

Woman's 
Hospital

2019

Financial Statements

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Woman's Hospital Foundation
d/b/a Woman's Hospital
Baton Rouge, Louisiana

Report on Financial Statements

We have audited the accompanying consolidated financial statements of The Woman's Hospital Foundation, d/b/a Woman's Hospital (the Hospital), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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 Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of The Woman's Hospital Foundation, d/b/a Woman's Hospital, as of September 30, 2019 and 2018, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the Hospital adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current fiscal year. Our opinion is not modified with respect to this matter.

Postlethwaite & Netterville

Baton Rouge, Louisiana
February 10, 2020

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018

ASSETS

	2019	2018
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 122,935,151	\$ 129,296,401
Short-term investments	26,750,693	25,937,035
Total cash and short-term investments	149,685,844	155,233,436
Assets limited as to use	10,284,063	-
Patient accounts receivable, net of allowances for doubtful accounts of \$8,342,002 at September 30, 2018	42,670,003	37,392,563
Estimated third-party payor settlements	1,244,316	1,888,738
Inventories	5,397,419	4,933,625
Other current assets	14,451,206	15,128,735
Total current assets	223,732,851	214,577,097
<u>ASSETS LIMITED AS TO USE</u>		
Held by trustee in accordance with bond indentures	10,284,063	-
Held by the Baton Rouge Area Foundation on behalf of the Hospital and the Foundation for Woman's	1,091,771	1,050,209
Internally designated for Founders and Friends	7,691,554	7,377,932
Donor restricted for capital improvements	1,250,000	1,250,000
Certificates of deposit	751,228	743,643
Internally designated for funded depreciation	237,759,817	228,944,419
Total assets whose use is limited	258,828,433	239,366,203
Less: amounts required to meet current liabilities	(10,284,063)	-
Noncurrent assets whose use is limited	248,544,370	239,366,203
<u>PROPERTY AND EQUIPMENT, net</u>	385,592,522	393,354,010
<u>OTHER ASSETS</u>		
Goodwill	6,514,422	6,514,422
Other	8,826,967	8,683,278
Total other assets	15,341,389	15,197,700
TOTAL ASSETS	\$ 873,211,132	\$ 862,495,010

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

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt	\$ 7,070,000	\$ 6,935,000
Accrued interest payable	5,503,262	5,552,074
Accounts payable	4,392,713	5,095,599
Accrued expenses	20,961,409	19,865,808
Accrued contribution for the retirement plan	2,464,711	2,252,022
Estimated third-party payor settlements	200,000	200,000
Other current liabilities	20,747	20,812
Credit balances in patient accounts receivable	3,181,346	1,605,177
Total current liabilities	<u>43,794,188</u>	<u>41,526,492</u>
<u>LONG -TERM DEBT, net of current portion</u>		
Long-term debt, net of current portion	290,280,000	297,350,000
Unamortized bond premium	23,495,927	24,422,461
Less: deferred financing costs	(1,448,129)	(1,561,873)
Total long-term debt	<u>312,327,798</u>	<u>320,210,588</u>
<u>TOTAL NET ASSETS</u>		
Controlling interest - without donor restrictions	512,056,542	496,432,400
Controlling interest - with donor restrictions	3,979,712	3,279,722
Total controlling interest	516,036,254	499,712,122
Noncontrolling interest	1,052,892	1,045,808
Total net assets	<u>517,089,146</u>	<u>500,757,930</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 873,211,132</u>	 <u>\$ 862,495,010</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<u>OPERATING REVENUES</u>		
Patient service revenues, net of contractual allowances		\$ 277,141,591
Less: provision for doubtful accounts		4,750,466
Net patient service revenue	\$ 266,958,767	272,391,125
Other operating revenues	23,218,919	16,634,925
Investment revenues	8,925,133	6,540,908
Total operating revenues	299,102,819	295,566,958
<u>OPERATING EXPENSES</u>		
Salaries, wages, and FICA	133,975,291	133,966,929
Employee benefits	24,276,300	21,390,570
Medical supplies and drugs	27,600,388	26,458,624
Other operating expenses	65,878,761	57,579,770
Total operating expenses before depreciation, amortization, interest, and goodwill impairment	251,730,740	239,395,893
Depreciation and amortization	18,755,065	19,433,860
Interest expense	11,476,140	11,364,918
Goodwill impairment	-	420,788
Total operating expenses	281,961,945	270,615,459
INCOME FROM OPERATIONS	17,140,874	24,951,499
Contributions	647,480	859,186
Other revenues, net	3,257,651	3,146,158
	3,905,131	4,005,344
EXCESS OF REVENUES OVER EXPENSES	21,046,005	28,956,843

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

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
EXCESS OF REVENUES OVER EXPENSES	\$ 21,046,005	\$ 28,956,843
Unrealized gains (losses) on investment securities	(5,595,566)	4,148,812
Net assets released from restrictions	227,205	498,538
Less: increase in unrestricted net assets attributable to noncontrolling interest	<u>(53,502)</u>	<u>(56,220)</u>
INCREASE IN NET ASSETS WITHOUT RESTRICTIONS	<u>15,624,142</u>	<u>33,547,973</u>
Contributions	927,195	1,373,943
Net assets released from restrictions	<u>(227,205)</u>	<u>(498,538)</u>
Net increase in net assets with restrictions	<u>699,990</u>	<u>875,405</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO THE WOMAN'S HOSPITAL FOUNDATION	16,324,132	34,423,378
Increase in net assets attributable to noncontrolling interest	<u>53,502</u>	<u>56,220</u>
INCREASE IN NET ASSETS	<u><u>\$ 16,377,634</u></u>	<u><u>\$ 34,479,598</u></u>

