

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AND BASIC FINANCIAL STATEMENTS
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana**

As of and for the Years Ended
June 30, 2019 and 2018
With Report of Independent Auditors

CONTENTS

Report of Independent Auditors	1 - 2
<hr/>	
Management's Discussion and Analysis	3 - 12
Basic Financial Statements	
Statements of Net Position	13 - 14
Statements of Revenue, Expenses, and Changes in Net Position	15
Statements of Cash Flows	16 - 17
Notes to Basic Financial Statements	18 - 34
Report on Internal Control over Financial Reporting and on Compliance with Other Matters Based on an Audit of Financial Statements in Accordance with <i>Government Auditing Standards</i>	35 - 36

Report of Independent Auditors



INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District"), as of and for the years ended June 30, 2019 and 2018, and the related notes to the 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of June 30, 2019 and 2018, and the respective changes in 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 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 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 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.

HORNE LLP

Ridgeland, Mississippi
October 24, 2019

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018**

This section of the annual financial report of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District") presents background information and management's analysis of the District's financial performance. Please read it in conjunction with the basic financial statements in this report.

Required Financial Statements

The basic financial statements of the District report information about the District using Governmental Accounting Standards Board ("GASB") accounting principles. These statements offer short-term and long-term financial information about the District's activities. The statements of net position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. Increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net position. This statement measures changes in the District's operations over the past year and can be used to determine whether the District has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statements are the statements of cash flows. The primary purpose of this statement is to provide information about the District's cash from operations, investing, and financing activities and to provide answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018

District Statements of Net Position

A summary of the District's statements of net position for years June 30, 2019 through 2017 is presented in Table 1 below:

TABLE 1
Condensed Statements of Net Position

	2019	June 30 2018	2017
Total current assets	\$ 187,400,935	\$ 151,623,000	\$ 109,690,658
Capital assets – net	209,535,244	221,228,187	224,270,527
Other assets, including board-designated investments	48,329,466	74,308,566	89,525,782
Total assets and deferred outflows	<u>\$ 445,265,645</u>	<u>\$ 447,159,753</u>	<u>\$ 423,486,967</u>
Current liabilities	\$ 79,179,454	\$ 75,408,124	\$ 50,941,914
Long-term debt outstanding and other long-term liabilities	177,624,460	184,055,347	189,970,336
Total liabilities	256,803,914	259,463,471	240,912,250
Net position:			
Net investment in capital assets	27,370,562	32,855,117	29,978,463
Restricted net position	22,349,330	21,819,549	21,821,116
Unrestricted net position	138,741,839	133,021,616	130,775,138
Total liabilities and net position	<u>\$ 445,265,645</u>	<u>\$ 447,159,753</u>	<u>\$ 423,486,967</u>

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018

Summary of District's Income

The following table contains a summary of income and changes in net position of the District for the years June 30, 2019 through 2017:

TABLE 2
Condensed Statements of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30		
	2019	2018	2017
Revenue:			
Net patient service revenue	\$ 271,711,454	\$ 263,681,234	\$ 270,331,594
Other	58,939,061	61,754,080	42,609,849
Total operating revenue	330,650,515	325,435,314	312,941,443
Expenses:			
Salaries and employee benefits	212,771,676	208,176,493	203,657,475
Supplies, contract services, equipment, and fees	78,112,031	73,112,789	73,314,064
Other operating expenses	17,328,800	15,911,799	17,218,145
Depreciation	13,688,220	14,337,236	15,292,642
Interest	10,666,259	10,685,565	10,983,888
Total operating expenses	332,566,986	322,223,882	320,466,214
Operating income (loss)	(1,916,471)	3,211,432	(7,524,771)
Investment income	2,632,959	1,306,611	1,026,295
Other nonoperating income	48,961	603,522	1,359,713
Increase (decrease) in net position	765,449	5,121,565	(5,138,763)
Net position at beginning of year	187,696,282	182,574,717	187,713,480
Net position at end of year	\$ 188,461,731	\$ 187,696,282	\$ 182,574,717

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018

Overview of the Financial Statements

Sources of Revenue

Operating Revenue

During fiscal year 2019, the District derived the majority, approximately 82 percent, of its total revenue from patient service revenue. During fiscal years 2018 and 2017 approximately 81 and 86 percent, respectively, of the District's revenue was derived from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs, other third-party payors, and patients. Reimbursement for the Medicare and Medicaid programs and other third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract rates is recognized as a contractual allowance.

Table 3, Payor Mix by Percentage of Gross Charges, presents the relative percentages of gross charges billed for patient services by payor for the 2019, 2018, and 2017 fiscal years.

