HOSPITAL SERVICE DISTRICT
OF THE PARISH OF ST. BERNARD,
STATE OF LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Report

Carr, Riggs & Ingram, LLC
111 Veterans Blvd.
Suite 350
Metairie, Louisiana 70005

(504) 833-2436
(504) 484-0807 (fax)
www.CRIcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Hospital Service District of the Parish of St. Bernard, State of Louisiana
Chalmette, Louisiana

We have audited the accompanying consolidated financial statements of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), as of and for the years ended December 31, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements.

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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 above present fairly, in all material respects, the consolidated financial position of the Hospital Service District of the Parish of St. Bernard, State of Louisiana, as of December 31, 2018 and 2017, and the changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the District's consolidated financial statements. The Schedule of Compensation, Benefits, and Other Payments to Agency Head is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

The Schedule of Compensation, Benefits, and Other Payments to Agency Head is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Compensation, Benefits, and Other Payments to Agency Head is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

June 28, 2019

Required Supplementary Information - Management's Discussion and Analysis

The following discussion and analysis for the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) d/b/a St. Bernard Parish Hospital, provides an overview of the District's financial activities for the years ended December 31, 2018 and 2017. Please read it in conjunction with the District's financial statements, which follow this analysis.

Using These Basic Consolidated Financial Statements

The District's consolidated financial statements consist of: the consolidated statements of net position; the consolidated statements of revenues, expenses, and changes in net position; and the consolidated statements of cash flows. These financial statements and related notes provide information about the financial activities of the District and the St. Bernard Hospital Foundation, Inc. (Foundation) together on a consolidated basis.

The Consolidated Statements of Net Position and Consolidated Statements of Revenues, Expenses, and Changes in Net Position

These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account when the underlying transactions occur, regardless of when cash is received or paid. These statements report the District's net position and the changes therein. When assessing the overall health of the District, other nonfinancial factors also need to be considered, such as changes in services offered, measures of the quality of service offered, and local economic factors.

The Consolidated Statements of Cash Flows

These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities. It provides information about sources and uses of cash and the change in cash balances during the reporting periods.

Hospital Operations and Significant Events

The mission of St. Bernard Parish Hospital Service District (the Hospital) is to provide quality, comprehensive, cost-effective, healthcare services for St. Bernard Parish. As noted in Note 1, "Description of Reporting Entity and Summary of Significant Accounting Policies", on page 18 the District was formed for the purpose of operating a governmental community hospital in St. Bernard Parish. The Foundation was responsible for construction of the 113,000 square foot state-of-the-art facility, which was substantially completed on July 27, 2012, and the hospital opened its doors to patients shortly thereafter. The Louisiana Department of Health granted the District full licensure on August 20, 2012. The Hospital completed its first full year of operation in 2013.

The hospital facility is licensed for 40 patient beds, an intensive care unit, four operating suites, two endoscopy suites, a cardiac catheterization lab and a ten-bed emergency department. St. Bernard Parish Hospital also provides complete medical imaging, laboratory, in-house pharmacy, food and nutritional services, and rehabilitation services.

The adjacent medical office building (MOB) was substantially completed in late January 2013. The MOB is a compliment to the hospital facility and is occupied by physicians in private practice, administrative offices of the hospital, and the St. Bernard Community Health Center.

By the end of December 2015, the Hospital had been serving the St. Bernard Parish community for about forty months. Since the vast majority of capital assets had been put in place upon the opening of the Hospital in August 2012, there was little need for significant additions to capital assets in 2015 and 2016. The Hospital experienced an increase in current liabilities from 2014 to 2015 to 2016 and a decrease in current assets due to unforeseen delays and declines in collections and a degradation of the District's patient receivables resulting in fewer payments of trade payables. There were unforeseen delays in collections on patient accounts through 2015 and parts of 2016. The District's net position decreased mainly as a result of a decline in the collections of patient revenue.

During 2017, the District entered into a Special Services Management Agreement with St. Bernard Operational Management Company, LLC (Ochsner), whereby, the management company provides managerial and administrative expertise in the delivery and operations of the hospital and clinically integrated the hospital with the Ochsner network of physicians, clinics, and hospitals, to improve access, quality, availability, affordability and efficiency of care for residents of the St. Bernard Parish community.

Changes in the District's net position from 2017 to 2018 and significant differences in revenue and expenses between the two years are discussed further in sections hereafter.

Consolidated Statements of Net Position

The District's net position is the difference between its assets and liabilities as reported in the statements of net position. Table 1A presents a summary of the financial changes to the District in 2018 as compared to 2017. The District's total assets decreased by $6,946,269 or 9%.

Table 1A
Condensed Consolidated Statements of Net Position

December 31,	2018	2017	Dollar Change	Percent Change
Assets				
Current assets	**$ 22,620,075**	$ 23,973,921	$ (1,353,846)	-6%
Capital assets, net	**53,276,046**	56,615,113	(3,339,067)	-6%
Total assets	**75,896,121**	80,589,034	(4,692,913)	-6%
Liabilities				
Current liabilities	**17,389,973**	21,861,850	(4,471,877)	-20%
Long-term debt, net	**50,240,609**	53,337,765	(3,097,156)	-6%
Total liabilities	**67,630,582**	75,199,615	(7,569,033)	-10%
Net Position				
Net investment in capital assets	**1,985,609**	3,150,391	(1,164,782)	-37%
Unrestricted	**6,279,930**	2,239,028	4,040,902	180%
Total net position	**$ 8,265,539**	$ 5,389,419	$ 2,876,120	53%

Current Assets

There was a $1,353,846 decrease in total current assets from 2017 to 2018.

- Unrestricted Cash increased $4.3 million. The increase includes $10 million in payments related to a Hospital Full Medicaid Payment program effective July 1, 2017 for services to Medicaid beneficiaries enrolled in the Medicaid Managed Care plans. Also included is $5 million in payments to Ochsner pertaining to the Special Services Management Agreement and a $0.9 million decrease in Accounts Payable from 2017 to 2018.
- Grants Receivable decreased $1.5 million due to the impact of Medicaid expansion.
- Due from Hospital Manager decreased $0.14 million. In 2017, the Hospital Manager purchased $1.3 million of the District's inventories. This was offset by $1.15 million in purchased services incurred by Ochsner on behalf of the District. This receivable was fully realized in 2018.
- Full Medicaid Payment program receivable decreased $6.9 million due to revenues accrued pursuant to the Hospital Full Medicaid Payment program participation for services to Medicaid beneficiaries enrolled in the Medicaid Managed Care plans. The accrued payments were received in the first four months of 2019.
- Prepaid expenses increased $3.3 million. This includes a $3.7 million increase for the UCC Program. There was also a $0.3 million decrease as many of the District's expenses and contracts are now the responsibility of the Hospital Manager.

Capital Assets

Table 2A presents the components of capital assets at December 31, 2018 and 2017. In 2018, net capital assets decreased approximately $3.3 million. . Additions of $.05 million to capital assets were offset by current year depreciation of $3.3 million, and disposals of fully depreciated computer equipment of $3.1 million. The District's additions to capital assets were for necessary improvements to the Hospital building and completing purchases of furniture and fixtures, major moveable equipment and computer equipment for the operations of the Hospital.

Table 2A
Capital Assets

December 31,	**2018**	2017	Dollar Change
Land	**$ 2,890,000**	$ 2,890,000	$ -
Hospital building	**43,798,270**	43,798,270	-
Medical office building	**10,964,625**	10,964,625	-
Machinery and equipment	**16,574,292**	19,665,651	(3,091,359)
Land improvements	**50,551**	50,551	-
Subtotal	**74,277,738**	77,369,097	(3,091,359)
Less accumulated depreciation	**(21,001,692)**	(20,753,984)	(247,708)
Total capital assets	**$ 53,276,046**	$ 56,615,113	$ (3,339,067)

Current Liabilities

There was a $4,471,877 decrease in total current liabilities from 2017 to 2018.

- Accounts Payable decreased $0.9 million as most supplies and services are procured through Ochsner.
- Due to Hospital Manager increased $7.5 million. This includes $1.2 million in purchased services and $6.3 million in management fees pursuant to the Special Services Management Agreement. According to this agreement, the Hospital Manager may procure purchased services (supplies, equipment, and other items) in the name of and on behalf of the District, for which the District must reimburse the Manager's full cost.
- Accrued Payroll increased $0.14 million. This includes an increase of accrued General Purpose Time in the amount of $0.1 million. Accrued SW&B increased $0.04 million.
- Accrued interest payable and other expenses decreased $10.1 million. This includes a decrease of $10.2 million for the UCC Program, which was fully paid in 2018.
- The Full Medicaid Payment program payable decreased $3.6 million due to a decrease in the contractual adjustment factor.
- Current portion of long-term debt increased $0.7 million. The first principal payment of $0.6 million for the New Markets Tax Credits will become due in December 2019.

- Capital lease obligation – short-term portion decreased $0.16 million.
- Third party settlement reimbursements increased $2.1 million due to current year cost report reserves.

Long-Term Debt

The District had approximately $50.2 million in long-term debt outstanding as of the end of 2018 which was a 6% decrease from the previous year.

There were no new long-term borrowings in 2018.