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

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	Controlling Interest		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Controlling Interest
Balance at September 30, 2017	\$ 462,884,427	\$ 2,404,317	\$ 465,288,744
Increase in net assets for the year ended September 30, 2018	33,547,973	875,405	34,423,378
Distributions to noncontrolling interests	-	-	-
Balance at September 30, 2018	496,432,400	3,279,722	499,712,122
Increase in net assets for the year ended September 30, 2019	15,624,142	699,990	16,324,132
Distributions to noncontrolling interests	-	-	-
Balance at September 30, 2019	\$ 512,056,542	\$ 3,979,712	\$ 516,036,254

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

<u>Noncontrolling Interests</u>	<u>Total Net Assets</u>
\$ 1,742,947	\$ 467,031,691
56,220	34,479,598
<u>(753,359)</u>	<u>(753,359)</u>
1,045,808	500,757,930
53,502	16,377,634
<u>(46,418)</u>	<u>(46,418)</u>
<u>\$ 1,052,892</u>	<u>\$ 517,089,146</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase in net assets	\$ 16,377,634	\$ 34,479,598
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation	18,755,065	19,417,081
Amortization	(812,790)	(810,256)
Goodwill impairment	-	420,788
Net unrealized gains on securities	5,595,566	(4,148,812)
Realized gains on sales of securities	(2,298,178)	(2,349,722)
Provision for doubtful accounts	-	4,750,466
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,701,271)	(9,686,403)
Inventories	(463,794)	(644,529)
Other current assets	677,529	(2,826,620)
Other assets	(143,689)	(4,589,695)
Estimated third-party payor settlements	644,422	180,367
Accounts payable	(702,886)	93,755
Accrued expenses and other liabilities	1,308,225	(12,107,971)
Interest payable	(48,812)	2,643,046
Net cash provided by operating activities	35,187,021	24,821,093
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisitions of property and equipment	(10,993,577)	(29,965,086)
Net sales (purchases) of short-term investments	(813,658)	(188,306)
Proceeds from sales of investments whose use is limited	11,240,382	27,341,875
Purchases of investments whose use is limited	(34,000,000)	(74,000,000)
Net cash used in investing activities	(34,566,853)	(76,811,517)

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

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on long-term debt	\$ (6,935,000)	\$ (2,090,000)
Distributions paid to noncontrolling interest	(46,418)	(753,359)
Net cash used in financing activities	(6,981,418)	(2,843,359)
Net increase (decrease) in cash and cash equivalents	(6,361,250)	(54,833,783)
Cash and cash equivalents at beginning of year	129,296,401	184,130,184
Cash and cash equivalents at end of year	\$ 122,935,151	\$ 129,296,401
 <u>Supplemental disclosure of cash flow information:</u>		
Cash paid during the year for interest	\$ 12,337,742	\$ 9,534,818

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

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies

The accounting and reporting policies of The Woman's Hospital Foundation, d/b/a Woman's Hospital (the Hospital), conform to the accounting principles generally accepted in the United States and the prevailing practices within the healthcare industry. The significant accounting policies used by the Hospital in preparing and presenting its consolidated financial statements are summarized as follows:

Organization

The Woman's Hospital Foundation, d/b/a Woman's Hospital (the Hospital), is a private not-for-profit healthcare organization located in Baton Rouge, Louisiana. The Hospital operates a specialized facility which provides obstetric, gynecological, breast health, newborn, and neonatal services for women, infants, and children in Baton Rouge and surrounding areas. Admitting physicians are primarily practitioners in the local area.

The Hospital is the sole member of the Foundation for Woman's (the Foundation) which was organized for the purposes of promoting the welfare of the Hospital and increasing the usefulness of the Hospital to Baton Rouge and the surrounding areas.

The Hospital also holds a greater than 50% interest in both Woman's Retail Ventures, LLC and Stumberg Land, LLC. These companies are limited liability companies owned by Woman's Hospital and outside investors that are primarily physicians.

Consolidation

The consolidated financial statements include the accounts of the Woman's Hospital Foundation, d/b/a Woman's Hospital; its 100% owned subsidiaries, The Woman's Hospital Auxiliary and the Foundation for Woman's; and majority interests in Woman's Retail Ventures, LLC, and Stumberg Land, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

The Hospital prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which requires the Hospital to report financial information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Hospital. These net assets may be used at the discretion of the Hospital's management and the board of directors.

Net assets with donor restrictions - net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies (continued)

New accounting pronouncements adopted - presentation of financial statements

On August 18, 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under the ASU, the number of net asset classes is decreased from three to two; enhanced disclosure of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how it manages its liquid available resources and liquidity risk is required.

The Hospital has chosen the options allowed in the standard to omit disclosures related to liquidity and availability and the functional allocation of expenses for periods presented before the period of adoption. Otherwise, the ASU has been applied retrospectively to all periods presented. The adoption of this ASU had no impact on the Hospital's change in net assets or its total net assets.

New accounting pronouncements adopted - revenue recognition

On October 1, 2018, the Hospital adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for revenue recognition. This ASU was developed to update the revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The adoption of ASU 2014-09 was accomplished using a modified retrospective method of application.

