derivative Financial Instruments**

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

##### **Accounting for Pension and Other Postretirement Plans**

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

##### **Net Assets**

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

##### *Net Assets Without Donor Restrictions*

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

##### *Net Assets With Donor Restrictions*

Net assets with donor restrictions are those assets, including contributions and accumulated investment returns, whose use by OCF has been limited by donors to a specific time, period, or purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity to provide a permanent source of income. Donor-restricted gifts are recorded as an addition to net assets with donor restrictions in the period received. Earnings on donor-restricted gifts are recorded as investment income in net assets with donor restrictions and subsequently used in accordance with the donor's designation.

### **Consolidated Statements of Operations**

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

### **Excess of Revenues Over Expenses**

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

### **Patient Service Revenue**

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

Performance obligations are determined based on the nature of the services provided by Ochsner. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Ochsner believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. Ochsner measures the performance

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Because its performance obligations relate to contracts with a duration of less than one year, Ochsner has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-60-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

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

Ochsner has agreements with third-party payors that generally provide for payments at amounts different from Ochsner's established rates. For uninsured patients who do not qualify for charity care, Ochsner recognizes revenue based on established rates, subject to certain discounts and implicit price concessions in accordance with policy. Ochsner determines the transaction price

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration Ochsner expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductible and coinsurance, which vary in amount. Ochsner estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

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

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

#### *Charity Care*

Ochsner provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided. Because Ochsner does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Ochsner estimates its costs of care provided under its charity care programs by applying a ratio of direct and indirect costs to charges to the gross foregone charges associated with providing care to charity patients. Ochsner's gross

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

charity care charges include only services provided to patients who are unable to pay and qualify under Ochsner's charity care policies. The ratio of cost to charges is calculated based on Ochsner's total expenses divided by gross patient revenue. During the years ended December 31, 2019 and 2018, the estimated costs incurred by Ochsner to provide care to patients who met certain criteria under its charity care policy were approximately \$36.8 million and \$27.9 million, respectively.

#### *Community Benefit*

Ochsner and four other health care providers have formed nonprofit organizations with the purpose of creating a vehicle to provide services to low-income and needy patients. Expenditures recorded by Ochsner to fund the organizations for the years ended December 31, 2019 and 2018, were approximately \$44.6 million and \$84.0 million, respectively. In 2019 and 2018, OCF made a \$5.0 million and a \$56.0 million payment, respectively, to OLHS-NL to promote common charitable goals through the support of educational opportunities for medical and clinical professionals in the provision of health care services for low-income and needy patients. These expenditures are included in other operating expenses in the consolidated statements of operations.

#### **Other Operating Revenue**

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

#### *Medicaid Managed Care Incentive Payment Program*

The Medicaid Managed Care Incentive Payment (MCIP) program was established during 2019 by the Louisiana Department of Health to achieve quality reforms that increase access to healthcare, improve the quality of care, and enhance the health of members of the Louisiana Medicaid managed care organizations. Contracted hospitals receive payments from an accountable care organization based on their participation and contribution to the outcomes. During 2019, Ochsner recognized \$59.8 million of MCIP revenue, which is recorded in other operating revenue based on the milestones achieved by the program and from serving as a manager in this program and has a \$30.5 million receivable included in accounts receivable other on the accompanying balance sheet at December 31, 2019.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported within net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Contributions for which restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue.

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

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

###### *Current Assets and Liabilities*

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

##### **Income Taxes**

Ochsner and its subsidiaries qualify as tax-exempt organizations under Section 501(a) and are described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated balance sheets. The statute of limitations remains open for tax years 2016 through 2019 in Ochsner's main tax jurisdictions.

##### **Concentration of Credit Risk**

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Risks and Uncertainties

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

##### Recently Adopted Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on their balance sheet. The pronouncement also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. The provisions of ASU 2016-02 were effective for Ochsner starting January 1, 2019, including interim periods within that reporting period, and were applied using a modified retrospective approach. The primary effect of the new standard was to record right-of-use assets and obligations for current operating leases. These amounts are recorded within right-of-use asset from operating leases, operating lease current liabilities, and operating lease long-term liabilities, within the consolidated balance sheets. Refer to Note 16 for additional information.

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

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

#### Pending Accounting Pronouncements

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

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

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

Ochsner endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period. There were no transfers between Level 1 and Level 2 in the years ended December 31, 2019 or 2018.

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

**Assets and Liabilities Measured at Fair Value**

*Recurring Fair Value Measurements*

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

	<b>Fair Value Measurements at Reporting Date Using</b>			
	<b>Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)<sup>(a)</sup></b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Estimated Fair Value</b>
<b>December 31, 2019</b>				
Money market funds	\$ 17,675	\$ –	\$ –	\$ 17,675
Fixed income investments	188,423	–	–	188,423
Marketable equity securities	158,553	–	–	158,553
Diversifiers	50,847	–	–	50,847
Natural resources and other	47,307	–	–	47,307
Total	<u>\$ 462,805</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 462,805</u>
<b>December 31, 2018</b>				
Money market funds	\$ 12,063	\$ –	\$ –	\$ 12,063
Fixed income investments	275,156	–	–	275,156
Marketable equity securities	92,310	–	–	92,310
Diversifiers	109,835	–	–	109,835
Natural resources and other	38,550	–	–	38,550
Total	<u>\$ 527,914</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 527,914</u>

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Alternative investments and other investments of approximately \$395.5 million and \$306.9 million at December 31, 2019 and 2018, respectively, are not included in these tables since they are accounted for using the equity method of accounting and not measured at fair value. As of December 31, 2019 and 2018, real estate investments of approximately \$7.6 million are not included in these tables since they are accounted for at cost.