Net Position

Table 3A presents the components of the District's net position at December 31, 2018 and 2017:

Table 3A
Components of Net Position

December 31,	**2018**	2017	Dollar Change	Percent Change
Net investment in capital assets	**$ 1,985,609**	$ 3,150,391	$ (1,164,782)	-37%
Unrestricted	**6,279,930**	2,239,028	4,040,902	180%
Total net position	**$ 8,265,539**	$ 5,389,419	$ 2,876,120	53%

2018 and 2017 Consolidated Statements of Revenues, Expenses and Changes in Net Position

The following discussion refers to the summarized activity presented in the District's Condensed Consolidated Statements of Revenues, Expenses, and Changes in Net Position in Table 4A for 2018 and 2017.

Operating Revenue

Operating revenue increased approximately $24.0 million from 2017 to 2018 due to revenues accrued pursuant to the Hospital Full Medicaid Payment program, effective July 1, 2017 for services to Medicaid beneficiaries enrolled in the Medicaid Managed Care plans and the additional Medicaid payments for physician services at District facilities.

Other operating revenue recognized by the District includes grants and other support for the delivery of adequate and essential medically necessary health care services to the citizens in the community who are low income and/or indigent patients of approximately $4.2 million and $6.0 million for the years 2018 and 2017, respectively.

Table 4A
Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position

December 31,	**2018**	2017	Dollar Change
Operating revenue	**$ 69,054,560**	$ 45,069,250	$ 23,985,310
Operating expense	**68,123,616**	47,143,537	20,980,079
Operating income	**930,944**	(2,074,287)	3,005,231
Total interest income	**2,129**	1,989	140
Ad valorem taxes	**2,451,991**	2,457,552	(5,561)
Governmental support	**422,000**	422,000	-
Assumption of liabilities	**-**	6,512,098	(6,512,098)
Asset management fees	**(52,500)**	(52,500)	-
Interest expense	**(878,444)**	(974,288)	95,844
Non-operating income	**1,945,176**	8,366,851	(6,421,675)
Change in net position	**2,876,120**	6,292,564	(3,416,444)
Net position, beginning of year	**5,389,419**	(903,145)	6,292,564
Net position, end of year	**$ 8,265,539**	$ 5,389,419	$ 2,876,120

Table 5A below presents the relative percentages of gross charges billed for patient services by payor.

Table 5A
Payor Mix

December 31,	**2018**	2017
Managed care/commercial	**23%**	21%
Medicare	**18%**	20%
Medicaid	**36%**	34%
Commercial	**19%**	21%
Guarantor	**4%**	4%
Total patient revenues	**100%**	100%

Reimbursements to the District are made on behalf of patients by the federal and state governments under the Medicare and Medicaid programs, respectively, by commercial insurance carriers and health maintenance organizations, as well as by patients on their own behalf. The difference between the covered charges and the payments under government programs and established contracts is recognized as a contractual allowance. Contractual allowance expense as a percentage of gross charges was 71.6% and 71.3% for 2018 and 2017.

Operating Expenses

The operating expenses of the Hospital increased by 45% or $21.0 million in 2018 as outlined below.

Professional fees increased $28.9 million in order to support the District's receipt of Hospital Full Medicaid Payment revenue and to support the Medicaid program for services to the low-income population.

The Hospital maintained a staff of approximately 79 full time equivalents in 2018 as compared to 209 full time equivalents in 2017. As part of the Special Services Management Agreement, the Manager employed some of the staff formerly employed by the Foundation starting with the last pay period in October 2017. These changes translated to a decrease in salaries of approximately $4.5 million or 40% from 2017 to 2018. Similarly, employee benefits decreased by 47%.

The medical and general supplies decreased $0.7 million, purchased services increased $0.04 million, insurance decreased $0.09 million, repairs and maintenance decreased $0.9 million, and other direct expenses decreased $0.1 million in 2018 from 2017 primarily due to the implementation of cost reduction initiatives in 2018.

Depreciation decreased $0.6 million in 2018 due to certain assets becoming fully depreciated in 2018.

Non-Operating Income and Expenses

Ad valorem taxes are received by the District from the Tax Assessor of St. Bernard Parish. The 2011 year was the first year the District levied taxes, which have been set at 8.00 mills for the purpose of constructing, equipping, maintaining and operating hospital facilities within the District. The ad valorem taxes recognized by the District are recorded net of an allowance and remained fairly constant from 2017 to 2018.

The District received $422,000 from the St. Bernard Parish Government as support during 2018 and 2017. This support is given by the Parish Government to the District as per a Cooperative Endeavor Agreement dated August 23, 2011 between the Hospital Service District and the St. Bernard Parish Government.

During 2017, as a part of the special services management agreement, Ochsner acquired certain payables and other liabilities of the District resulting in non-operating income of approximately $6.5M. There was assumption of payables during 2018.

Interest expense decreased by $0.1 million in 2018 due to the payoff of the 2012A Series bonds.

2018 Budget to Actual Comparison

The following table presents a comparison between actual results of operations versus budgeted 2018 amounts:

Table 7A
Budget vs Actual

	Budget	Actual	Favorable (Unfavorable) Variance
Revenues			
Net patient service revenue net of provision for bad debts of $8,371,287 budget and $7,574,507 actual	$ 25,756,012	$ 29,492,578	$ 3,736,566
Full Medicaid Payment program revenue	-	34,063,665	34,063,665
Other operating revenue	1,401,066	1,219,574	(181,492)
UPL program revenue	5,154,402	4,278,743	(875,659)
Total revenues	32,311,480	69,054,560	36,743,080
Operating Expenses			
Salaries, wages, and benefits	5,976,388	7,848,814	(1,872,426)
Supplies and other	4,349,754	7,279,922	(2,930,168)
Professional and contractual services	3,727,166	49,662,524	(45,935,358)
Depreciation and amortization	3,312,198	3,332,356	(20,158)
Total operating expenses	17,365,506	68,123,616	(50,758,110)
Non-operating income, net	1,788,849	1,945,176	156,327
Excess of revenues over expenses	$ 16,734,823	$ 2,876,120	$ (13,858,703)

Net patient revenue was in excess of budget by $3.7 million due to an increase in Outpatient revenue of 17%.

There was unbudgeted Hospital FMP program revenue of $34 million. Other operating revenue was unfavorable to budget by $0.2 million, primarily due to the decrease in Physician FMP program revenue.

Total Operating Expenses were unfavorable to budget by $50.7 million. Salaries, wages and benefits were unfavorable by $1.9 million due to increased outpatient volumes. Supplies and other expenses were unfavorable by $2.9 million due to increased outpatient volumes and various unbudgeted expenses due to the initial management agreement interpretation for purchased services. Professional fees were unfavorable to budget by $45.9 million due to the District's increased support of the Medicaid program.

Liquidity, Economic Factors, and Next Year's Budget

During 2018, management and the Board continued to transition SBPH to Ochsner's systems and operating policies.

The following systems were converted, and benefits were derived from these conversions:

- Epic optimization – Full implementation to physicians and staff of this best in class EMR
- EPSi – Decision support software
- OBIEE – Labor management and operational statistics
- Lawson – General Ledger, Accounts Payable, Purchasing, and Fixed Assets financial accounting systems
- Blackline – Electronic account reconciliations
- WorkDay – Comprehensive human resources system
- Kronos – Time and attendance tool
- Tableau – Interactive and visual analytics

The Hospital's management and Board of Commissioners considered many factors when setting the fiscal year 2019 budget. Of primary importance in setting the 2019 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes and reductions
- Medicaid reductions
- Increased number of uninsured and working poor
- Workforce shortages
- Cost of supplies
- Cost of drugs
- Increased competition in the marketplace
- Prior year experience in use of estimates
- Operating efficiencies as a result of the special service management agreement

Contacting the Financial Management

This financial report is designed to provide our taxpayers, suppliers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Anthony Bonnecarrere, Controller, at the District's finance office at 8000 West Judge Perez Drive, Chalmette, LA 70043.

The preceding discussion and analysis for the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) d/b/a St. Bernard Parish Hospital, provides an overview of the District's financial activities for the years ended December 31, 2018 and 2017. Please read it in conjunction with the District's financial statements, which follow this analysis.