The adoption of the new standard related to revenue recognition did not have an impact on the Hospital's recognition of net revenues for any periods prior to adoption. The most significant impact of adopting the new standard is to the presentation of the consolidated statements of operations, where the Hospital no longer presents the provision for doubtful accounts as a separate line item, and revenues are presented net of estimated implicit and explicit price concessions. The Hospital has also eliminated the presentation of allowances for contractual adjustments and doubtful accounts on the consolidated balance sheets as a result of the adoption of the new standard. Additional information on the adoption of this standard is included in Note 3.

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents includes checking accounts, savings accounts, money market funds, and certain investments in highly liquid debt instruments which had maturities of three months or less at the date of purchase.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies (continued)

Short-term investments

Short-term investments include money market funds and fixed income securities that the Hospital has set aside to meet its current operating needs. These investments are measured at their fair value in the consolidated balance sheets.

Investments and investment income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at their fair value in the consolidated balance sheets. For those investments where quoted market prices are unavailable, management estimates fair value based on information provided by the fund managers. Donated investments are recorded at their market value at the date of receipt, which is then treated as cost.

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in income from operations unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from income from operations unless the investments are trading securities.

Assets limited as to use

Assets limited as to use primarily include assets held by trustees under indenture agreements, assets whose use are restricted to specific purposes by donors, designated assets set aside by the Board of Directors for future capital improvements, and assets designated for Founders and Friends over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the consolidated balance sheets.

Patient accounts receivable

The Hospital provides credit in the normal course of operations to patients located primarily in Baton Rouge and the surrounding areas and insurance companies conducting operations in these areas. The Hospital determines if patient accounts receivable are past-due based on the original bill date; however, the Hospital does not charge interest on past-due accounts.

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

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies (continued)

Patient accounts receivable (continued)

Patient accounts receivable can be impacted by the effectiveness of the Hospital's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The Hospital also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, and the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables.

Contract assets consist of services provided to patients who were still receiving inpatient care at the Hospital's facilities at September 30, 2019. This represents patient charges that have not been billed and which do not meet the conditions of unconditional right to payment at the consolidated balance sheet date.

During fiscal 2018 (prior to the adoption of ASU 2014-09), the Hospital maintained allowances for contractual adjustments and doubtful accounts based on management's assessment of collectability, current economic conditions, and prior experience. The Hospital charged off patient accounts receivable if management considered the collection of the outstanding balances to be doubtful. In evaluating the collectability of accounts receivable, the Hospital analyzed its past history and identified trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who had third-party coverage, the Hospital analyzed contractually due amounts and provided an allowance for doubtful accounts and a provision for doubtful accounts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital recorded a significant provision for bad debts in the period of service. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts were exhausted was charged off against the allowance for doubtful accounts.

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and 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 Hospital's 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.

The Hospital has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as incurred, as the amortization period of the asset that the Hospital otherwise would have recognized is one year or less in duration.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies (continued)

Patient service revenue and third-party settlements

The Hospital reports revenues from patient services at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, governmental programs and third-party payors such as Medicare, Medicaid, health maintenance organizations, preferred provider organizations, private insurers and others, and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews and investigations. Revenue is recognized as the performance obligations are satisfied.

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

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by explicit concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of explicit concessions and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to examination. The Hospital has recorded these third-party estimates based on the most likely amount to be realized. The Hospital applied the principles surrounding balance sheet offsetting during the years ended September 30, 2019 and 2018. Therefore, the third-party receivables and payables are presented separately on the accompanying consolidated balance sheets.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies (continued)

Patient service revenue and third-party settlements (continued)

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

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(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 previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Inventories

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

Property and equipment

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that increase the values or extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gains and losses are recognized in the Hospital's yearly operations. The Hospital recognizes an impairment loss on property and equipment if the carrying amount is not recoverable and exceeds its fair value.

Goodwill

Goodwill, which represents the excess of the cost over the net tangible and identifiable intangible assets of acquired businesses, is stated at cost and is not being amortized.

The Hospital evaluates the goodwill for potential impairment and recorded an impairment of goodwill of approximately \$421,000 during the year ended September 30, 2018.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies (continued)

Costs of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Debt issuance costs

The Hospital follows Accounting Standards Update (ASU) 2015-03, *Interest-Imputation of Interest*, which was issued by the Financial Accounting Standards Board (FASB) to simplify the presentation of debt issuance costs. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheets as a direct reduction from the carrying amount of the debt liability. Deferred costs are amortized to interest expense over the term of the related debt.

Net Assets

In accordance with the adoption of ASU 2016-14, net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions.

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

Income from operations

Operating revenues include, but are not limited to, patient revenues, child care center revenues, dietary and cafeteria revenues, fitness center revenues, graphic services, retail revenues, rental revenues, and interest, dividends and realized gains and losses on the sales of investment securities. Changes in net assets without restrictions, which are excluded from income from operations, include unrealized gains and losses on investments from other than trading securities, Low Income Needy Care Collaborative revenues, contributions, restricted investment income, and other non-operating activities.

Incentive payments received in connection with the implementation of electronic health records, which totaled approximately \$10,000 and \$92,000 for the years ended September 30, 2019 and 2018, respectively are included in other operating revenues.

Charity care

The Hospital provides care to patients who meet certain criteria established under its charity care policy without charge or at rates substantially lower than its prevailing rates. The Hospital follows Accounting Standards Update (ASU) 2010-23, *Measuring Charity Care for Disclosure*, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care.

THE WOMAN'S HOSPITAL FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. Summary of significant accounting policies (continued)

Donor-restricted gifts

Unconditional promises to give cash and other assets to the Hospital are reported at their fair values at the date the promises are received. Conditional promises to give and indications of intentions to give are reported at their fair values at the date the gifts are received. The gifts are reported as restricted support 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 of the restriction is accomplished, net assets with restrictions are reclassified as net assets without restrictions.