Investment income and other gains and losses are classified as non-operating and comprise interest and dividend income of approximately \$11.5 million and \$13.8 million and realized net gains on sales of securities of approximately \$3.5 million and \$20.8 million for 2019 and 2018, respectively. Unrealized losses on alternative investments were approximately \$46.6 million and \$29.1 million during 2019 and 2018, respectively, and unrealized losses on investments other than alternative investments were approximately \$29.1 million and \$39.5 million during 2019 and 2018, respectively.

#### **3. Patient Service and Premium Revenue**

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

##### **Medicare and Medicaid**

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

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **3. Patient Service and Premium Revenue (continued)**

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

Settlements with third-party payors for retroactive adjustments due to review and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. Ochsner records retroactive Medicare and Medicaid settlements based upon estimates of amounts that are ultimately determined through annual cost reports filed with and audited by the fiscal intermediary, correspondence from the payor and Ochsner's historical settlement activity, including an assessment to ensure that it is probable that a significant revenue reversal in the amount of the cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits. Adjustments arising from a change in estimated settlements increased patient service revenue by \$2.1 million and \$1.4 million in 2019 and 2018, respectively.

#### **Medicaid Supplemental Payment Program**

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **3. Patient Service and Premium Revenue (continued)**

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

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

In 2019 and 2018, Ochsner recognized approximately \$150.7 million and \$244.0 million, respectively, in patient service revenue related to the Program and recorded accounts receivable of approximately \$20.0 million and \$2.2 million as of December 31, 2019 and 2018, respectively. Such amounts are included in accounts receivable other in the accompanying consolidated balance sheets.

#### **Humana Inc.**

Ochsner entered into a provider contract with Humana Inc. to provide services for its commercial and senior members on a fee-for-service basis for physician services and at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates for hospital services. Also, Ochsner provided services to approximately 36,000 senior members under a capitation contract for both physician and hospital services. Premium revenue from Humana Inc. under the capitation contract approximated \$341.1 million and \$318.5 million in 2019 and 2018, respectively, and is included in premium revenue in the accompanying consolidated statements of operations. Expenses for medical services to outside providers under the capitation contract approximated \$150.3 million and \$140.5 million in 2019 and 2018, respectively, and are included in medical services to outside providers in the accompanying consolidated statements of operations. Net revenue from Humana Inc. on a fee-for-service basis approximated \$246.8 million and \$216.2 million in 2019 and 2018, respectively, and is included in patient service revenue in the accompanying consolidated statements of operations.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 3. Patient Service and Premium Revenue (continued)

##### Managed Care

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

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

	2019	2018
Commercial	\$ 1,348,894	\$ 1,259,855
Medicare	489,501	461,722
Medicaid	462,419	522,434
Managed Medicare	380,627	337,980
Guarantor/patients/other	16,141	13,684
Patient service revenue	\$ 2,697,582	\$ 2,595,675

#### 4. Patient Accounts Receivable

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

	2019	2018
Commercial	\$ 166,079	\$ 164,171
Medicare	40,615	39,849
Medicaid	30,466	28,946
Managed Medicare	34,874	32,322
Guarantor/patients/other	10,671	6,043
Total patient accounts receivable – net	\$ 282,705	\$ 271,331

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Liquidity and Availability

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

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 298,038	\$ 137,604
Patients accounts receivable	282,705	271,331
Accounts receivable other	202,338	149,190
Assets limited to use by Board for capital improvements, charity, research, and other	757,825	747,572
	<b>\$ 1,540,906</b>	<b>\$ 1,305,697</b>

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

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

Ochsner also maintains a \$100.0 million credit line as discussed in Note 8.

#### 6. Property – Net

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

	<b>2019</b>	<b>2018</b>
Land and improvements	\$ 115,740	\$ 112,486
Buildings and leasehold improvements	1,180,992	997,514
Equipment, furniture, and fixtures	1,400,004	1,247,588
Construction-in-progress	86,011	217,600
Total property – at cost	2,782,747	2,575,188
Less accumulated depreciation	1,537,883	1,403,393
Property – net	<b>\$ 1,244,864</b>	<b>\$ 1,171,795</b>

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Property – Net (continued)

Depreciation expense including amortization of finance lease assets totaled approximately \$144.6 million and \$147.5 million for the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, Ochsner has purchase commitments totaling approximately \$25.5 million and \$49.5 million, respectively, toward additional capital expenditures.

#### 7. Goodwill and Intangible Assets

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

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

Ochsner has also completed other acquisitions, including the acquisition of Millennium Healthcare Management in 2017, that have resulted in additional goodwill and intangible assets.