Financial Statements

Consolidated Statements of Net Position

As of December 31,		**2018**		2017
ASSETS				
CURRENT ASSETS				
Cash	**$**	**10,388,901**	$	6,124,273
Restricted cash		**180,789**		188,526
Receivables				
Patient accounts receivable, net of contractual allowances and allowances for uncollectible accounts of $14,411,287 and $19,610,174 in 2018 and 2017, respectively		**3,059,018**		3,267,907
Grants receivable		**1,119,741**		2,577,204
Ad valorem receivable		**2,237,523**		2,280,933
Due from Hospital Manager		**-**		142,078
Full Medicaid Payment program receivable		**1,467,966**		8,409,786
Other receivable		**49,946**		174,427
Inventory		**237,847**		268,420
Prepaid expenses		**3,878,344**		524,784
Other current assets		**-**		15,583
Total Current Assets		**22,620,075**		23,973,921
NON-CURRENT ASSETS - Capital assets, net		**53,276,046**		56,615,113
TOTAL ASSETS	**$**	**75,896,121**	$	80,589,034
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	**$**	**191,608**	$	1,081,116
Due to Hospital manager		**7,544,891**		-
Accrued payroll		**421,704**		279,032
Accrued interest payable and other expenses		**579,041**		10,705,414
Full Medicaid Payment program payable		**2,253,356**		5,862,000
Current portion of long-term debt		**3,639,367**		2,980,000
Capital lease obligation - short-term portion		**218,505**		376,829
Short-term debt		**-**		113,136
Third party settlement reimbursements, net		**2,485,787**		423,155
Other current liabilities		**55,714**		41,168
Total Current Liabilities		**17,389,973**		21,861,850
LONG-TERM LIABILITIES				
Capital lease obligation - long-term portion		**9,976**		67,765
Long-term debt, less current portion		**50,230,633**		53,270,000
Total Long-term Liabilities		**50,240,609**		53,337,765
TOTAL LIABILITIES		**67,630,582**		75,199,615
NET POSITON				
Net investment in capital assets		**1,985,609**		3,150,391
Unrestricted		**6,279,930**		2,239,028
Total Net Position		**8,265,539**		5,389,419
TOTAL LIABILITIES AND NET POSITION	**$**	**75,896,121**	$	80,589,034

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Consolidated Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31,		**2018**		2017
OPERATING REVENUES				
Net patient service revenue	**$**	**29,492,578**	$	23,937,648
Full Medicaid Payment program revenue		**34,063,665**		13,025,379
Other operating revenue		**1,219,574**		2,088,832
UPL program revenue		**4,278,743**		6,017,391
Total Operating Revenues		**69,054,560**		45,069,250
OPERATING EXPENSES				
Salaries and wages		**6,702,150**		11,219,036
Employee benefits		**1,146,664**		2,157,402
Professional fees		**48,546,202**		19,645,305
Medical and general supplies		**5,008,879**		5,714,181
Depreciation and amortization		**3,332,356**		3,936,979
Purchased services		**1,116,322**		1,080,054
Insurance		**461,580**		554,175
Utilities		**808,599**		877,486
Repairs and maintenance		**285,799**		1,141,774
Other direct expenses		**715,065**		817,145
Total Operating Expenses		**68,123,616**		47,143,537
Net Income (Loss) From Operations		**930,944**		(2,074,287)
NON-OPERATING INCOME (EXPENSES)				
Ad valorem revenue		**2,451,991**		2,457,552
Governmental support		**422,000**		422,000
Interest income		**2,129**		1,989
Gain on transfer of liabilities - Special Services Management agreement		**-**		6,512,098
Interest expense		**(878,444)**		(974,288)
Asset management fees		**(52,500)**		(52,500)
Total Non-Operating Income, Net		**1,945,176**		8,366,851
CHANGE IN NET POSITION		**2,876,120**		6,292,564
NET POSITION (DEFICIT) - Beginning of year		**5,389,419**		(903,145)
NET POSITION - End of year	**$**	**8,265,539**	$	5,389,419

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

Consolidated Statements of Cash Flows

For the Years Ended December 31,	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenue collected	**$ 58,746,738**	$ 31,166,796
Cash paid to or on behalf of employees	**(7,706,142)**	(13,906,891)
Cash paid for suppliers and services	**(46,017,509)**	(10,941,517)
Net cash provided by operating activities	**5,023,087**	6,318,388
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Ad valorem taxes	**2,495,401**	2,302,918
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt and capital lease obligation	**(2,596,113)**	(3,403,948)
Principal payments on short-term debt	**(113,136)**	(234,844)
Proceeds from short-term debt	**-**	169,100
Interest paid	**(927,887)**	(927,674)
Governmental support	**422,000**	422,000
Purchase of capital assets	**(53,090)**	(174,831)
Proceeds from sale of capital assets	**57,000**	-
Net cash used in capital and related financing activities	**(3,211,226)**	(4,150,197)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received as interest	**2,129**	1,989
Cash paid for asset management fees	**(52,500)**	(52,500)
Change in restricted cash	**7,737**	438,880
Net cash (used in) provided by investing activities	**(42,634)**	388,369
Net Increase in Cash	**4,264,628**	4,859,478
Cash - beginning of year	**6,124,273**	1,264,795
Cash - end of year	**$ 10,388,901**	$ 6,124,273

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

For the Years Ended December 31,	**2018**	2017
RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTVITIES		
Net income (loss) from operations	**$ 930,944**	$ (2,074,287)
Adjustments to reconcile net income (loss) from operations to net cash flows provided by operating activities:		
Depreciation and amortization	**3,332,356**	3,936,979
Provision for bad debt	**7,574,507**	8,178,359
Gain on sale of capital assets	**2,801**	-
Changes in operating assets and liabilities:		
Patient accounts receivable	**(7,365,618)**	(8,067,217)
Grants receivable	**1,457,463**	(334,838)
Due from/to Hospital Manager	**7,686,969**	(142,078)
Full Medicaid Payment program receivable	**6,941,820**	(8,409,786)
Other receivable	**124,481**	(34,058)
Inventory	**30,573**	1,242,840
Prepaid expenses	**(3,353,560)**	133,128
Other current assets	**15,583**	485,063
Accounts payable	**(889,508)**	(2,988,175)
Accrued payroll	**142,672**	(530,453)
Third party settlement reimbursements	**2,062,632**	(1,165,528)
Full Medicaid Payment program payable	**(3,608,644)**	5,862,000
Other liabilities	**(10,062,384)**	10,226,439
Net cash provided by operating activities	**$ 5,023,087**	$ 6,318,388
Gain on transfer of liabilities - Special Services Management agreement	**$ -**	$ 6,512,098

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

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying consolidated financial statements include the accounts of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) and St. Bernard Hospital Foundation, Inc. (the Foundation), which are collectively referred to as the Organization.

The District is a political subdivision of the State of Louisiana organized by the St. Bernard Parish Council (the Parish) under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950. The District was formed on November 6, 2007 for the purpose of constructing a non-profit community hospital in St. Bernard Parish. The District is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Board of Commissioners is the governing authority for the District and responsible for obtaining voter and/or board approval for the levy of tax or debt issuance. The District is considered a special district that was formed for the purpose of operation St. Bernard Parish Hospital.

The relationship between the Parish and the District is summarized as follows: The Parish Tax Assessor collects and remits a tax which was voter-approved and levied specifically for the District. In addition, there is a Cooperative Endeavor Agreement (CEA) dated 2009 between the District and the Parish wherein the Parish designated $600,000 from its Sales Tax Bond Issue Series 2004 loaned to the District to pay for capital improvement projects. Interest accrues at a rate of 6% per annum and the entire unpaid balance on the loan is due on or before January 2019. As of the date of the audit report, the loan remains unpaid and accruing interest. The balance of the loan is included in the current portion of long-term debt in the accompanying consolidated statements of net position.

The Foundation is a Louisiana not-for-profit entity which was granted its tax exempt status on October 23, 2012 with an effective exemption date of September 21, 2010 under Internal Revenue Code 501(c)(3). The Foundation was organized on September 21, 2010, for the purpose of assisting and promoting the District with the development of the hospital facility and raising capital for the operation of health care related services to benefit the health and wellness of the residents of the District, particularly the indigent residents of the District. The Foundation is a voluntary, nonprofit, non-stock membership organization.

The Foundation is maintained by grants, private loans, operating revenues, and joint ventures with the District. The Foundation is governed by a Board of Directors made up of five members. Four of the board members are appointed by the Board of Commissioners of the District and one member is appointed by Access Health Louisiana, a Louisiana nonprofit corporation. Due to this level of control and the financial benefit/burden relationship with the District that exists, the Foundation is considered a blended component unit of the District for accounting purposes.

Basis of Accounting

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resource measurement focus.

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital Service District of the Parish of St. Bernard and the Foundation in which the District has control of governance as indicated above. All significant inter-company balances and transactions have been eliminated in consolidation. Refer to Note 15 for consolidating schedules.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America require management to make estimates and assumptions that affect the reported amounts of at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash

Cash includes amounts held in demand deposits and interest bearing demand deposits. Under state law, the Organization may deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana Law and national banks having their principal offices in Louisiana.

Restricted Cash

Restricted cash has restrictions that exist that limit the ability of the Organization to use them to pay current liabilities. The Organization's restricted cash includes cash received through a long-term debt arrangement whose use is restricted for the purchase and implementation of a new electronic health records system and certain related management fees as outlined in the respective loan agreements.

Inventory

Inventory, which consists primarily of drugs and supplies, is valued at the lower of cost (first in, first out method) or net realizable value.

Capital Assets, net

Property and equipment are recorded at acquisition cost. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. One-half year depreciation is recorded in year of acquisition. Property and equipment with initial individual costs of greater than $1,000 are

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

capitalized. Equipment under capital leases is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life.

Compensated Absences

Employees accumulate general purpose time at varying rates according to years of service. Employees are immediately vested in accrued general purpose time when earned. Upon termination, all unused paid time off hours are paid to the employee at the employee's current rate of pay. Employees are allowed to accrue general purpose time up to 280 hours. Amounts are accrued and included in the accompanying consolidated financial statements in accrued payroll.

Net Patient Service Revenue and Related Receivables

Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Organization provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Organization is exposed to certain credit risks. The Organization manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental healthcare entities.

A summary of net patient service revenue for the year ended December 31, 2018 and 2017 is as follows:

December 31,	**2018**	2017
Gross patient service revenue	**$ 130,714,281**	$ 112,032,310
Less discounts and estimated contractual adjustments under third-part reimbursement programs	**(93,647,196)**	(79,916,303)
Less provision for bad debts	**(7,574,507)**	(8,178,359)
Net patient service revenue	**$ 29,492,578**	$ 23,937,648

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient revenue.