Professional liability claims

Through the Louisiana Hospital Association Professional and General Liability Insurance Funds, the Hospital maintains insurance for protection from losses resulting from professional liability claims. Except for an umbrella policy, which is written on a claims made basis, all other policies are on an occurrence basis. The Hospital has not experienced material losses from professional liability claims in the past.

Advertising

The Hospital expenses the cost of advertising as incurred. Total advertising expenses were approximately \$1,307,000 and \$1,194,000 for the years ended September 30, 2019 and 2018, respectively.

Income taxes

The Hospital and the Foundation are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes on related income has been included in the consolidated financial statements.

For income tax purposes, Woman's Retail Ventures, LLC and Stumberg Land, LLC are treated as partnerships. The members of Woman's Retail Ventures, LLC and Stumberg Land, LLC are taxed individually based on their proportionate unit share of their taxable income. As such, no provision is made for income taxes in the accompanying consolidated financial statements.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. Summary of significant accounting policies (continued)

Accounting pronouncements issued but not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements in excess of 12 months on the statements of financial position and to provide additional disclosures. This standard is effective for fiscal years beginning after December 15, 2018.

The Hospital is currently assessing the impact of this pronouncement on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

2. Liquidity and availability

The Hospital has the following financial assets available to meet its general needs, excluding amounts that are not available for general use within one year of the statement of financial position date because of donor imposed restrictions or internal designations:

Cash and short-term investments	\$ 149,685,844
Patient accounts receivable	42,670,003
Estimated third party payor settlements	<u>1,244,316</u>
	<u>\$ 193,600,163</u>

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

3. Patient service revenue

As discussed in Note 1, the Hospital adopted a new standard related to revenue recognition effective October 1, 2018, using the modified retrospective method. The adoption of the new standard did not have an impact on the recognition of net revenues in the current year or at October 1, 2018. The most significant impact of adopting the new standard is to the presentation of the consolidated statements of operations. Beginning in fiscal 2019 the Hospital no longer presents the "provision for doubtful accounts" as a separate line item and revenues are presented net of estimated implicit and explicit price concessions. The related presentation of "allowances for contractual adjustments and doubtful accounts" on the consolidated balance sheets has also been eliminated as a result of the adoption of the new standard.

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3. Patient service revenue (continued)

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

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

The Hospital has agreements with governmental payors, other third-party payors, and self-pay payors for payments to the Hospital at amounts different from its established rates. Contractual adjustments represent the differences between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors and self-pay payors. A summary of the basis of reimbursement follows:

- *Medicare* - inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge that include defined capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Hospitals that serve large populations of low-income patients are eligible for additional reimbursement to compensate for higher operating costs associated with the treatment of these patients. Disproportionate share payments approximated \$2,330,000 and \$6,557,000 for years ended September 30, 2019 and 2018, respectively.
- *Medicaid* - inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate-per-diem. These rates vary according to a patient classification system that is based on level of care and other factors. Certain extraordinary inpatient costs for children under the age of six are eligible for additional reimbursement.

Outpatient services are reimbursed at a prospectively determined fee schedule. For the small number of outpatient services where no fee schedule has been developed, outpatient services are paid based on a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate, with final settlement determined after submission of an annual cost report by the Hospital and an audit thereof by the Medicaid fiscal intermediary.

- *Commercial and HMO* - the Hospital has entered into agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The payment methodology under these agreements is primarily percentage of billed charges.
- *Self-Pay* - the Hospital provides financial assistance to qualified applicants based on federal poverty level guidelines. Uninsured patients who do not qualify for financial assistance are eligible to receive a prepay discount.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

3. Patient service revenue (continued)

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

For the year ended September 30, 2019, the Hospital recorded approximately \$257,424,000 of implicit and explicit price concessions as a direct reduction of net operating revenues that would have been recorded as provision for doubtful accounts and contractual adjustments prior to the adoption of ASU 2014-09.

Additionally, the Hospital reported contract assets of approximately \$832,000, which are included in patient accounts receivable in the consolidated balance sheet at September 30, 2019.

During the year ended September 30, 2013, the Hospital entered into a Cooperative Endeavor Agreement (CEA) with the State of Louisiana Department of Health and Hospitals (DHH). The stated purposes of the CEA are to (a) provide healthcare services to the uninsured and high-risk Medicaid populations; (b) provide services that might not be otherwise available in the community; and (c) preserve the quality and quantity of medical education in Louisiana. As part of the CEA, the Hospital took over operations of the obstetrics and gynecology clinic (the Clinic) that was previously operated by Louisiana State University (LSU). The Hospital is paid a fixed amount on a quarterly basis for services rendered under the CEA. The Hospital is paid this amount regardless of substantiated allowable costs as defined in the underlying CEA. The Hospital recognized approximately \$10,203,000 and \$11,168,000 under the CEA agreement for the years ended September 30, 2019 and 2018, respectively. The outstanding receivable relating to this agreement totaled approximately \$2,551,000 and 3,791,000 at September 30, 2019 and 2018, respectively.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. For the years ended September 30, 2019 and 2018, approximately 54% and 56% of the Hospital's patient revenue were derived from inpatient services with the remainder being derived from outpatient services.