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

	<u>2019</u>	<u>2018</u>
Goodwill	\$ 72,411	\$ 72,411
Trade name – intangible assets	\$ 11,433	\$ 11,433
Other – intangible assets	4	44
	<u>\$ 11,437</u>	<u>\$ 11,477</u>

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Notes Payable

Ochsner has a loan agreement with a bank that provides a credit line with maximum borrowings of \$100.0 million. The line of credit currently expires on June 4, 2020. Borrowings under the arrangement are unsecured; however, Ochsner must meet certain financial covenants. Ochsner was in compliance with these financial covenants at December 31, 2019 and 2018. As of December 31, 2019 and 2018, Ochsner had borrowings outstanding under this arrangement of approximately \$99.4 million and \$52.4 million, respectively. The interest rate on outstanding borrowings is based on the London Interbank Offered Rate (LIBOR) and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 2.94% and 3.60% at December 31, 2019 and 2018, respectively. All amounts are classified as current at December 31, 2019 and 2018.

#### 9. Bonds Payable

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

	2019	2018
Series 2017 tax-exempt bonds issued by the LPFA May 2017, due serially 2019–2037, then on term in 2042 and 2046, annual interest rates ranging from 4.00% to 5.00%	\$ 419,670	\$ 421,555
Series 2016 tax-exempt bonds issued by the LPFA May 2016, due serially 2023–2036, then on term in 2041 and 2047, annual interest rates ranging from 3.00% to 5.00%	154,060	154,060
Series 2015 tax-exempt bonds issued by the LPFA August 2015, due serially 2016–2035, then on term in 2040 and 2047, annual interest rates ranging from 2.00% to 5.00%	106,505	108,680
Series 2015 taxable bonds issued June 2015, due in 2045, annual interest rate at 5.90%	252,820	252,820
Total	933,055	937,115
Plus unamortized net bond premium	55,017	57,216
Less deferred financing costs	9,080	9,440
Less current portion	5,590	4,060
Non-current portion of bonds payable	\$ 973,402	\$ 980,831

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 9. Bonds Payable (continued)

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

Also, under the terms of the bond indenture, Ochsner is required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the consolidated financial statements. The bond indenture also places limits on the incurrence of additional borrowings by Ochsner and requires that it satisfy certain measures of financial performance as long as the bonds are outstanding. Ochsner was in compliance with these requirements at December 31, 2019 and 2018.

At December 31, 2019, scheduled repayments of principal and sinking fund installments to retire the bonds payable for the next five fiscal years are as follows (in thousands):

Years ending December 31:	
2020	\$ 5,590
2021	7,210
2022	7,580
2023	7,955
2024	8,365

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
Working capital note, due May 2026 (subject to six additional 5-year extensions), including accrued interest at rates varying from 1.01% to 1.96% during 2019 with a rate of 1.18% as of December 31, 2019	\$ 9,042	\$ 8,912
Note payable 4.61% Senior Secured Note, entered into March 2013, due March 2033	5,311	5,596
Note payable 5.26% Senior Secured Note, entered into December 2013, due December 2028	43,526	47,212
Promissory note entered into December 2013, due December 2020 with interest synthetically fixed at 3.97%	8,473	10,548
Note payable 5.09% Senior Secured Note, entered into July 2014, due August 2034	65,871	68,820
Promissory note entered into October 2014, due October 2021 with interest at 3.75%	14,667	16,133
Promissory note entered into September 2015, due September 2022 with interest synthetically fixed at 4.13%	18,000	21,000
Promissory note entered into September 2018, due September 2023 with interest at 2.47%	27,424	27,424
Promissory note entered into October 2018, due September 2021 with interest at 5.50%	3,770	5,767
Premium Financing Agreement entered into June 2019, due February 2020 with interest at 3.99%	3,437	–
Software and equipment loans, due varying dates in 2016–2019	3,336	148
Total long-term debt	<u>202,857</u>	<u>211,560</u>
Less deferred financing costs	2,092	2,281
Less unamortized discount	–	1
Less current portion	26,881	15,606
Non-current portion of long-term debt	<u>\$ 173,884</u>	<u>\$ 193,672</u>

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **St. Anne**

On May 1, 2006, Ochsner entered into lease and management services agreements with Lafourche Parish Hospital Service District No. 2 (Lafourche), which owned and operated St. Anne General Hospital and related facilities (St. Anne) of Raceland, Louisiana. Under the agreements, Ochsner leases the St. Anne buildings and facilities, purchased working capital and certain equipment of St. Anne, and operates the hospital for a specified period of time. As part of the agreement, Ochsner entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment for \$7.1 million. On June 1, 2015, Ochsner and Lafourche executed an amendment in which the aggregate principal and accrued interest amount of approximately \$8.4 million was extended to 2026 with six 5-year renewal options, to coincide with the lease agreement. The interest rate on the working capital note, based on the 5-Year Yield Tax Exempt Insured Revenue Bond Rate published by Bloomberg, was 1.18% and 2.16% at December 31, 2019 and 2018, respectively. All amounts are classified as non-current at December 31, 2019 and 2018, and are included in long-term debt on the consolidated balance sheets.

##### **March 2013 Note Payable**

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

##### **December 2013 Note Payable**

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **December 2013 Promissory Note**

Ochsner entered into a loan with a financial institution (the 2013 Loan) in the principal amount of \$20.8 million on December 31, 2013. The 2013 Loan is in the form of a promissory note bearing stated interest of 30-day LIBOR plus 2.00%. The security includes a pledge of all present and future accounts receivable of Ochsner and a mortgage of certain property. Principal and interest payments are due monthly based upon a 15-year (180-month) fixed principal payment amortization period with the balance of the outstanding principal due on a 7-year maturity date of December 30, 2020, and actual/360-day interest period. As part of a program to manage interest rate risk, OHS entered into an interest rate swap agreement on December 19, 2013, effective as of December 30, 2013. Ochsner pays a 1.97% fixed interest rate on the outstanding notional amount based on the outstanding principal balance of the 2013 Loan to the counterparty and receives the floating amount of 30-day LIBOR as of the date of rate-set. The effect of the swap agreement is to fix Ochsner's interest rate on the 2013 Loan at 3.97%. At December 31, 2019 and 2018, the fair value of the interest rate swap agreement was an asset of \$27,000 and \$84,000, respectively, and is included within other assets in the consolidated balance sheets.