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare and Medicaid Reimbursement Programs

The District is reimbursed under the Medicare Prospective Payment System for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient.

In addition, the District is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The District qualifies as a disproportionate share provider under the Medicare regulations. As such, the District receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

The District is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group.

Medicare outpatient services (excluding clinical lab and outpatient therapy) are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the District is paid a predetermined amount per procedure. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy services are reimbursed based upon the respective fee schedules.

Retroactive cost settlements, based upon annual cost reports, are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

The District is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the District. The percentage of total gross patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries, combined, was approximately 77% and 76% for 2018 and 2017, respectively. The percentage of net patient receivables revenue derived from services furnished to Medicare and Medicaid program beneficiaries, combined, was approximately 63% and 80% for 2018 and 2017, respectively.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hospitals before the settlement amount becomes final. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits (or reopened the review) of the estimated settlements for the years ended December 31, 2014 through 2017 for Medicare and Medicaid, the District does not anticipate significant adverse adjustments to the recorded settlements for those years.

The District has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the District under these arrangements includes prospectively determined daily rates and discounts from established charges.

Electronic Health Record Incentive Program

The Health Information Technology for Economic and Clinical Health Act, established by the American Recovery and Reinvestment Act of 2009, provides for Medicare and Medicaid incentive payments for eligible organizations and providers that adopt and meaningfully use certified electronic health record (EHR) technology. For the years ended December 31, 2018 and December 31, 2017, the District recorded EHR incentive revenue of approximately $-0- and $425,000 within other operating revenue on the consolidated statement of revenues, expenses, and changes in net position.

Attestation of the District's compliance with meaningful use criteria is subject to audit by the federal government or its designee and EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were determined.

Upper Payment Limit (UPL) Program Revenues

The District formed collaborations with the State and several units of local governments in Louisiana to more fully fund the Medicaid program (the “Program”) and ensure the availability of quality healthcare services for the low income and needy population. These collaborations enable the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). The District recognizes all funds received under the UPL program as operating revenues in the period applicable to the receipt of the funds. Any amounts related to that year that are not received as of fiscal year-end are recorded as grants receivable.

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Full Medicaid Payment Program Revenues

The District's participates in the State of Louisiana's Full Medicaid Payment Program which provides continuing support to healthcare entities who provide services to Managed Medicaid patients, whereby the State distributes additional payments to approximate Medicaid reimbursement (Full Medicaid Payment). The District records the revenues as soon as they are estimable with any true ups recorded at the time of payment.

Net Position

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments, as amended, net position is classified into three components net investment in capital assets, restricted; and unrestricted. These classifications are defined as follows:

a) Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets plus deferred out flows of resources less deferred inflows of resources related to those assets. Net investment in capital assets excludes unspent debt proceeds.

b) Restricted Net Position – Net position is reported as restricted when there are limitations imposed on their use, either through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Organization had no restricted net position as of December 31, 2018 and 2017.

c) Unrestricted Net Position – This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets," as described above.

The Organization first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net positions are available.

Grants and Contributions

From time to time, the Organization receives grants and contributions from individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all the eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues.

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Statements of Revenues, Expenses, and Changes in Net Position

All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the consolidated statements of revenues, expenses, and changes in net position. Non-operating revenues and expenses consist of revenues and expenses related to ad valorem tax revenue, capital grants, and financing and investing type activities and result from non-exchange transactions or investment income.

Ad Valorem Revenue

The District receives dedicated property tax revenues in amounts sufficient to fund annual debt maturities of the general obligation bonds and related interest costs (see Note 7). Such revenues are considered non-operating in the accompanying consolidated statements of revenues, expenses and changes in net position.

Advertising

Advertising costs are expensed as incurred. Marketing media/advertising expenses included advertising costs of $1,800 and $2,597 for the years ended December 31, 2018 and 2017, respectively.

New Accounting Pronouncements

GASB Statement No. 87, Leases - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this

Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement is effective for the Organization for the year ended December 31, 2020 and management is currently estimating the impact this statement will have on its financial statements.

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements – This Statement was issued to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for the year ended December 31, 2019 and is not expected to have a significant impact on the financial statements of the Organization.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 18, 2019, and determined that there were no events that required disclosure in the notes to the financial statements. No subsequent events occurring after that date have been evaluated for inclusion in these financial statements.

Prior Period Adjustment

During 2018, management determined that the assumption of certain payables and liabilities of the Organization by St. Bernard Operational Management Company LLC in 2017 (see Note 2) was not properly recorded and certain liabilities should have remained the responsibility of the Organization. The 2017 financial statements have been adjusted to reflect this accrual which resulted in an increase to accounts payable and a decrease in gain on transfer of liabilities – Special Services Management agreement and a decrease in unrestricted net position of $226,157 for this accrual.

NOTE 2: SPECIAL SERVICES MANAGEMENT AGREEMENT

On October 3, 2016, the District entered into an interim Cooperative Endeavor Agreement with Ochsner to provide administrative services and operational support to the District to assist the hospital in providing health services for the St. Bernard Parish Community; the interim CEA was extended through June 30, 2017. Effective July 12, 2017, the District entered into a special services agreement ("Agreement") with Ochsner for the purposes of managing, operating and administering the Hospital. This agreement has enabled the Hospital to enhance clinical service delivery while simultaneously improving resources, including operational efficiencies, and obtaining additional cost reductions through vendor purchase discounts on supplies.

Under the Agreement, the Organization is managed by St. Bernard Operational Management Company, LLC (SBOMC), a wholly owned subsidiary of Ochsner Health System. The Organization pays a management fee to SBOMC in exchange for management, staff, and other assistance to operate.

In addition to the management fee referred to above, the District provides other payments to SBOMC for supplies purchased, professional services provided outside of the management agreement, and other miscellaneous items received or services provided throughout the year.

NOTE 2: SPECIAL SERVCIES MANAGEMENT AGREEMENT (CONTINUED)

During year ended December 31, 2018, transactions between SBOMC and the Organization included: (1) purchases from SBOMC of supplies and services in accordance with the management agreement of approximately $6,200,000; (2) accrual of management fees payable to SBOMC of approximately $6,500,000 based upon the Organization's operations in accordance with the management agreement and (3) payments to SBOMC of approximately $5,000,000 on amounts outstanding. The remaining amounts due to the Hospital Manager are included on the Consolidated Statements of Net Position as Due to Hospital Manager.

During year ended December 31, 2017, transactions between SBOMC and the Organization included: (1) SBOMC purchased all non-pharmaceutical inventory from the Organization of approximately $1,300,000; (2) purchases from SBOMC of supplies and services in accordance with the management agreement of approximately $1,100,000; and (3) in accordance with the management agreement SBOMC acquired certain payables and other liabilities of the Organization of approximately $6,500,000 (included as non-operating income). The remaining amounts due from the Hospital Manager are included on the Consolidated Statements of Net Position as Due from Hospital Manager.

Based on the support provided pursuant to the current and prior agreements with Ochsner, the District has implemented new processes and procedures around the revenue cycle to improve collections. In addition, the District has settled large outstanding payables with vendors and freed up operating cash to continue paying vendors and contractors in a timely manner. These actions have improved the District's operations and resulted in a positive ending net position for 2018 and 2017.

NOTE 3: CASH AND RESTRICTED CASH

Cash and Restricted Cash

At December 31, 2018 and 2017, the Organization had $10,569,690 and $6,312,799, respectively, in non-interest bearing demand deposits as follows:

December 31,		**2018**		2017
Cash	**$**	**10,388,901**	$	6,124,273
Restricted Cash		**180,789**		188,526
Total	**$**	**10,569,690**	$	6,312,799

These deposits are stated at cost, which approximates market.

NOTE 3: CASH AND RESTRICTED CASH (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure the Organization's deposits may not be returned to it. Under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities, plus the federal deposit insurance, must at all times equal the amount on deposit with the fiscal agent.

The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

The District’s cash deposits included in cash on its statement of net position as of December 31, 2018 and 2017, were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name. The Federal Deposit Insurance Corporation insures cash deposits up to $250,000 per financial institution.

Concentration of Credit Risk

As required under GASB statement 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government’s investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2018 and 2017, the Organization had no investments requiring concentration of credit risk disclosure.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the District’s ability to maintain sufficient liquidity.

NOTE 4: AD VALOREM TAXES

Ad valorem taxes are normally levied and billed in November of each year and are due by December 31st of the year levied. Revenues are recognized when levied due to the extent they are determined to be currently collectible. Ad valorem taxes are billed and collected using the assessed values determined by the Tax Assessor of St. Bernard Parish. The 2011 year was the first year the District levied taxes, which have been set at 8.00 mills for the purpose of constructing, equipping, maintaining and operating hospital facilities within the District. Effective August 22, 2016, the Board approved a millage increase to 8.16. The ad valorem taxes receivable as of December 31, 2018 and 2017, are recorded of $2,237,523 and $2,280,933, respectively, on the accompanying consolidated statements of net position.

NOTE 5: COOPERATIVE ENDEAVOR AGREEMENTS

Parish of St. Bernard
On July 14, 2011, the Parish and the District entered into a Cooperative Endeavor Agreement whereas the Parish committed federal and state pass-through funding to provide a public health unit equivalent (outpatient clinic) to that which existed prior to the devastation caused by Hurricane Katrina on August 29, 2005. The construction of the medical office building was completed in January 2013 and the outpatient clinic occupies approximately 10,200 square feet of space within the medical office building.