The composition of patient care services revenue by primary payor for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Managed care	\$ 128,125,542	48%	\$ 136,032,128	50%
Medicaid	115,891,239	43%	117,890,878	43%
Medicare	19,034,112	8%	14,954,273	6%
Self-pay and other	3,907,874	1%	3,513,846	1%
	<u>\$ 266,958,767</u>	<u>100%</u>	<u>\$ 272,391,125</u>	<u>100%</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. Patient service revenue (continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the “cost report” filing and settlement process). Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. The Hospital had estimated receivables of approximately \$1,244,000 and \$1,889,000 at September 30, 2019 and 2018, respectively and estimated payables of \$200,000 at both September 30, 2019 and 2018. As of September 30, 2019, tentative settlements subject to audit had been made by the Medicaid program for all years ended through September 30, 2012, and tentative settlements had been made by the Medicare program for all years ended through September 30, 2018.

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

4. Patient accounts receivable

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

A summary of the patient accounts receivable at September 30, 2019 and 2018 is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Medicare	\$ 2,235,047	5%	\$ 1,259,507	3%
Medicaid	5,962,788	14%	5,719,953	15%
Managed care	25,696,230	60%	22,341,945	60%
Self-pay and other	<u>8,775,938</u>	<u>21%</u>	<u>8,071,158</u>	<u>22%</u>
	<u>\$ 42,670,003</u>	<u>100%</u>	<u>\$ 37,392,563</u>	<u>100%</u>

THE WOMAN'S HOSPITAL FOUNDATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

5. Investments

The composition of assets limited as to use at September 30, 2019 and 2018, is set forth in the following tables:

	<u>2019</u>	<u>2018</u>
Assets held by the trustee in accordance with bond indenture agreements - cash and cash equivalents	\$ <u>10,284,063</u>	\$ <u>-</u>
Assets held by the Baton Rouge Area Foundation on behalf of the Hospital	\$ <u>1,091,771</u>	\$ <u>1,050,209</u>
Assets internally designated by the Board of Directors:		
Cash and cash equivalents	\$ 24,236	\$ 4,408,959
Fixed income funds - US	25,604,825	19,435,236
Fixed income funds - global	11,414,794	11,887,206
Equity funds	7,690,789	7,377,187
US equities	56,784,205	46,801,408
Non US equities	22,949,690	23,275,425
Global equities	57,190,145	54,891,976
Emerging market equities	15,337,777	15,302,589
Asset-backed securities	-	2,786,948
Commodities	14,258,586	13,304,900
Hedge funds	34,196,324	36,850,517
	<u>\$ 245,451,371</u>	<u>\$ 236,322,351</u>
Assets restricted by donors for future capital improvements:		
Cash and cash equivalents	\$ 9,456	\$ 13,397
Fixed income funds - US	263,299	275,408
Fixed income funds - global	136,606	85,510
US large cap equities	483,691	456,152
Non US equities	137,260	87,315
Global equities	87,270	205,136
Hedge funds	132,418	127,082
	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>

THE WOMAN'S HOSPITAL FOUNDATION
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5. Investments (continued)

Investment income and gains for assets limited as to use, other investments, cash, and cash equivalents were comprised of the following during the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 6,626,955	\$ 4,191,186
Net realized gains on sales of securities	2,298,178	2,349,722
Unrealized losses on securities	<u>(5,595,566)</u>	<u>4,148,812</u>
Total investment income	<u>\$ 3,329,567</u>	<u>\$ 10,689,720</u>

The following table presents the nature, characteristics, and risks on hedge funds as of September 30, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge funds	\$ 25,559,207	\$ -	≤ quarterly	≤ 90 days
Hedge funds	<u>8,769,535</u>	<u>-</u>	≥ quarterly	≤ 90 days
Total	<u>\$ 34,328,742</u>	<u>\$ -</u>		

6. Property and equipment

Property and equipment consisted of the following at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 16,646,526	\$ 16,034,523
Buildings	404,184,178	400,877,866
Movable and other equipment	<u>111,833,885</u>	<u>107,390,892</u>
	532,664,589	524,303,281
Less: accumulated depreciation	<u>(155,013,157)</u>	<u>(136,843,928)</u>
	377,651,432	387,459,353
Construction-in-progress	<u>7,941,090</u>	<u>5,894,657</u>
Property and equipment, net	<u>\$ 385,592,522</u>	<u>\$ 393,354,010</u>

Depreciation expense amounted to approximately \$18,755,000 and \$19,417,000 during the years ended September 30, 2019 and 2018, respectively.

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7. Long-term debt

In June 2017, the Hospital completed an offering of \$245,240,000 of hospital revenue bonds - \$225,305,000 in Series 2017A and \$19,935,000 in Series 2017B. The proceeds of the Series 2017 Bonds, together with other available funds of the Hospital, were used to (i) refund the outstanding Hospital Revenue Bonds (Series 2010A and 2010B Bonds) and (ii) pay the necessary costs in connection with the issuance of the Series 2017A Bonds. The Series 2017 bonds are fixed rate serial bonds with rates ranging from 2.00% to 5.00% and are scheduled to mature on various dates from October 1, 2018, through October 1, 2044. The revenue bond indenture places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding. The Hospital was in compliance with these covenants on September 30, 2019.

In October 2015, the Hospital borrowed funds from Capital One in order to refinance the portion of the Series 2010B Hospital Revenue Bonds that were callable as of October 1, 2015. This note bears interest at a variable rate equal to 65% of the One Month LIBOR plus 1.00% and requires monthly payments of principal and interest through its maturity in October of 2040.