##### **July 2014 Note Payable**

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

##### **October 2014 Promissory Note**

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **September 2015 Promissory Note**

Ochsner entered into a loan with a financial institution (the 2015 Loan) in the principal amount of \$30.0 million on September 30, 2015. The 2015 Loan is in the form of a promissory note bearing stated interest of 3-month LIBOR plus 2.25%. The security includes a pledge of all present and future accounts receivable of Ochsner and a mortgage of certain property. Principal and interest payments are due quarterly beginning January 1, 2016, based upon a 10-year fixed quarterly principal payment amortization period, with the balance of the outstanding principal due on a 7-year maturity date of September 30, 2022, and actual/360-day interest period. As part of a program to manage interest rate risk, OHS entered into an interest rate swap agreement on September 1, 2015, effective as of September 30, 2015. Ochsner pays a 1.88% fixed interest rate on the outstanding notional amount based on the outstanding principal balance of the 2015 Loan to the counterparty and receives the floating amount of 3-month LIBOR as of the date of rate-set. The effect of the swap agreement is to fix Ochsner's interest rate on the 2015 Loan at 4.13%. The fair value of the interest rate swap agreement was an asset of \$80,000 and \$367,000 at December 31, 2019 and 2018, respectively, and is included within other assets in the consolidated balance sheets.

##### **September 2018 Promissory Note**

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

##### **October 2018 Promissory Note**

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

At December 31, 2019, scheduled repayments of long-term debt for the next five fiscal years are as follows (in thousands):

Years ending December 31:	
2020	\$ 26,881
2021	26,647
2022	21,192
2023	35,925
2024	8,951

#### 11. Employee Benefit Plans

##### Defined Benefit Pension Plan

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

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Change in benefit obligation:		
Benefit obligation – beginning of year	\$ 537,076	\$ 577,926
Interest cost	22,862	21,074
Actuarial loss (gain)	69,097	(35,009)
Benefits paid	(28,745)	(26,915)
Benefit obligation – end of year	600,290	537,076
Change in plan assets:		
Fair value of plan assets – beginning of year	410,737	446,352
Actual return on plan assets	55,976	(22,584)
Employer contributions	11,553	13,883
Benefits paid	(28,746)	(26,914)
Fair value of plan assets – end of year	449,520	410,737
Funded status	\$ (150,770)	\$ (126,339)
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations	\$ (150,770)	\$ (126,339)
Unrestricted net assets	N/A	N/A
Amounts recognized in unrestricted net assets:		
Net actuarial loss	300,340	265,183
Total amounts recognized	300,340	265,183
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net loss	44,132	21,546
Recognized loss	(8,974)	(8,010)
Total amounts recognized	\$ 35,158	\$ 13,536

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

	<u>2019</u>	<u>2018</u>
Weighted average discount rate	3.27%	4.33%
Rate of compensation increase	N/A	N/A

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

	<u>2019</u>	<u>2018</u>
Interest cost	\$ 22,862	\$ 21,074
Expected return on plan assets	(31,011)	(33,972)
Amortization of net loss	8,974	8,010
Net periodic pension cost (benefit)	<u>\$ 825</u>	<u>\$ (4,888)</u>

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

	<u>2019</u>	<u>2018</u>
Weighted-average discount rate	4.33%	3.70%
Expected return on plan assets	7.70%	7.70%
Rate of compensation increase	N/A	N/A

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Observable Identical Assets and Liabilities (Level 1) <sup>(a)</sup>	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
<b>2019</b>				
Money market funds	\$ 16,764	\$ –	\$ –	\$ 16,764
Fixed income investments	14,954	–	–	14,954
Marketable equity securities	37,062	–	–	37,062
Absolute return	33,470	–	–	33,470
Natural resources	23,953	–	–	23,953
Total	<u>\$ 126,203</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 126,203</u>
<b>2018</b>				
Money market funds	\$ 7,953	\$ –	\$ –	\$ 7,953
Fixed income investments	15,263	–	–	15,263
Marketable equity securities	31,242	–	–	31,242
Absolute return	39,272	–	–	39,272
Natural resources	26,846	–	–	26,846
Total	<u>\$ 120,576</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 120,576</u>

<sup>(a)</sup> Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available.

These tables do not include Level 2 or 3 alternative investments of \$323.3 million and \$290.2 million at December 31, 2019 and 2018, respectively, which are measured at fair value using net asset value as a practical expedient.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The Defined Benefit Plan asset allocation as of the measurement dates (December 31, 2019 and 2018) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2019	2019 Target Allocation	2018
Debt securities	12%	15%	13%
Equity securities	44	40	38
Private equity/venture capital	2	2	3
Hedge funds	29	33	34
Natural resources/REITs	9	10	10
Other	4	–	2

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

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

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

# Ochsner Clinic Foundation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 11. Employee Benefit Plans (continued)

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

Ochsner currently expects to make a contribution to the Defined Benefit Plan of approximately \$22.8 million in 2020.