TABLE 3
Payor Mix by Percentage of Gross Charges

	Year Ended June 30		
	2019	2018	2017
Medicare	51%	50%	50%
Medicaid	26	28	28
Managed care	17	17	17
Commercial insurance	4	4	4
Uninsured	2	1	1
Total patient revenues	100%	100%	100%

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018

Overview of the Financial Statements (continued)

Other Revenue

The following table summarizes other revenue:

TABLE 4
Other Revenue

	Year Ended June 30		
	2019	2018	2017
Cafeteria	\$ 1,111,334	\$ 1,139,197	\$ 1,076,229
Ideal you	160,871	179,425	218,631
Gift shop	248,447	221,036	226,113
Rental income	164,670	173,847	164,272
X-ray school income	135,225	111,240	117,657
Retail sales	387,025	349,620	382,210
Retail pharmacy	2,840,354	2,524,936	1,554,195
Comprehensive primary care plus	346,363	146,049	-
Release of information	624,999	494,076	433,224
NOPG wellness clinic	353,139	300,042	84,067
EHR Meaningful Use incentive	-	82,172	1,061,075
Consulting income	332,055	-	-
Supplemental revenue	49,473,748	52,918,455	34,616,329
Bond subsidy	2,339,610	2,329,200	2,322,867
Miscellaneous	421,221	784,785	352,980
Total other revenue	\$ 58,939,061	\$ 61,754,080	\$ 42,609,849

Investment Income

As a Hospital Service District governed by the State of Louisiana, the District is authorized by Louisiana statutes to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The District holds designated and restricted funds that are invested primarily in money market funds, certificates of deposit, and securities issued by the U.S. Treasury and other federal agencies. These investments had a total return of approximately \$2,633,000, \$1,307,000 and \$1,026,000 during fiscal years 2019, 2018, and 2017, respectively.

Other Nonoperating Income

During 2017, an escrow account was established in order to distribute \$1,611,000 from a settlement agreement related to the remediation and correction of certain HVAC system design/construction deficiencies in the specifications of the North Oaks Expansion project. The escrow account was funded by the insurers of the architect and mechanical design engineer who entered into the settlement agreement for the purpose of funding the cost of remediation. As designed and installed, the original HVAC system servicing the operating room areas was inadequate to meet cooling specifications. The revenues recognized from the settlement represent the payout thus far to remedy the deficiencies. The amount recognized was approximately \$-0-, \$395,000 and \$1,227,000 during fiscal years 2019, 2018 and 2017, respectively.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018**

Overview of the Financial Statements (continued)

Allowances and Expense

The following summarizes the District's statements of revenue, expenses, and changes in net position between 2019 and 2018:

The District reports net patient service revenue in the statements of revenue, expenses, and changes in net position. Net patient service revenue represents gross patient revenue, net of allowances.

An allowance for doubtful accounts is provided in an amount equal to the estimated losses to be incurred in collection of those receivables, and the related provision is reflected as a charge to net patient service revenue. The allowance is based on historical collection experiences and a review of the current status of the existing receivables. In response to increasing challenges in the collection of patient accounts receivable being experienced throughout the industry, as well as changes in the political and economic climate in the Hospital's geographic market, management determined that certain changes in estimates regarding expected collections were necessary and accordingly, recorded an additional provision of approximately \$15 million for bad debt, contractual allowances and anticipated third-party payor settlements related to this change in estimate at June 30, 2019. Also, in connection with this evaluation, management developed a more conservative reserving methodology that will be applied going forward.

In 2019, net patient service revenue increased to \$271.7 million from \$263.7 million in 2018 due to increases in inpatient and outpatient volumes.

Salaries expense increased approximately \$4,776,000 or 2.8 percent, to \$172,977,000 in 2019 from \$168,201,000 in 2018. The District continued its efforts to recruit physicians and advances practitioners to meet the medical needs of the community. Approximately \$860,000 of this increase related to additional salaries expense associated with a one-time software conversion.

As a percentage of salaries expense, employee benefit expense was approximately 23.0 and 23.8 percent for the fiscal years ended June 30, 2019 and 2018, respectively.

Contract services, equipment, and fees increased approximately \$4,927,000 or 20.5 percent, from the prior year. The majority of this increase is related to implementation costs for the District's new software system.

Other operating expenses increased approximately \$1,417,000 or 8.9 percent, from the prior year.

Depreciation expense decreased approximately \$649,000, or 4.5 percent, from the prior year.

Total operating expenses increased approximately \$10,343,000 or 3.2 percent, for the year ended June 30, 2019, for the reasons discussed above. The District continues cost reduction measures to control expenses.