St. Bernard Hospital Foundation
On August 23, 2011, the District and the Foundation entered into a Joint Venture Cooperative Endeavor Agreement (Agreement) to engage in a joint venture to construct and operate a hospital facility and provide emergency and other essential and specialized hospital services to the citizens of St. Bernard Parish, State of Louisiana. This agreement was to facilitate the New Markets Tax Credit (NMTC) transaction, described further in Note 7. On this date, the District transferred all construction in progress associated with the hospital to the Foundation. Using the proceeds of the NMTC Notes (Facility A and B), the Foundation substantially completed the construction of the hospital building, acquired essential equipment, materials and supplies necessary for beginning the operation of the hospital, and employed and contracted with all of the physicians, health professionals, administrative staff, employees and contractors required for the operation of the hospital. Under the terms of the Agreement, the District was obligated to make the land that the District owns, including all of the District's rights, privileges, appurtenances, and amenities, available to itself and the Foundation for the term of the Agreement, in order for the Foundation to complete construction of the hospital building, which was completed in July 2012. Pursuant to the agreement, the District provides the administrative, professional and financial management of the business, policies, and operations of the hospital. There is also a revenue-sharing agreement which requires a waterfall payment of costs in the following order:

1) the Foundation’s qualified low-income community investment (QLICI) note payments
2) operating expenses of the District and the Foundation jointly incurred
3) Hospital operating expenses
4) pro rata share of the debt service due on any obligations
5) contingency fund in the amount of $200,000
6) necessary or desirable improvements
7) applicable percentage of interest in each

Additionally, the Foundation is responsible for the hospital building, equipment, maintenance and repair, contract and professional services related to construction, property insurance, payroll, and payroll taxes. The District is responsible for waste disposal, utilities, professional and malpractice insurance through the Louisiana Patient Compensation Fund, licenses and other provider agreements. This agreement will terminate on June 30, 2051, unless sooner terminated as permitted.

NOTE 5: COOPERATIVE ENDEAVOR AGREEMENTS (CONTINUED)

Pursuant to the cooperative endeavor agreement, there are certain revenue and expense sharing provisions between the District and the Foundation which eliminate in consolidation in the accompanying financial statements.

Ochsner
On October 3, 2016, the District entered into an interim Cooperative Endeavor Agreement with Ochsner to provide administrative services and operational support to the District to assist the hospital in providing health services for the St. Bernard Parish Community. That interim CEA was extended through June 30, 2017. Effective July 12, 2017, the District entered into a Special Services Agreement with Ochsner for the purposes of managing, operating and administering the Hospital (see Note 2).

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2018 is as follows:

	Beginning Balance	Additions/ Transfers in	Disposals/ Retirements/ Transfers out	Ending Balance
Land	$ 2,890,000	$ -	$ -	$ 2,890,000
Hospital building (15-40 years)	43,798,270	-	-	43,798,270
Medical office building (15-40 years)	10,964,625	-	-	10,964,625
Machinery and equipment (3-15 years)	19,665,651	53,090	(3,144,449)	16,574,292
Land improvements (15 years)	50,551	-	-	50,551
Total acquisition cost	77,369,097	53,090	(3,144,449)	74,277,738
Less accumulated depreciation:				
Hospital building	(5,967,896)	(1,095,557)	-	(7,063,453)
Medical office building	(1,233,520)	(274,116)	-	(1,507,636)
Machinery and equipment	(13,544,045)	(1,959,313)	3,084,648	(12,418,710)
Land improvements	(8,523)	(3,370)	-	(11,893)
Total accumulated depreciation:	(20,753,984)	(3,332,356)	3,084,648	(21,001,692)
Capital assets, net	$ 56,615,113	$ (3,279,266)	$ (59,801)	$ 53,276,046

NOTE 6: CAPITAL ASSETS (CONTINUED)

Capital asset activity for the fiscal year ended December 31, 2017 is as follows:

	Beginning Balance	Additions/ Transfers	Disposals/ Retirements	Ending Balance
Land	$ 2,890,000	$ -	$ -	$ 2,890,000
Hospital building (15-40 years)	43,669,583	128,687	-	43,798,270
Medical office building (15-40 years)	10,964,625	-	-	10,964,625
Machinery and equipment (3-15 years)	19,622,558	46,144	(3,051)	19,665,651
Land improvements (15 years)	50,551	-	-	50,551
Total acquisition cost	77,197,317	174,831	(3,051)	77,369,097
Less accumulated depreciation:				
Hospital building	(4,874,255)	(1,093,641)	-	(5,967,896)
Medical office building	(959,405)	(274,115)	-	(1,233,520)
Major moveable equipment	(10,979,016)	(2,656,852)	823	(13,544,045)
Land improvements	(5,152)	(3,371)	-	(8,523)
Total accumulated depreciation:	(16,817,828)	(3,936,979)	823	(20,753,984)
Capital assets, net	$ 60,379,489	$ (3,762,148)	$ (2,228)	$56,615,113

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was $3,332,356 and $3,936,979, respectively.

NOTE 7: SHORT-TERM AND LONG-TERM DEBT

The following table summarizes the Organization's outstanding debt at December 31, 2018 and 2017:

Short-Term Debt		2018	2017
Note Payable: Principal and interest payable monthly at rate of 6.50% through August 20, 2018.	A	**$ -**	**$ 96,571**
Note Payable: Principal and interest payable monthly at rate of 9.39% through May 31, 2016.	B	**-**	**8,813**
Note Payable: Principal and interest payable monthly at rate of 10.50% through May 5, 2018.	C	**-**	**7,752**
Total short-term debt		**$ -**	$ 113,136

Long-Term Debt		2018	2017
New Markets Tax Credit Facility A: Interest payable semi-annually at rate of 1.00%. Principal is payable annually 2019 through 2051.	D	**33,028,779**	33,028,779
New Markets Tax Credit Facility B: Interest payable semi-annually at rate of 1.00%. Principal is payable annually 2019 through 2051.	E	**11,671,221**	11,671,221
Tax-Exempt Limited Tax Certificates, Series 2012 A: Interest payable semi-annually at rate of 3.67%, reduced to 2.66% effective March 1, 2015. Principal is payable annually through March 2018.	F	**-**	1,110,000
Tax-Exempt Limited Tax Certificates, Series 2012 B: Interest payable semi-annually at rate of 3.10%, reduced to 2.42% effective March 1, 2015. Principal is payable annually March 2018 through March 2020.	G	**3,450,000**	4,000,000
Intergovernmental Loan from St. Bernard Parish: Interest rate of 6% per annum, payable on or before January 2019.	H	**600,000**	600,000
Hospital Revenue Bonds, Series 2014: Interest payable semi-annually at a rate of 4.90%. Principal is payable annually through December 2024.	I	**5,120,000**	5,840,000
Total long term debt		**53,870,000**	56,250,000
Less: Current maturities of long-term debt		**(3,639,367)**	(2,980,000)
Total long-term debt – noncurrent portion		**$ 50,230,633**	$ 53,270,000

NOTE 7: SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

(A) In August of 2017, the District issued a short-term note payable of $152,031 related to the financing portion of the premiums and related fees and taxes for various insurance policies, secured by a security interest in all right, title and interest to the policies. The outstanding principal of the note will be paid in 10 monthly installments ranging from $8,461 to $16,333 beginning September 21, 2017, with the final installment due June 21, 2018. Interest is payable monthly at a rate of 6.50%. The balance of the note as of December 31, 2017 was $96,571, and the note was paid off prior to December 31, 2018. The District no longer finances insurance policies.

(B) In January of 2015, the District issued a short-term note payable of $98,050 related to financing the purchase of software licenses. The note did not have any payments for the first 5 months with the first payment due in June 2015, with the outstanding principal to be paid over 12 months from the first payment date, final installment due May 31, 2016. Principal payments range from $7,557 to $8,813 over the life of the note. Interest is payable monthly at a monthly rate of 1.41% or effective annual rate of 16.91%. The balance of the note at December 31, 2017 was $8,813, and the note was paid off prior to December 31, 2018.

(C) In August of 2017, the District issued a short-term note payable of $17,069 related to the financing portion of the premiums and related fees and taxes for various insurance policies, secured by a security interest in all right, title and interest to the policies. The outstanding principal of the note will be paid in 9 monthly installments ranging from $1,831 to $1,963 beginning September 5, 2017, with the final installment due May 5, 2018. Interest is payable monthly at a rate of 10.50%. The balance of the note as of December 31, 2017 was $7,752, and the note was paid off prior to December 31, 2018.

(D) On August 23, 2011, the Foundation issued a note payable (Facility A) to SBP Redevelopment II, LLC. The note is subject to credit and loan agreements executed by the Foundation (as borrower), St. Bernard Parish Redevelopment, LLC as the community development entity (CDE) under the New Markets Tax Credit Program, and SBP Redevelopment II, LLC (Lender). The agreement contains certain financial and non-financial covenants.