For 2019 and 2018, Ochsner's Defined Benefit Plan had accumulated benefit obligations of approximately \$600.3 million and \$537.1 million, respectively.

The estimated net loss for the Defined Benefit Plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is approximately \$10.2 million.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2019, are as follows (in thousands):

Years ending December 31:	
2020	\$ 30,562
2021	32,083
2022	33,426
2023	34,596
2024	35,551
2025–2029	183,283
	<u>\$ 349,501</u>

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Defined Contribution Plans**

All employees of Ochsner meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the Plan). Ochsner may annually elect to make a retirement contribution on behalf of eligible employees in an amount up to 2% of the participant's annual eligible compensation. In addition, Ochsner may annually elect to make a match for eligible employees of 50% of the first 4% the employees contribute into the Plan. At December 31, 2019 and 2018, OHS has accrued approximately \$34.9 million and \$32.4 million, respectively, for matching contributions to the Plan for the 2019 and 2018 fiscal years, respectively.

Certain Ochsner employees are also covered under a 457(f) plan. The 457(f) plan was created to replace 100% of the benefit target for employees under age 65 as of December 31, 2009, whose benefits in the Defined Benefit Plan were frozen. The participant pays taxes at vesting and payout occurs at the later of age 65 or retirement. Participants of the 457(f) plan also participate in the 401(k) contributions. OCF's accompanying consolidated balance sheets reflect a liability of approximately \$15.0 million and \$14.3 million for the 457(f) plan at December 31, 2019 and 2018, respectively.

##### **Other Postretirement Benefits**

Ochsner also provides certain health care and life insurance benefits for retired employees. Ochsner funds these benefits on a pay-as-you-go basis. The obligations under the postretirement plan are approximately \$1.3 million and \$1.2 million at December 31, 2019 and 2018, respectively.

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

Ochsner has 970 donor-restricted funds established for a variety of purposes. Endowment funds are classified and reported based on donor-imposed restrictions as net assets with donor restrictions. Net assets with donor restrictions include funds dedicated to Medical Education, Nursing Education, Pastoral Care, Biomedical Research, Cancer Research, Cardiology Research, Transplant Research, and Alzheimer's Research, and other purposes.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

UPMIFA requires that Ochsner preserve the historic dollar value of the donor-restricted endowed funds. As a result of this interpretation, Ochsner classifies as net assets with donor restrictions the aggregate fair market value of (1) an endowment fund at the time it became an endowment fund, (2) each subsequent donation to the fund at the time it is made, and (3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanent endowment is available for appropriation for expenditure by Ochsner in a manner consistent with the standard for expenditure prescribed by UPMIFA. Net assets with donor restriction available for appropriations as of December 31, 2019 and 2018, total approximately \$9.5 million and \$8.7 million, respectively.

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

	2019	2018
	<i>(In Thousands)</i>	
Research	\$ 37,977	\$ 34,704
Education	10,516	9,653
Other	72,815	69,826
Total	\$ 121,308	\$ 114,183

#### Endowment Net Asset Composition by Type of Fund as of December 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
	<i>(In Thousands)</i>		
Donor-restricted funds	\$ –	\$ 44,084	\$ 44,084
Board-designated funds	1,583	–	1,583
Total	\$ 1,583	\$ 44,084	\$ 45,667

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
	<i>(In Thousands)</i>		
Donor-restricted funds	\$ —	\$ 38,377	\$ 38,377
Board-designated funds	1,434	—	1,434
<b>Total</b>	<b>\$ 1,434</b>	<b>\$ 38,377</b>	<b>\$ 39,811</b>

**Changes in Endowment Net Assets for the Year Ended December 31, 2019**

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
	<i>(In Thousands)</i>		
Beginning balance	\$ 1,434	\$ 38,377	\$ 39,811
Investment gain	175	4,760	4,935
Contributions	—	1,794	1,794
Appropriations for expenditures	(26)	(847)	(873)
<b>Ending balance</b>	<b>\$ 1,583</b>	<b>\$ 44,084</b>	<b>\$ 45,667</b>

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

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
	<i>(In Thousands)</i>		
Beginning balance	\$ 1,559	\$ 41,246	\$ 42,805
Investment loss	(97)	(2,532)	(2,629)
Contributions	—	595	595
Appropriations for expenditures	(28)	(932)	(960)
<b>Ending balance</b>	<b>\$ 1,434</b>	<b>\$ 38,377</b>	<b>\$ 39,811</b>

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Funds With Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires Ochsner to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2019 or 2018.

##### **Return Objectives and Risk Parameters**

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

##### **Strategies Employed for Achieving Objectives**

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

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

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Business Combinations**

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

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

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

On October 1, 2019, Ochsner completed an agreement to lease Teche Regional Medical Center, a 164-bed acute care hospital, a related medical office building, and equipment in Morgan City, Louisiana. As part of this transaction, Ochsner paid cash of \$1.2 million to acquire certain current assets and assumed liabilities of \$1.1 million. Ochsner also acquired the provider number and renamed the facility Ochsner St. Mary. Ochsner has accounted for this lease as an operating lease and will make lease payments of approximately \$1.5 million over the 10-year lease term. Results of Ochsner St. Mary have been included in Ochsner's consolidated financial statements from the transaction date.