Investment income consists of interest earnings on funds and realized and net unrealized gain or loss on fair market value adjustments. Total investment income increased approximately \$1,326,000 or 102 percent, from the prior year.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018**

Overview of the Financial Statements (continued)

The following summarizes the District's statements of revenue, expenses, and changes in net position between 2018 and 2017:

The District reports net patient service revenues in the statements of revenue, expenses, and changes in net position. Net patient services revenue represents gross patient revenue, net of allowances.

In 2018, net patient service revenue decreased to \$263.7 million from \$270.3 million in 2017 due to Medicaid expansion, with shifted volume from Managed Care and Uninsured to Medicaid.

Salaries expense increased approximately \$6,000,000 or 4 percent, to \$168,201,000 in 2018 from \$162,133,000 in 2017. The District continued its efforts to recruit physicians and advanced practitioners to meet the medical needs of the community.

As a percentage of salaries expense, employee benefit expense was approximately 23.8 and 25.6 percent for the fiscal years ended June 30, 2018 and 2017, respectively.

Supplies expense increased approximately \$417,000, or 1 percent, from the prior year.

Contract services, equipment, and fees decreased approximately \$1,491,000 or 6 percent, from the prior year.

Other operating expenses decreased approximately \$1,306,000, or 7.6 percent, from the prior year.

Depreciation expense decreased approximately \$955,000, or 6 percent, from the prior year.

Interest expense decreased approximately \$298,000, or 3 percent, from the prior year.

Total operating expenses increased by \$1,758,000, or 0.5 percent, for the year ended June 30, 2018, for the reasons discussed above. The District continues cost reduction measures to control expenses.

Investment income consists of interest earnings on funds and realized and net unrealized gain or loss on fair market value adjustments. Total investment income increased by approximately \$280,000, or 27 percent, from the prior year.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018**

Overview of the Financial Statements (continued)

Capital Assets

During fiscal years 2019, 2018 and 2017, the District invested approximately \$3,741,000, \$11,295,000 and \$7,062,000 respectively, in a broad range of property, plant, and equipment included in Table 5 below.

**TABLE 5
Capital Assets**

	2019	June 30 2018	2017
Land	\$ 7,457,774	\$ 7,457,774	\$ 7,455,974
Building and equipment	385,444,653	491,901,417	482,189,672
Subtotal	392,902,427	499,359,191	489,645,646
Less accumulated depreciation	183,618,144	281,975,479	268,086,440
Construction in progress	250,961	3,844,475	2,711,321
Net capital assets	<u>\$ 209,535,244</u>	<u>\$ 221,228,187</u>	<u>\$ 224,270,527</u>

Effective July 1, 2018, management of the District elected to change the capitalization policy for certain fixed assets. This change in policy resulted in expensing an aggregate 2019 impact of approximately \$6 million additions that previously would have been capitalized. This decision was made in relation to a change in estimate related to the future estimated useful life of the related assets. Additionally, during 2019, the District performed a review of their fixed assets and determined that fixed assets with a cost basis of approximately \$112 million were no longer in use and should be retired. Substantially all of these assets were fully depreciated, thus having no significant impact to the District's net position at June 30, 2019 or the changes in net position for the year ended.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018**

Overview of the Financial Statements (continued)

Long-Term Debt

At June 30, 2019, the District had approximately \$182,165,000 in short-term and long-term debt. Total debt decreased by approximately \$6,208,000 in fiscal year 2019 from \$188,373,000 in fiscal year 2018 due to principal payments.

At June 30, 2018, the District had approximately \$188,373,000 in short-term and long-term debt. Total debt decreased by approximately \$5,919,000 in fiscal year 2018 from \$194,292,000 in fiscal year 2017 due to principal payments.

More detailed information about the District's long-term debt is presented in the notes to basic financial statements.

Earnings before Interest, Depreciation and Amortization

Earnings before interest, depreciation and amortization ("EBIDA") as of the years ended June 30, are as follows:

**TABLE 6
EBIDA**

	2019	June 30 2018	2017
Operating income (loss)	\$ (1,916,471)	\$ 3,211,432	\$ (7,524,771)
Plus interest	10,666,259	10,685,565	10,983,888
Plus depreciation and amortization	13,688,220	14,337,236	15,292,642
EBIDA	<u>\$ 22,438,008</u>	<u>\$ 28,234,233</u>	<u>\$ 18,751,759</u>

EBIDA for the year ended June 30, 2019 decreased approximately \$5,796,000 or 21% for the reasons noted above in the summary of the District's statements of revenue, expenses, and changes in net position between 2019 and 2018. EBIDA for the year ended June 30, 2018 increased approximately \$9,482,000 or 51% for the reasons noted above in the summary of the District's statements of revenue, expenses, and changes in net position between 2018 and 2017.

Days cash on hand, which resulted from the activities described above, were 174, 145 and 125 at June 30, 2019, 2018 and 2017, respectively.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Management's Discussion and Analysis (continued)
Years Ended June 30, 2019 and 2018**

Contacting the District's Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administration.