The Facility A note, issued for $33,028,779, is secured under the aforementioned credit and loan agreements. The outstanding principal of the note will be paid in 33 annual installments ranging from $439,177 to $1,193,669 beginning June 30, 2019, with the final installment due June 30, 2051. The note bears interest at a rate per annum equal to 1.00%. The Foundation pays interest only on this note semi-annually in arrears on June 30th and December 31st of each year, commencing December 31, 2011, and continuing until December 31, 2018. Commencing on June 30, 2019, the principal and interest on this note shall be due and payable in consecutive semi-annual installments on June 30th and December 31st of each year. The Foundation may not prepay this note in full or in part any time prior to the expiration of the NMTC compliance period which ends on December 31, 2019. The remaining Facility A note funds received were expended and the certificate of occupancy for the hospital facility was received during 2012.

NOTE 7: SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

(E) On September 14, 2012, the Facility B note (subordinate note) was issued for $11,671,221 to SBP Redevelopment II, LLC, after all of the Facility A note funds had been expended and the certificate of occupancy for the hospital facility was issued. The note is secured under the same aforementioned credit and loan agreements executed by the Foundation for the Facility A note. The terms of the Facility B note are similar to those of the Facility A note. The outstanding principal of the note will be paid in 33 annual installments ranging from $155,190 to $421,801 beginning June 30, 2019, with the final installment due August 22, 2051. The note bears interest at a rate per annum equal to 1% and the Foundation pays interest only on this note semi-annually in arrears on June 30 and December 31 of each year commencing December 31, 2012, and continuing until December 31, 2018. Principal and interest on this Note shall be due and payable in consecutive semi-annual installments on June 30 and December 31 of each year commencing June 30, 2019. The Foundation may not prepay this note in full or in part any time prior to the expiration of the NMTC compliance period. The agreement contains certain financial and non-financial covenants.

The Facility A and B notes are intended to qualify as a "qualified low-income community investment" (QLCI) for the purposes of generating certain tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, the Foundation must comply with certain representations, warranties and covenants over the respective year NMTC compliance period. These include, but are not limited to, a covenant that the "portion of the business" (as defined) will operate to qualify as a qualified low-income community business. If, as a result of the breach of the agreement or loan documents by the Foundation, the Lender is required to recapture all or any part of the New Markets Tax Credits previously claimed by the Lender, the Foundation agrees to pay to the Lender an amount equal to the sum of the credits recaptured. Additionally, the QLICI Lender has a security interest in the assets of the Foundation other than real property.

For the years ended December 31, 2018 and 2017, the Foundation paid the CDE a total of $52,500 each year for ongoing management services related to the NMTCs as required per the agreement. The Foundation is required to pay a total of $250,000 in asset management fees to the CDE from 2015 through 2019.

In association with Facility notes A and B, the District, for the benefit of the Foundation, unconditionally and irrevocably guarantees the full, complete, and timely payment and, to the extent legally permissible, performance of all obligations owed to the Lender under all of the loan documents.

Lastly, with regards to the New Markets Tax Credits Facility notes A and B, the District has agreed to grant to the investor, as defined, an option (Put Option) to sell their investor interest, as defined in the agreement, to the District for a price of $1,000, plus costs incurred by the Investor attributable to the Put Option and any amounts owed by the District to the Investor. In the event that the Investor does not deliver a notice to the District during the Put Option Period, as defined, then the District has the right, during a defined period, to purchase the Investor Interest for an amount equal to the fair market value of the Investor Interest, as determined by mutual agreement amongst the parties.

NOTE 7: SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

(F) On March 7, 2012, the District issued $5,515,000 of tax-exempt limited tax certificates for the purpose of constructing, equipping, maintaining and operating hospital facilities. The certificates are secured by the irrevocable pledge and dedication of the fund to be derived from the levy and collection of the ad valorem tax of 8 mills authorized at the November 2, 2010 election. The outstanding principal of the bonds will be repaid in 6 annual installments ranging from $300,000 to $1,600,000 beginning March 1, 2013, with the final installment due March 1, 2018. Interest is payable semi-annually on March 1 and September 1 at the rate of 3.67%. The interest rate was reduced to 2.66%, effective March 1, 2015. The bond was fully paid off on March 1, 2018.

(G) On March 7, 2012, the District issued $4,000,000 of tax-exempt limited tax certificates for the purpose of constructing, equipping, maintaining and operating hospital facilities. The certificates are secured by the irrevocable pledge and dedication of the fund to be derived from the levy and collection of the ad valorem tax of 8 mills authorized at the November 2, 2010 election. The outstanding principal of the bonds will be repaid in 3 annual installments ranging from $550,000 to $1,760,000 beginning March 1, 2018, with the final installment due March 1, 2020. Interest is payable semi-annually on March 1 and September 1 at the rate of 3.10%. The interest rate was reduced to 2.42%, effective March 1, 2015.

(H) During the fiscal year ended December 31, 2009, the District entered into a cooperative endeavor agreement with the St. Bernard Parish Government (the Parish), whereas the Parish designated $600,000 from its issue of Sales Tax Bonds, Series 2004, to be loaned to the District to pay for capital improvement projects. Interest shall accrue on the loan at the rate of 6.00% per annum. The District shall repay the Parish the entire unpaid balance of the loan on or before January 2019. As of the date of the audit report, the loan remains unpaid and accruing interest. The balance of the loan is included in the current portion of long-term debt in the accompanying consolidated statements of net position.

(I) On December 1, 2014, the District issued $7,800,000 of Taxable Hospital Revenue Bonds for the purpose of refunding and extending the District's Revenue Anticipation Note, Series 2013 and constructing, equipping, maintaining and operating hospital facilities. The certificates are secured by the irrevocable pledge and dedication of the fund to be derived from net revenues including the levy and collection of the ad valorem tax of 8 mills authorized at the November 2, 2010 election.

The outstanding principal of the bonds will be repaid in 10 annual installments ranging from $620,000 to $960,000 beginning December 1, 2015, with the final installment due December 1, 2024. Interest is payable semi-annually on December 1 and June 1 at the rate of 4.90%.

Debt Covenant Compliance

The District was not in compliance with certain debt covenants related to the debt agreements noted in (D) and (E) above. The non-compliance is related to the completion and filing of the Foundation's audited financial statements within 120 days of year end and the filing of the NMTC compliance report at least annually. The District obtained a debt covenant waiver on these covenants from the issuer.

NOTE 7: SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

Future minimum payments on long-term debt obligations at December 31, 2018 are as follows:

December 31,	**Principal**	**Interest**
2019	3,639,367	796,921
2020	3,747,665	673,250
2021	2,039,672	601,238
2022	2,091,798	548,441
2023	2,149,047	493,562
2024-2028	7,318,303	1,867,408
2029-2033	6,683,468	1,495,204
2034-2038	7,025,261	1,153,411
2039-2043	7,384,534	794,139
2044-2048	7,762,181	416,492
2049-2053	4,028,704	60,634
	$ 53,870,000	$ 8,900,700

The following table summarizes the Organization's outstanding debt activity for the year ended December 31, 2018:

Short-Term Debt	2017	Additions	Reduction	**2018**	Due within 1 year
Note Payable, payable through August 20, 2018	$ 96,571	$ -	$ (96,571)	**$ -**	$ -
Note Payable, payable Through May 5, 2018	7,752	-	(7,752)	**-**	-
Note Payable, payable through May 31, 2016	8,813	-	(8,813)	**-**	-
Total short-term debt	$ 113,136	$ -	$ (113,136)	**$ -**	$ -

Long-Term Debt	2017	Additions	Reduction	**2018**	Due within 1 year
NMTC Facility A	**$ 33,028,779**	$ -	$ -	**$ 33,028,779**	$ 439,177
NMTC Facility B	**11,671,221**	-	-	**11,671,221**	155,190
Tax-Exempt Limited Tax Certificates, Series 2012 A	**1,110,000**	-	(1,110,000)	**-**	-
Tax-Exempt Limited Tax Certificates, Series 2012 B	**4,000,000**	-	(550,000)	**3,450,000**	1,690,000
Intergovernmental Loan from St. Bernard Parish	**600,000**	-	-	**600,000**	600,000
Hospital Revenue Bonds, Series 2014	**5,840,000**	-	(720,000)	**5,120,000**	755,000
Total long-term debt	**$ 56,250,000**	$ -	$ (2,380,000)	**$ 53,870,000**	$ 3,639,367

NOTE 7: SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

The following table summarizes the Organization's outstanding debt activity for the year ended December 31, 2017:

Short-Term Debt	2017	Additions	Reduction	**2018**	Due within 1 year
Note Payable, payable through August 20, 2018	$ -	$ 152,031	$ (55,460)	**$ 96,571**	$ 96,571
Note Payable, payable Through May 5, 2018	-	17,069	(9,317)	**7,752**	7,752
Note Payable, payable through May 31, 2016	8,813	-	-	**8,813**	8,813
Note Payable, payable through June 21, 2017	138,669	-	(138,669)	**-**	-
Note Payable, payable through January 25, 2017	31,398	-	(31,398)	**-**	-
Total short-term debt	$ 178,880	$ 169,100	$ (234,844)	**$ 113,136**	$ 113,136

Long-Term Debt					
NMTC Facility A	$ 33,028,779	$ -	$ -	**$ 33,028,779**	$ -
NMTC Facility B	11,671,221	-	-	**11,671,221**	-
Tax-Exempt Limited Tax Certificates, Series 2012 A	2,710,000	-	(1,600,000)	**1,110,000**	1,110,000
Tax-Exempt Limited Tax Certificates, Series 2012 B	4,000,000	-	-	**4,000,000**	550,000
Intergovernmental Loan from St. Bernard Parish	600,000	-	-	**600,000**	600,000
Hospital Revenue Bonds, Series 2014	6,525,000	-	(685,000)	**5,840,000**	720,000
Note payable to vendor	944,733	-	(944,733)	**-**	-
Total long-term debt	$ 59,479,733	$ -	$ (3,229,733)	**$ 56,250,000**	$ 2,980,000

NOTE 8: CAPITAL LEASE OBLIGATION

The Foundation entered into a lease for equipment during 2013. The economic substance of the lease is that the Foundation is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities. The capital lease obligation was to expire in November 2018. The Foundation extended the lease agreement and intends to return leased equipment in 2019. The lease agreement contains a fair value purchase option at the end of the lease term.