During 2019 and 2018, Ochsner completed several physician practice acquisitions, none of which were material to the results of operations.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Strategic Partnerships and Affiliation Agreements**

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

Ochsner now has strategic partnerships and clinical affiliations with Lafayette General Health and CHRISTUS Health Louisiana.

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

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

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

#### *Subsequent Event:*

On March 31, 2020, Ochsner and Lafayette General Health System, Inc. (LGHS) signed a Shared Mission Agreement to create a combined integrated healthcare delivery system. Pursuant to the agreement, Ochsner will become the sole corporate member of LGHS, with both parties having appointment rights to the Board of Directors. Among other things, the parties agreed to invest \$465 million in capital and operating expenditures into the LGHS market over the first ten years following the closing. The closing is expected to occur before the end of the third quarter of 2020, subject to completing additional due diligence and regulatory approvals.

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**14. Equity Method Investments and Joint Ventures**

**Investment in Equity Investees**

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

	<b>Ownership Interest</b>	<b>Investment in Equity Investees</b>	<b>Equity in Income (Loss) of Equity Investees</b>
<b>2019</b>			
Southeast Louisiana Homecare LLC	25%	\$ 2,444	\$ (426)
Louisiana Extended Care Hospital of Kenner, LLC	25%	–	–
OSR Louisiana, LLC	49%	–	–
Ochsner-Acadia, LLC	25%	5,920	43
OMC West JV, LLC	49%	5,096	400
NSR Louisiana LLC	30%	–	(933)
Northshore Extended Care Hospital	16%	131	(250)
CHRISTUS Health Southwestern Louisiana	40%	63,957	(1,894)
		<u>\$ 77,548</u>	<u>\$ (3,060)</u>
<b>2018</b>			
Southeast Louisiana Homecare LLC	25%	\$ 2,981	\$ 307
Louisiana Extended Care Hospital of Kenner, LLC	25%	–	(356)
OSR Louisiana, LLC	49%	–	(172)
Ochsner-Acadia, LLC	25%	5,878	(708)
OMC West JV, LLC	49%	5,380	47
NSR Louisiana LLC	30%	237	–
CHRISTUS Health Southwestern Louisiana	40%	65,850	3,426
		<u>\$ 80,326</u>	<u>\$ 2,544</u>

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Ochsner has three joint ventures with LHC Group, Inc.; Southeast Louisiana Homecare LLC, a home health care agency, Louisiana Extended Care Hospital of Kenner, LLC a 32-bed long-term acute care unit and Northshore Extended Care Hospital, 58-bed long-term acute care hospital on the Northshore. Ochsner owns a 25% interest in Southeast Louisiana Homecare, a 25% interest in Louisiana Extended Care Hospital of Kenner and a 16% interest in Northshore Extended Care Hospital. The results of these joint ventures were not material to Ochsner's consolidated financial statements in 2019 or 2018.

Ochsner has two joint ventures with Select Medical Corporation. OSR Louisiana, LLC, is a 60-bed, acute inpatient rehabilitation hospital. The joint venture commenced patient service operations at the new facility in April 2018. On August 22, 2018, Ochsner entered into a joint venture with Select Medical Corporation, St. Tammany Parish Hospital, and Slidell Memorial Hospital to own and operate an inpatient rehabilitation hospital on the Northshore, NSR Louisiana, LLC. Ochsner purchased a 30% interest and the facility opened in September 2019. The results of these joint venture were not material to Ochsner's consolidated financial statements in 2019 or 2018.

On May 17, 2016, Ochsner formed a joint venture, Ochsner-Acadia, LLC (d/b/a River Place Behavioral Health), with Acadia Healthcare (Acadia) to open and operate an 82-bed behavioral health facility in Laplace, Louisiana. Ochsner contributed the facility for a 25% interest in the joint venture and Acadia contributed the facility build-out, equipment, and working capital. The facility opened in November 2017. The results of the joint venture's operations were not material to its consolidated financial statements in 2019 or 2018.

On December 20, 2017, Ochsner entered into a joint venture with a commercial real estate company to form OMC West JV, LLC (OMC West). The focus of the new partnership is to own and provide property management for a medical building located at 2614 Jefferson Highway in Jefferson, Louisiana. The five-story, 129,875 square-foot medical building houses three separate health care components, including long-term acute care, inpatient rehabilitation, and a skilled nursing facility. Ochsner is the lessee of the building and makes minimum lease payments to OMC West for this lease totaling approximately \$43.5 million at inception over 10 years. Ochsner also subleases space to its equity-method investments OSR Louisiana, LLC, and Louisiana Extended Care Hospital of Kenner, LLC, and at inception, will receive approximately \$39.8 million over 10 years. These lease amounts are included in Ochsner's lessee and lessor commitments disclosed in Note 18 to the consolidated financial statements. The results of Ochsner's equity-method investment in OMC West were not material in 2019 or 2018.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

In March 2018, Ochsner signed a membership interest purchase agreement with CHRISTUS Health (CHRISTUS) to acquire a 40% minority ownership interest in CHRISTUS Health Southwestern Louisiana (SWLA) in exchange for cash of \$35.0 million and a promissory note of \$27.8 million. SWLA owns and operates health care facilities and operations related to physician practices in Louisiana, including CHRISTUS St. Patrick Hospital, CHRISTUS Lake Area Medical Center, and various clinical facilities. CHRISTUS St. Patrick Hospital is a 50-bed hospital and CHRISTUS Lake Area Medical Center is an 88-bed, full-service acute care hospital in Lake Charles, Louisiana. This agreement was finalized September 1, 2018, once regulatory approval was received.