A summary of long-term debt at September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) Hospital Revenue Bonds (Series 2017A and 2017B); due in annual installments through October 1, 2044, at interest rates ranging from 2.00% to 5.00%; secured by gross receipts and investments held by bond issuer	\$ 240,455,000	\$ 245,240,000
Capital One Tax-Exempt Note; due in installments through October 1, 2040, at a variable interest rate	<u>56,895,000</u>	<u>59,045,000</u>
	297,350,000	304,285,000
Less: current portion of long-term debt	(7,070,000)	(6,935,000)
Unamortized bond premium (discount)	23,495,927	24,422,461
Less: debt issuance costs	<u>(1,448,129)</u>	<u>(1,561,873)</u>
Long-term debt, net	<u>\$ 312,327,798</u>	<u>\$ 320,210,588</u>

The long-term debt is scheduled to mature as follows:

<u>Year ending</u> <u>September 30th</u>	<u>Amount</u>
2020	\$ 7,070,000
2021	7,220,000
2022	7,385,000
2023	7,690,000
2024	7,945,000
Thereafter	<u>260,040,000</u>
	<u>\$ 297,350,000</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. Insurance programs

Any exposure under \$100,000 for professional liability is covered by the Louisiana Hospital Association Insurance Funds. Additional professional liability coverage is provided by the Louisiana Patient's Compensation Fund up to the present statutory maximum of \$500,000 per claim (exclusive of additional amounts for future medical expenses provided by law). The preceding policies are on an occurrence basis. A commercial umbrella policy for an additional \$9,500,000 per claim with an aggregate of \$9,500,000 (claims-made), has been provided by the LHA Insurance Funds.

Any exposure under \$500,000 for general liability is covered by the Louisiana Hospital Association Insurance Funds.

The Hospital is self-insured for group health insurance and workers' compensation insurance. The liability for workers' compensation exposure is limited to the deductible of its excess workers' compensation policy of \$550,000 per claim. The Hospital has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying financial statements.

9. Pension plans

The Hospital has a defined contribution retirement plan which covers substantially all employees. For all employees hired prior to October 1, 2011, the Hospital contributes a percentage of the participant's annual income based on years of credited service. Employees who have completed three years of service with 1,000 eligible hours per year are 100% vested in the Employer Contribution Plan. Contributions are deposited in participants' accounts after the end of each plan year. Expenses related to this plan totaled approximately \$2,626,000 and \$2,300,000 for the years ended September 30, 2019 and 2018, respectively.

The Hospital's plan also allows for contributions to a tax deferred annuity to be matched by the Hospital on a percentage of compensation that an eligible employee elects to contribute. Eligible participants receive a matching percentage on the first ten percent of the salary they contribute to the 403(b), based on years of service. The Hospital's matching contributions for this plan totaled approximately \$3,943,000 and \$3,936,000 for the years ended September 30, 2019 and 2018, respectively.

The Hospital also has a 457(b) Deferred Compensation Plan. Eligible participants are allowed to make pre-tax salary deferral contributions, up to the statutory limits.

10. Business and credit concentrations

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable and temporary cash investments. The Hospital maintains several accounts at local financial institutions. The balances, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. Management believes the credit risk associated with these deposits is minimal.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. Leases

The Hospital leases various pieces of equipment and operating facilities under operating leases which expire at various dates through September 2021, as well as several leases that are month to month. Rental expenses totaled approximately \$1,316,000 and \$1,133,000 during the years ended September 30, 2019 and 2018, respectively.

The following is a schedule, by year, of approximate future minimum lease payments required under all of these operating leases which have initial or remaining non-cancelable lease terms in excess of one year:

<u>Year ending September 30th</u>	<u>Amount</u>
2020	\$ 449,000
2021	428,000
2022	<u>101,000</u>
	<u>\$ 978,000</u>

The Hospital leases office space and clinical facilities, generally to members of its medical staff, under operating leases whose terms range from one to five years. Assets held for lease consisted of buildings and improvements with original costs totaling approximately \$38,337,000, and accumulated depreciation of the leased assets totaled approximately \$6,504,000 and \$6,008,000 at September 30, 2019 and 2018, respectively.

The approximate future minimum lease payments to be received from these leases during the next five years are as follows:

<u>Year ending September 30th</u>	<u>Amount</u>
2020	\$ 2,997,000
2021	2,975,000
2022	2,980,000
2023	2,736,000
2024	<u>2,657,000</u>
	<u>\$ 14,345,000</u>

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12. Classification of expenses

The following table approximates the functional allocation of operating expenses incurred during the year ended September 30, 2019:

	<u>Patient related Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and FICA	\$ 88,021,766	\$ 45,953,525	\$ -	\$ 133,975,291
Employee benefits	15,949,529	8,326,771	-	24,276,300
Medical supplies and drugs	18,133,455	9,466,933	-	27,600,388
Purchases services	21,722,043	11,203,062	122,275	33,047,380
Repairs and maintenance	6,737,832	3,475,011	37,928	10,250,771
Depreciation and amortization	12,322,078	6,432,987	-	18,755,065
Interest expense	7,539,824	3,936,316	-	11,476,140
Other	14,842,235	7,654,827	83,548	22,580,610
	<u>\$ 185,268,762</u>	<u>\$ 96,449,432</u>	<u>\$ 243,751</u>	<u>\$ 281,961,945</u>

The following table approximates the classification of operating expenses incurred during the year ended September 30, 2018:

Patient related services	\$ 146,743,000
General and administrative expenses	123,872,000
Total operating expenses	<u>\$ 270,615,000</u>

13. Disclosures about the fair value of financial instruments

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

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

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

Fair Value Hierarchy

The *Fair Value Measurements and Disclosures* topic of the FASB ASC establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value are described as follows:

- Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement which is determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

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

The Hospital's investments in securities with readily determinable fair values are recorded at fair value based on quoted market prices. For those investments where quoted prices are unavailable, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. The Hospital utilizes several externally managed funds of funds for private equity, venture capital, and hedge funds, and with these types of investments, quoted prices are often unavailable, and pricing inputs are generally unobservable. The Hospital relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities. The application of those valuation procedures and methodologies are borne out in each manager's compliant annual audited financial statements and were monitored through the Hospital's reporting period ended September 30, 2019.