The Foundation entered into a lease for equipment during 2015. The economic substance of the lease is that the Foundation is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities. The capital lease obligation expires February 2020. The Foundation will obtain possession of the asset after final payment of the lease.

Assets recorded under capital leases are included in the major movable equipment of the capital assets on the Consolidated Statement of Net Position. The net book value of assets recorded under capital leases as of December 31, 2018 and 2017, consists of the following:

December 31,	**2018**	2017
Equipment	**$ 1,101,982**	$ 1,101,982
Less accumulated amortization	**(1,030,658)**	(817,655)
Capital lease equipment, net	**$ 71,324**	$ 284,327

Amortization of assets held under the capital lease were $213,003 and $211,230 for the years ending December 31, 2018 and 2017, respectively, and is included in depreciation and amortization expense.

The following is a schedule, by years, of future minimum payments required under the leases together with their present value as of December 31, 2018:

2019	$ 221,028
2020	10,052
Total minimum lease payments	231,080
Less: amount representing imputed interest	(2,599)
Present value of minimum lease payments	$ 228,481

NOTE 9: UPPER PAYMENT LIMIT PROGRAM

Since October 8, 2012, the District formed collaborations with the State and several units of local governments in Louisiana to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. These collaborations enable the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. The District recognizes all funds received under the UPL program as operating revenues in the period applicable to the receipt of the funds. Any amounts related to that year that are not received as of fiscal year-end are recorded as grants receivable and reflected in other current assets in the accompanying consolidated statements of net position. These receivables can be subject to adjustments that are reflected in the period they become known. The District recognized $4,278,743 and $6,017,391 in net revenue related to this program during the years ended December 31, 2018 and 2017, respectively.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Commitments

Meraux Foundation Commitment

On March 12, 2010, the Arlene and Joseph Meraux Charitable Foundation (Meraux) agreed to grant the District an access easement over, upon and across a parcel of land contiguous to the District property for the purpose of utility access, and vehicular and pedestrian ingress and egress to and from West Judge Perez Drive. The District was required to and completed the construction and installation of the curb cuts, pavement and other improvements to the servitude land, at no expense to Meraux. The District is required to carry and keep in force, at its own expense, comprehensive general liability insurance with companies licensed to do business in the State of Louisiana. On March 12, 2010, Meraux granted to the District temporary construction servitude over, upon and across the servitude land for the exclusive purpose of vehicular and pedestrian ingress and egress to and from West Judge Perez Drive. This servitude has not been accessed as of the date of this report.

Low Income and Needy Care Collaboration Agreement

In April of 2012, the District entered into a Low Income and Needy Care Collaboration Agreement with certain participating private hospitals primarily to improve access and provide low income and needy care services in the community it serves by the participating hospitals. The agreement was effective when the District became operational with an initial term through December 31, 2013 and may be renewed annually unless the other party provides notice to terminate. Expenses incurred under this agreement totaled $14,665,002 and $11,319,592 for the years ending December 31, 2018 and 2017, respectively, and are included in the accompanying Consolidated Statements of Revenues, Expenses, and Changes in Net Position in the caption professional fees.

NOTE 10: COMMITMENTS AND CONTINGENCIES (CONTINUED)

Full Medicaid Payment Program

As part of the District's continuing support of the State of Louisiana's Medicaid Program, the Organization has, throughout the period, made intergovernmental transfers (IGT's) amounts to the State of Louisiana (State) restricted for use in support of the Medicaid Program to provide additional payments to Managed Medicaid providers to approximate Medicaid reimbursement (Full Medicaid Payment). For the years ended December 31, 2018 and 2017 the Foundation expensed IGT's of $27,241,248 and $5,862,000 respectively, to the State for Full Medicaid Payment. Amounts are included in the accompanying Consolidated Statements of Revenues, Expenses, and Changes in Net Position under professional fees. Payments received by the Organization under Full Medicaid Payment reimbursement totaled $34,063,665 and $13,025,379 in 2018 and 2017, respectively.

Contingencies

Workers' Compensation

The Foundation purchased commercial insurance that provides coverage for workers' compensation claims up to $1,000,000 per claim in excess of its self-insured limits. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic social factors. Due to the lack of inccurred workers' compensation claims reserves were not material to the consolidated financial statements as of December 31, 2018 and 2017 and were not accrued.

Medical Malpractice

The District participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides for malpractice coverage to the District for claims in excess of $100,000 and up to $500,000 per claim. According to state law, medical malpractice liability (exclusive of future medical care awards and litigation expenses) is limited to $500,000 per occurrence. There were no medical malpractice liabilities accrued as of December 31, 2018 and 2017.

The District purchased commercial insurance policies that provide coverage for medical malpractice. These policies included a professional liability claims made policy that provides coverage up to $1,000,000 per occurrence and $3,000,000 in the aggregate, a general liability policy that provides coverage up to $5,000,000 per occurrence and in the aggregate, and an excess liability policy that provides coverage up to $5,000,000 per occurrence and in the aggregate.

NOTE 11: RISK MANAGEMENT AND REGULATORY MATTERS

Regulatory Matters

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Organization is in compliance with fraud and abuse, as well as other applicable government, laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a so-called Recovery Audit Contractor (RAC) program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare reimbursement in an amount estimated to equal the overpayment.

A five-state pilot program concluded in March 2008, with a nationwide rollout of the RAC effort done in phases beginning in 2009. The experiences during the pilot found far more overpayments than underpayments.

Similarly, the Centers for Medicare & Medicaid Services (CMS) created new entities titled Audit Medicaid Integrity Contractors (MIC) in order to continue its efforts to ensure the highest integrity of its healthcare programs. The goal of the provider audits is to identify overpayments and to ultimately decrease the payment of inappropriate Medicaid claims. The MIC is to review claims submitted by all types of Medicaid providers, including all settings of care and types of services, with most audits taking place at staff headquarters and on occasion on-site at a provider's place of business. The Organization has not been the subject of any RAC or MIC audits during 2018 or 2017.

NOTE 12: DEFINED CONTRIBUTION 403(B) PLAN

All new full-time employees are immediately eligible to join the defined contribution 403(b) plan, St. Bernard Parish Hospital Retirement Savings Plan (Plan) established on November 1, 2012. Participants make pre-tax contributions to the Plan and receive employer matching contributions up to 50% of the first 1%. Employer contributions to the 403(b) plan totaled $23,898 and $48,106 for 2018 and 2017, respectively. To vest in the employer annual non-discretionary contribution, employees must complete at least 3 years of service.

NOTE 13: RELATED PARTIES

See discussion of the District and St. Bernard Parish Government (Parish). The transactions between the District and the Parish were (1) $600,000 note payable to the Parish entered into in 2009, and (2) grant from the Parish for $422,000 for each of the years ended December 31, 2018 and 2017.

The related party transactions between the Hospital and Manager are detailed in Note 2 and include expenses for supplies and professional services provided by the manager and the management fee.

There was no compensation paid to board members for the years ended December 31, 2018 or 2017.

NOTE 14: TAX ABATEMENT

The St. Bernard Parish Assessor (the "Assessor") negotiates property tax abatement agreements on St. Bernard Parish's (the Parish) behalf on an individual basis. Each agreement was negotiated for a variety of economic development purposes, including business relocation, retention, and expansion. The Assessor has tax abatement agreements with five entities as of December 31, 2018:

Four oil and gas companies and one sugar refinery, through an agreement negotiated with the Industrial Tax Exemption program have property assessed at $87,385,685 with exempt taxes of $12,501,032. Of the $12,501,032 in exempt taxes, the Hospital's portion of these taxes for the year ended December 31, 2018 was $713,067.

Five oil and gas companies, through an agreement negotiated with the Industrial Tax Exemption program has property assessed at $97,890,372 with exempt taxes of $14,003,757. Of the $14,003,757 in exempt taxes, the Hospital's portion of these taxes for the year ended December 31, 2017 was $798,785.

The Industrial Tax Exemption program may be granted to manufacturers located within the Parish. The Industrial Tax Exemption program abates, up to ten years, local property taxes on a manufacturer's new investment and annual capitalized additions related to the manufacturing sale. The Assessor has not made any commitments as part of the agreements other than to reduce taxes. The Parish is not subject to any tax abatement agreements entered into by other governmental entities other than the Assessor.