*Subsequent Event:*

On January 1, 2020, Southeast Louisiana Homecare LLC acquired Egan Home Health and Hospice for \$12,500,000. Ochsner contributed \$3,125,000 in cash in relation to this acquisition to maintain a 25% ownership in Southeast Louisiana Homecare LLC.

#### **15. Electronic Health Records Services Agreements**

In order to develop a better clinical integration and provide cost savings for its JOA partners and equity-method investments, Ochsner has entered into EHR services and hosting agreements to implement and support a common EHR system. During 2015, Ochsner implemented its EHR system at STPH and continues to host and maintain it. During 2017, Ochsner implemented its EHR system at TGMC, the clinics of SMH, and its equity-method investment with Acadia and continues to host and maintain them. During 2018, Ochsner implemented its EHR system with its equity method investment in Louisiana Extended Care Hospital of Kenner, LLC and continues to host and maintain it. During 2019, Ochsner implemented its EHR system for SMH hospital, Northshore Extended Care Hospital, and OLHS-NL.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **16. Leases**

Ochsner adopted ASU No. 2016-02, *Leases (Topic 842)*, which requires leases with durations greater than 12 months to be recognized on the balance sheet, effective January 1, 2019, using the modified retrospective approach. The primary effect of adoption of the new standard was the recording of right-of-use asset and operating lease liabilities of approximately \$230.0 million. Prior period financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. Ochsner elected the package of practical expedients which allowed historical assessments of whether contracts are or contain leases, the lease classification, and the treatment of initial direct costs to be carried forward.

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

Ochsner Clinic Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**16. Leases (continued)**

The following table presents Ochsner's lease-related assets and liabilities (in thousands):

	<b>Balance Sheet Classification</b>	<b>December 31, 2019</b>
Assets:		
Operating leases	Right-of-use asset from operating leases	\$ 229,050
Financing leases	Property – net	128,358
Total lease assets		\$ 357,408
Liabilities:		
Current:		
Operating leases	Operating lease current liabilities	\$ 40,855
Financing leases	Other current liabilities	8,908
Noncurrent:		
Operating leases	Operating lease long-term liabilities	201,025
Financing leases	Other long-term liabilities	109,485
Total lease liabilities		\$ 360,273
Weighted-average operating leases remaining lease term		10 years
Weighted-average finance leases remaining lease term		18 years
Weighted-average operating lease discount rate		2.3%
Weighted average finance lease discount rate		6.1%

The table below summarizes the components of lease cost by lease type for the year ended December 31, 2019 (in thousands):

**Lease Costs**

Operating lease cost	\$ 70,140
Amortization of finance lease assets	8,661
Interest on lease liabilities	5,859

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 16. Leases (continued)

##### Maturities of Lease Liabilities

The following schedule summarizes Ochsner's future annual minimum rental commitments on outstanding leases as of December 31, 2019 (in thousands):

	<b>Lease Obligations</b>	
	<b>Finance</b>	<b>Operating</b>
2020	\$ 12,199	\$ 43,171
2021	13,448	38,413
2022	11,342	32,311
2023	10,285	26,330
2024	9,372	19,892
Thereafter	154,110	110,168
Total minimum lease payments	210,756	270,285
Less amounts representing interest	(92,363)	(28,405)
	118,393	241,880
Less current maturities	(8,908)	(40,855)
Lease obligations – non-current	\$ 109,485	\$ 201,025

Supplemental cash flow information related to leases is as follows:

Cash paid for amounts included in the measurement of operating lease liabilities was \$68.4 million in operating cash outflows for operating leases for the year ended December 31, 2019.

Right-of-use assets obtained in exchange for lease obligations were \$41.9 million in operating leases for the year ended December 31, 2019.

Rent expense, which includes operating leases and cancelable short-term rental agreements, was approximately \$64.0 million for the year ended December 31, 2018. At December 31, 2018, cost and accumulated depreciation on equipment acquired under capital lease obligations were \$93.2 million and \$18.7 million respectively. Amortization expense applicable to the capital lease assets is included in depreciation and amortization in the accompanying consolidated statements of operations.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 16. Leases (continued)

##### Operating Leases – Lessor

Ochsner leases office space to other businesses. Lease terms generally range from one to four years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals, and all rental revenue has been recorded on a straight-line basis. Following is a schedule by year of future minimum rental payments under non-cancelable operating leases as of December 31, 2019 (in thousands):

Years ending December 31:		
2020	\$	7,283
2021		4,910
2022		4,617
2023		4,448
2024		4,287
Thereafter		14,127
Total minimum lease payments to be received	<u>\$</u>	<u>39,672</u>

#### 17. Functional Expenses

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

	Functional Expenses as of December 31, 2019						
	Health Care Services	Medical Education	Research	Fitness Center	Hotel	General and Administrative	Total
	<i>(In Thousands)</i>						
Salaries, wages, and benefits	\$1,389,663	\$ 27,820	\$ 15,350	\$ 7,203	\$ 1,467	\$ 416,693	\$ 1,858,196
Medical services to outside providers	150,312	–	–	–	–	–	150,312
Medical supplies and services	770,886	46	610	7	4	–	771,553
Other operating expenses	243,452	6,833	3,009	4,764	1,715	466,238	726,011
Depreciation and amortization	55,195	691	706	731	450	86,854	144,627
Interest	3,584	–	–	–	167	52,700	56,451
	<u>\$2,613,092</u>	<u>\$ 35,390</u>	<u>\$ 19,675</u>	<u>\$ 12,705</u>	<u>\$ 3,803</u>	<u>\$ 1,022,485</u>	<u>\$ 3,707,150</u>