The following is a description of the valuation methodologies used for fair value disclosures. There have been no changes in the methodologies used at September 30, 2019 and 2018:

Cash and cash equivalents, short-term investments, patient accounts receivable, other receivables, other assets, accounts payable, accrued interest payable, other accrued expenses, and estimated third-party payor settlements - the carrying amounts approximate fair value because of the short maturity of these instruments.

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

Money market funds / equity funds: valued at the daily closing price.

Government securities: valued at prices which are derived from a model which uses actively quoted rates prepayment models and other underlying credit and collateral data.

Bonds/ commodities: valued at the closing price reported in the active market in which the financial instrument is traded.

Hedge funds: the fair values of hedge funds are determined using the net asset value per share of the investment.

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the fair value at September 30, 2019, for each of the fair-value hierarchy levels, of the Hospital's financial assets that are measured at fair value on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<i>Short-term investments:</i>			
Cash and cash equivalents	\$ 1,151,965	\$ -	\$ 1,151,965
Fixed income	-	25,598,728	25,598,728
<i>Assets limited as to use:</i>			
Cash and cash equivalents	10,316,990	-	10,316,990
Fixed income funds - US	25,868,124	-	25,868,124
Fixed income funds - global	11,551,400	-	11,551,400
Equity funds	-	1,091,771	1,091,771
US equities	57,267,896	-	57,267,896
Non US equities	22,949,690	-	22,949,690
Global equities	28,376,388	-	28,376,388
Emerging market equities	7,560,386	-	7,560,386
Commodities	6,958,459	-	6,958,459
	<u>\$ 172,001,298</u>	<u>\$ 26,690,499</u>	<u>198,691,797</u>
Commingled funds (including hedge funds measured at net asset value) (a)			<u>86,136,101</u>
			<u>\$ 284,827,898</u>

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

The following table presents the fair value at September 30, 2018, for each of the fair-value hierarchy levels, of the Hospital's financial assets that are measured at fair value on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<i>Short-term investments:</i>			
Cash and cash equivalents	\$ 2,448,853	\$ -	\$ 2,448,853
Fixed income	-	23,488,182	23,488,182
<i>Assets limited as to use:</i>			
Cash and cash equivalents	4,422,356	-	4,422,356
Fixed income funds - US	19,710,644	-	19,710,644
Fixed income funds - global	11,972,716	-	11,972,716
Equity funds	-	1,050,209	1,050,209
US equities	47,257,560	-	47,257,560
Non US equities	23,275,425	-	23,275,425
Global equities	721,014	-	721,014
Emerging market equities	7,962,484	-	7,962,484
Asset-backed securities	-	2,786,948	2,786,948
	<u>\$ 117,771,052</u>	<u>\$ 27,325,339</u>	<u>145,096,391</u>

Commingled funds (including hedge funds measured at net asset value) (a)	<u>119,463,204</u>
	<u>\$ 264,559,595</u>

(a) - in accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts present in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Fair Value of Assets Measured on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above.

The Hospital's financial instruments whose estimated fair value differs from its carrying amount are summarized as follows at September 30:

	<u>2019</u>		<u>2018</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Long-term debt	<u>\$ 320,845,927</u>	<u>\$ 332,144,338</u>	<u>\$ 328,707,461</u>	<u>\$ 321,083,922</u>

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

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14. Endowment disclosure

The Hospital holds one endowment which is held in trust at a national financial institution. Appropriation of endowment assets for spending must be requested in writing to the trustee. The trustee has a committee that reviews all requests.

Changes in endowed net assets for the years ended September 30, 2019 and 2018:

	2019	2018
Endowment net assets - beginning of year	\$ 1,250,000	\$ 1,250,000
Investment income	31,660	31,367
Net appreciation	23,834	48,643
Transfer to net assets without restrictions	(55,494)	(80,010)
Endowment net assets - end of year	\$ 1,250,000	\$ 1,250,000

15. Commitments and contingencies

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

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital. However, a small provision has been made in the consolidated financial statements related to these claims.

The Hospital has several income guarantees which are evidenced by note receivables from the physician to the Hospital. The notes are payable within twelve months after the guarantee period. Notes receivable on the income guarantees totaled approximately \$343,000 and \$908,000 at September 30, 2019 and 2018, respectively.

The Hospital has entered into several contracts in connection with the expansion and update of its facilities. The total estimated costs of these contracts is approximately \$6,540,000. The remaining balance on these contracts totaled approximately \$2,936,000 on September 30, 2019.