NOTE 15: CONSOLIDATING BLENDED COMPONENT UNIT CONDENSED FINANCIAL INFORMATION

The following table presents the condensed consolidating statements of net position information for the District and its blended component unit as of December 31, 2018 and 2017:

2018	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Current assets	$ 22,320,925	$ 299,150	$ -	$ 22,620,075
Other assets – non-current	56,057,211	-	(56,057,211)	-
Capital assets, net	12,492,664	40,783,382	-	53,276,046
Total assets	$ 90,870,800	$ 41,082,532	$ (56,057,211)	$ 75,896,121
Current liabilities	$ 15,912,757	1,477,216	$ -	$ 17,389,973
Other liabilities – non-current	-	56,067,187	(56,057,211)	9,976
Long-term debt - less amounts				-
due within one year	6,125,000	44,105,633	-	50,230,633
Net position	68,833,043	(60,567,504)	-	8,265,539
Total liabilities and net position	$ 90,870,800	$ 41,082,532	$ (56,057,211)	$ 75,896,121

2017	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Current assets	$ 23,797,733	$ 176,188	$ -	$ 23,973,921
Other assets – non-current	57,866,179	-	(57,866,179)	-
Capital assets, net	12,969,107	43,646,006	-	56,615,113
Total assets	$ 94,633,019	$ 43,822,194	$ (57,866,179)	$ 80,589,034
Current liabilities	$ 20,976,539	$ 885,311	$ -	$ 21,861,850
Other liabilities – non-current	-	57,933,944	(57,866,179)	67,765
Long-term debt - less amounts				-
due within one year	8,570,000	44,700,000	-	53,270,000
Net position	65,086,480	(59,697,061)	-	5,389,419
Total liabilities and net position	$ 94,633,019	$ 43,822,194	$ (57,866,179)	$ 80,589,034

NOTE 15: CONSOLIDATING BLENDED COMPONENT UNIT CONDENSED FINANCIAL INFORMATION (CONTINUED)

The following table presents the condensed consolidating statement of revenues, expenses and changes in net position for the District and its blended component unit as of December 31, 2018 and 2017:

2018

	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Operating Revenues	$ 68,882,217	$ 52,905,893	$ (52,733,550)	$ 69,054,560
Operating Expenses				
Salaries, wages, and benefits	50,122	7,798,692	-	7,848,814
Professional fees	59,370,202	41,909,550	(52,733,550)	48,546,202
Purchased services	1,086,538	29,784	-	1,116,322
Supplies and other expenses	5,687,351	36,593	-	5,723,944
Insurance and utilities	1,062,756	207,423	-	1,270,179
Repair and maintenance	19,964	265,835	-	285,799
Depreciation and amortization	291,674	3,040,682	-	3,332,356
Total operating expenses	67,568,607	53,288,559	(52,733,550)	68,123,616
Net Income (Loss) From Operations	1,313,610	(382,666)	-	930,944
Non-Operating Revenues (Expenses)				
Ad valorem taxes	2,451,991	-	-	2,451,991
Government support	422,000	-	-	422,000
Interest income	1,517	612	-	2,129
Gain on transfer of liabilities - Special	-	-	-	-
Interest expense*	(442,555)	(435,889)	-	(878,444)
Asset management fees*	-	(52,500)	-	(52,500)
Total non-operating revenues, net	2,432,953	(487,777)	-	1,945,176
Change in Net Position (Deficit)	3,746,563	(870,443)	-	2,876,120
Net Position, Beginning of Year	65,086,480	(59,697,061)	-	5,389,419
Net Position, End of Year	$ 68,833,043	$ (60,567,504)	$ -	$ 8,265,539

NOTE 15: CONSOLIDATING BLENDED COMPONENT UNIT CONDENSED FINANCIAL INFORMATION (CONTINUED)

2017

	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Operating Revenues	$ 44,992,269	18,538,146	$ (18,461,165)	$ 45,069,250
				-
Operating Expenses				-
Salaries, wages, and benefits	-	13,376,438	-	13,376,438
Professional fees	19,694,588	18,411,882	(18,461,165)	19,645,305
Purchased services	975,636	104,418	-	1,080,054
Supplies and other expenses	6,452,699	78,627	-	6,531,326
Insurance and utilities	1,151,774	279,887	-	1,431,661
Repair and maintenance	45,763	1,096,011	-	1,141,774
Depreciation and amortization	291,652	3,645,327	-	3,936,979
Total operating expenses	28,612,112	36,992,590	(18,461,165)	47,143,537
Net Income (Loss) From Operations	16,380,157	(18,454,444)	-	(2,074,287)
Non-Operating Revenues (Expenses)				
Ad valorem taxes	2,457,552	-	-	2,457,552
Government support	422,000	-	-	422,000
Interest income	1,540	449	-	1,989
Gain on transfer of liabilities - Special Services Management agreement	6,512,098	-		6,512,098
Interest expense*	(519,970)	(454,318)	-	(974,288)
Asset management fees*	-	(52,500)	-	(52,500)
Total non-operating revenues, net	8,873,220	(506,369)	-	8,366,851
Change in Net Position (Deficit)	25,253,377	(18,960,813)	-	6,292,564
Net Position, Beginning of Year	39,833,103	(40,736,248)	-	(903,145)
Net Position, End of Year	$ 65,086,480	$ (59,697,061)	$ -	$ 5,389,419

*Note that St. Bernard Hospital Foundation classifies the asset management fee and interest expense as an operating expense. These expenses are classified as non-operating in the District's combining statement of revenues, expenses and changes in net position.

NOTE 15: CONSOLIDATING BLENDED COMPONENT UNIT CONDENSED FINANCIAL INFORMATION (CONTINUED)

The following table presents the condensed consolidating statement of cash flows for the District and its blended component unit as of December 31, 2018 and 2017:

2018

	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Net cash provided by (used in):				
Operating activities	$ 4,586,116	$ 436,971	$ -	$ 5,023,087
Noncapital financing activities	2,495,401	-	-	2,495,401
Capital and related financing activities	(2,995,105)	(216,121)	-	(3,211,226)
Investing activities	(84,044)	41,410	-	(42,634)
Net increase in cash and cash equivalents	4,002,368	262,260	-	4,264,628
Cash and cash equivalents - beginning of year	6,087,383	36,890	-	6,124,273
Cash and cash equivalents - end of year	$ 10,089,751	$ 299,150	$ -	$ 10,388,901

2017

	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Net cash provided by (used in):				
Operating activities	$ 6,011,805	$ 306,583	$ -	$ 6,318,388
Noncapital financing activities	2,302,918	-	-	2,302,918
Capital and related financing activities	(3,805,688)	(344,509)	-	(4,150,197)
Investing activities	375,869	12,500	-	388,369
Net increase (decrease) in cash and cash equivalents	4,884,904	(25,426)	-	4,859,478
Cash and cash equivalents - beginning	1,202,479	62,316	-	1,264,795
Cash and cash equivalents - end of year	$ 6,087,383	$ 36,890	$ -	$ 6,124,273

Supplementary Information

Schedule of Compensation, Benefits, and Other Payments to Agency Head
For the Year Ended December 31, 2018

Agency Head Name: Kim Keene, Chief Executive Officer

Note: In 2017, Hospital Service District of the Parish of St. Bernard, State Louisiana entered into a Special Services Management Agreement with St. Bernard Operational Management Company, LLC (Ochsner). The Agency Head is Kim Keene, Chief Executive Officer. Kim Keene is an employee of Ochsner. Hospital Service District of the Parish of St. Bernard, State Louisiana did not make any payments to or on behalf of the Chief Executive Officer, an individual as the agency head for the year ended December 31, 2018.

Carr, Riggs & Ingram, LLC
111 Veterans Blvd.
Suite 350
Metairie, Louisiana 70005

(504) 833-2436
(504) 484-0807 (fax)
www.CRIcpa.com

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

To the Board of Commissioners of
Hospital Service District of the Parish of St. Bernard, State of Louisiana
Chalmette, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), as of and for the year ended December 31, 2018, and the related notes to the consolidated financial statements, which collectively comprise the District's consolidated basic financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

June 28, 2019

Section I – There were no findings noted related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and Louisiana Revised Statute 24:513.

Section I - There were no findings noted related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and Louisiana Revised Statute 24:513.

Carr, Riggs & Ingram, LLC
111 Veterans Memorial Blvd.
Suite 350
Metairie, Louisiana 70005

(504) 833-2436
(504) 484-0807 (fax)
www.CRIcpa.com

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Board of Commissioners of
Hospital Service District of the Parish of St. Bernard, State of Louisiana
Chalmette, Louisiana

We have performed the procedures enumerated below, which were agreed to by Hospital Service District of the Parish of St. Bernard, State of Louisiana (the Hospital) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2018 through December 31, 2018. The Hospital's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated results are as follows:

Written Policies and Procedures

1. Obtained the Hospital's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions:

   a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

      Results: No exceptions were found as a result of applying the above procedure.

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

      Results*:* No exceptions were found as a result of applying the above procedure.

c) ***Disbursements***, including processing, reviewing, and approving.

Results: No exceptions were found as a result of applying the above procedure.

d) ***Receipts***, including receiving, recording, and preparing deposits.

Results: No exceptions were found as a result of applying the above procedure.

e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

Results: No exceptions were found as a result of applying the above procedure.

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

Results*:* No exceptions were found as a result of applying the above procedure.

g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.

Results: No exceptions were found as a result of applying the above procedure.

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

Results: No exceptions were found as a result of applying the above procedure.

i) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

Results: No exceptions were found as a result of applying the procedure.

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

Results: No exceptions were found as a result of applying the procedure.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Carr, Riggs & Ingram, L.L.C.

June 28, 2019