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 17. Functional Expenses (continued)

Functional Expenses as of December 31, 2018							
	Health Care Services	Medical Education	Research	Fitness Center	Hotel	General and Administrative	Total
<i>(In Thousands)</i>							
Salaries, wages, and benefits	\$1,271,029	\$ 22,538	\$ 13,438	\$ 6,448	\$ 1,407	\$ 341,510	\$ 1,656,370
Medical services to outside providers	140,491	–	–	–	–	–	140,491
Medical supplies and services	653,164	61	128	15	3	–	653,371
Other operating expenses	212,790	6,730	2,594	4,779	1,575	443,024	671,492
Depreciation and amortization	47,708	820	579	747	472	97,202	147,528
Interest	2,166	–	–	–	233	50,012	52,411
	\$2,327,348	\$ 30,149	\$ 16,739	\$ 11,989	\$ 3,690	\$ 931,748	\$3,321,663

#### 18. Supplemental Disclosures of Cash Flow Information

	Year Ended December 31,	
	2019	2018
<i>(In Thousands)</i>		
Cash paid for interest (net of amounts capitalized)	\$ 52,094	\$ 52,859
Supplemental non-cash investing and financing activities:		
Property purchases included in accounts payable	\$ 21,108	\$ 37,553
Property purchases financed by finance leases and long-term debt	\$ 51,957	\$ 72,361
Purchase of interest in equity-method investment financed by long-term note	\$ –	\$ 27,424
Acquisitions of businesses financed by capital leases and long-term debt	\$ –	\$ 20,839

#### 19. Commitments and Contingencies

##### Professional and General Liability Insurance

Professional and general liability claims have been asserted against Ochsner by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. Incidents occurring through December 31, 2019, may result in the assertion of additional claims.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **19. Commitments and Contingencies (continued)**

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

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

Professional liability claims are limited by Louisiana statute to \$500,000 per occurrence, the first \$100,000 of which is payable by the health care provider and the remainder of which is payable by the Patient's Compensation Fund (the Fund) for participants in the Fund. The Fund was established by the Medical Malpractice Act (the Act), which was enacted in 1975 by the state of Louisiana. The Act established the Fund and limited recovery in medical malpractice cases to \$500,000. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by Ochsner for participation in the Fund for the years ended December 31, 2019 and 2018, were approximately \$20.6 million and \$18.2 million, respectively, and are included in other operating expenses in the accompanying consolidated statements of operations.

Ochsner has an established trust fund held by a financial institution. Disbursements are made from the trust fund for self-insured professional and general liability claims, claims administration costs, and legal fees. The amounts to be contributed to the trust funds are determined annually by an independent actuary. The trust fund assets for Ochsner in the aggregate totaled approximately \$8.3 million and \$10.0 million at December 31, 2019 and 2018, respectively. The trust fund assets are included in assets limited as to use under self-insurance trust fund in the accompanying consolidated balance sheets. The estimated liability recorded by Ochsner in the aggregate for claims, based on the actuarial report, is approximately \$15.6 million with no estimated reinsurance recoveries at December 31, 2019, and \$14.3 million with no estimated reinsurance recoveries at December 31, 2018. The estimated liability is included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. The estimated liability for Ochsner was discounted at approximately 2.5% at both December 31, 2019 and 2018. If the risk management program is terminated, the trust fund balances, if any, revert to Ochsner after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **19. Commitments and Contingencies (continued)**

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

Ochsner is self-insured for workers' compensation and employee health claims. The estimated liability for workers' compensation and employee health claims totaled approximately \$24.3 million and \$21.1 million at December 31, 2019 and 2018, respectively, which is included in accrued salaries, wages, and benefits; other current liabilities; and other long-term liabilities in the accompanying consolidated balance sheets.

##### **Property Insurance**

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

##### **Contingencies**

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

The Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare and Medicaid overpayments and underpayments made to providers. RACs are compensated based on the amount of both overpayments and underpayments they identify by reviewing claims submitted to Medicare for correct coding and medical necessity. Payment recoveries resulting from RAC reviews are

## Ochsner Clinic Foundation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **19. Commitments and Contingencies (continued)**

appealable through administrative and judicial processes. Payment recoveries and denials resulting from RAC reviews can be appealed through administrative and judicial processes, and management intends to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, Ochsner will incur additional costs to respond to requests for records and to pursue the reversal of payment denials. Ochsner expects the RACs will continue to seek CMS approval to review additional issues.

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

#### **20. Subsequent Events**

Ochsner has evaluated subsequent events through April 21, 2020, the date the accompanying consolidated financial statements were available for issuance.

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. Ochsner has developed and implemented several emergency response and infectious disease practices and policies in order to care for COVID-19 patients. The COVID-19 outbreak could adversely impact Ochsner's consolidated results of operations and financial condition. Any such impact is presently unknown, as the scale and severity of the COVID-19 outbreak are still evolving.

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