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16. Net assets

Net Assets with Donor Restrictions at September 30, 2019 and 2018, were available to support the following programs and research grants:

	<u>2019</u>	<u>2018</u>
Employee emergency fund	\$ 7,676	\$ 20,306
Research	156,568	251,529
Disaster relief	119,008	120,187
NICU play area	-	52,076
Mobile mammography	86,367	90,073
NICU	130,385	196,093
UHF	627,507	356,214
FFW undistributed funds	1,284,450	684,828
Other	<u>317,751</u>	<u>258,416</u>
	2,729,712	2,029,722
Endowed net assets	<u>1,250,000</u>	<u>1,250,000</u>
	<u>\$ 3,979,712</u>	<u>\$ 3,279,722</u>

17. Government sponsored insurance plans

The Hospital participates in government programs including Medicaid and Medicare. Under these programs, the Hospital provides care to patients at payment rates which are determined by the federal and state governments, regardless of actual cost. These programs pay the Hospital at amounts which are less than its cost of providing these services.

18. Service to the community (unaudited)

The Hospital is an active, caring member of the communities it serves. In carrying out its mission of improving the health of women and infants, the Board of Directors has established a policy under which the Hospital provides care to underserved members of its communities. Following that policy, the Hospital provided health care services costing approximately \$3,203,000 and \$3,031,000 without charge during the years ended September 30, 2019 and 2018, respectively.

The table presented below summarizes the estimated losses incurred by the Hospital during the years ended September 30, 2019 and 2018, due to inadequate payments by this program and charity care provided:

	<u>2019</u>	<u>2018</u>
Charity care	\$ 3,203,000	\$ 3,031,000
Medicare and Medicaid	29,865,000	28,348,000
Financial assistance	<u>6,101,000</u>	<u>3,046,000</u>
	<u>\$ 39,169,000</u>	<u>\$ 34,425,000</u>

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18. Service to the community (unaudited) - continued

In addition to community services directly associated with providing hospital-based care, the Hospital serves the community in numerous other ways. For example:

- The Hospital provided specialist and subspecialist physician call coverage for medical emergencies and clinical consultation for all patients at estimated costs to the Hospital of approximately \$2,176,000 and \$2,120,000 during the years ended September 30, 2019 and 2018, respectively.
- The Hospital employs certified lactation specialists to provide new mothers with the knowledge and skills necessary to give their babies the best possible start. Estimated costs associated with this program were approximately \$506,000 and 664,000 during the years ended September 30, 2019 and 2018, respectively.
- The Hospital's HIV Case Management program includes patient education, awareness of local community organizations, patient monitoring to ensure appointments are scheduled and prescriptions are filled, and documentation of outcomes. Estimated costs, net of grants received, associated with this program were approximately \$106,000 and \$29,000 during the years ended September 30, 2019 and 2018, respectively.
- To further enhance health services in our community, the Hospital provides subspecialty clinics for children, which includes cardiology, gastroenterology, genetics, nephrology, neurodevelopment, scoliosis, and urology services, as well as a diabetic clinic for adults. The unreimbursed costs for these clinics were \$717,000 and \$789,000 during the years ended September 30, 2019 and 2018, respectively.
- The Hospital employs hospitalists to care for patients in the Assessment Center. They perform medical screenings for patients and provide treatment as needed for emergent and non-emergent patients. The unreimbursed costs of the hospitalists were approximately \$3,764,000 and \$4,492,000 during the years ended September 30, 2019 and 2018, respectively.
- To assist in educating the community regarding health related issues, the Hospital sponsored 359 and 359 education programs during 2019 and 2018, respectively, in a variety of formats, including ongoing classes, health fairs, and outreach presentations. Estimated costs absorbed by the Hospital for these community programs were \$317,000 and \$359,000 during the years ended September 30, 2019 and 2018, respectively.
- The Hospital contributed approximately \$2,000 to Susan G. Komen during the year ended September 30, 2018. This organization raises money to support breast cancer research.
- The Hospital contributed \$10,000 and \$10,000 during the years ended September 30, 2019 and 2018, respectively to the March of Dimes. This organization raises money to support programs aimed at improving the health of babies.
- The Hospital contributed \$68,000 and \$90,000 during the years ended September 30, 2019 and 2018, respectively, to support community service organizations.

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18. Service to the community (unaudited) - continued

- The Hospital provided other services at no charge to rape victims costing approximately \$61,000 and \$49,000 during the years ended September 30, 2019 and 2018 respectively.
- The Hospital supported research programs to improve the health of women and infants and contributed to the body of scientific knowledge at large. Estimated costs to support these programs were approximately \$156,000 and \$296,000 during the years ended September 30, 2019 and 2018, respectively.

The following table summarizes the community service costs from the above for the years ended September 30, 2019 and 2018:

	2019	2018
Providing Benefits for Persons Living in the Community and State and Living in Poverty		
Charity care	\$ 3,203,000	\$ 3,031,000
Unreimbursed costs of Medicare and Medicaid programs	29,865,000	28,348,000
Subsidized health services		
Emergency services and clinical consultation	2,176,000	2,120,000
Lactation services	506,000	664,000
HIV case management	106,000	29,000
Subspecialty clinics	717,000	789,000
Unreimbursed hospitalists	3,764,000	4,492,000
Community education of health issues	317,000	359,000
Support of community service organizations		
Susan G. Komen	-	2,000
March of Dimes	10,000	10,000
Other grants and awards to service organizations	68,000	90,000
Subsidized health care		
Care for rape victims	61,000	49,000
Un-sponsored research	156,000	296,000
Total financial commitment	\$ 40,949,000	\$ 40,279,000

19. Subsequent events

Subsequent to September 30, 2019, the Hospital entered into a joint venture with a local developer to establish a mixed-use development adjacent to the Hospital.

Management has evaluated events through the date that the financial statements were available to be issued, February 20, 2020, and determined that no additional disclosures are necessary.