Basic Financial Statements

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 71,633,057	\$ 42,778,635
Current portion of designated cash and investments	6,572,965	6,555,156
Short-term investments	38,387,015	10,200,000
Patient accounts receivable, net of allowance for doubtful accounts of \$36,814,991 and \$51,174,056 in 2019 and 2018, respectively	37,338,963	53,363,866
Estimated third-party payor settlements	-	12,204,374
Inventories	7,327,611	6,784,494
Prepaid expenses and other current assets	26,141,324	19,736,475
Total current assets	187,400,935	151,623,000
Long-term investments	19,315,295	47,128,102
Designated cash and investments		
Under bond indenture agreement held by trustee	15,793,365	15,282,190
By Board for self-insurance claims	570,202	425,185
Noncurrent designated cash and investments	16,363,567	15,707,375
Capital Assets		
Land	7,457,774	7,457,774
Buildings and equipment	385,444,653	491,901,417
Construction in process	250,961	3,844,475
	393,153,388	503,203,666
Less accumulated depreciation	183,618,144	281,975,479
Capital assets, net	209,535,244	221,228,187
Prepaid bond issuance costs	3,708,787	3,921,681
Deferred compensation plan investments	1,814,778	1,882,277
Other long-term assets	7,066,411	5,597,644
Total assets	445,205,017	447,088,266
Deferred outflows of resources	60,628	71,487
Total assets and deferred outflows	\$ 445,265,645	\$ 447,159,753

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
LIABILITIES		
Current liabilities		
Accounts payable	\$ 11,885,274	\$ 15,668,146
Accrued salaries and payroll-related costs	13,306,745	12,176,406
Accrued interest payable	4,094,904	4,166,988
Accrued self-insurance claims	6,783,794	6,328,615
Estimated third-party payor settlements	92,754	-
Current portion of long-term debt	6,355,000	6,200,000
Deferred revenue	36,643,983	30,850,969
Deferred gain	17,000	17,000
Total current liabilities	79,179,454	75,408,124
Long-term debt and capital lease obligations, less current maturities	175,809,682	182,173,070
Deferred compensation plan obligations	1,814,778	1,882,277
Total liabilities	256,803,914	259,463,471
NET POSITION		
Net investment in capital assets	27,370,562	32,855,117
Restricted net position	22,349,330	21,819,549
Unrestricted net position	138,741,839	133,021,616
Total net position	188,461,731	187,696,282
Total liabilities and net position	\$ 445,265,645	\$ 447,159,753

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Revenue		
Net patient service revenue	\$ 306,565,146	\$ 311,822,451
Provision for doubtful accounts	(34,853,692)	(48,141,217)
Total net patient service revenue	<u>271,711,454</u>	<u>263,681,234</u>
Other revenues	<u>58,939,061</u>	<u>61,754,080</u>
Total operating revenue	<u>330,650,515</u>	<u>325,435,314</u>
Expenses		
Salaries and wages	172,976,891	168,201,056
Employee benefits	39,794,785	39,975,437
Supplies	49,206,674	49,134,597
Contract services, equipment, and fees	28,905,357	23,978,192
Other operating expenses	17,328,800	15,911,799
Depreciation	13,688,220	14,337,236
Interest	<u>10,666,259</u>	<u>10,685,565</u>
Total expenses	<u>332,566,986</u>	<u>322,223,882</u>
Income (loss) from operations	(1,916,471)	3,211,432
Nonoperating revenues		
Investment income, net	2,632,959	1,306,611
Other nonoperating income	<u>48,961</u>	<u>603,522</u>
Total nonoperating revenues	<u>2,681,920</u>	<u>1,910,133</u>
Increase in net position	765,449	5,121,565
Beginning net position	<u>187,696,282</u>	<u>182,574,717</u>
Ending net position	<u>\$ 188,461,731</u>	<u>\$ 187,696,282</u>

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash collected from patients and third-party payors	\$ 311,244,778	\$ 280,818,084
Cash payments to employees and for employee-related costs	(211,186,158)	(207,906,842)
Cash payments for supplies, services and other prepaid expenses	(105,518,171)	(106,029,527)
Cash received from supplemental programs	55,266,763	77,069,267
Net cash provided by operating activities	49,807,212	43,950,982
Cash flows from nonfinancing activities		
Noncapital grants and contributions	48,961	208,656
Cash flows from capital and related financing activities		
Purchases of capital assets	(4,518,521)	(11,112,386)
Principal payments on long term debt incurred for capital purposes	(6,200,000)	(5,910,000)
Interest payments on long-term debt	(10,522,977)	(10,560,243)
Proceeds from insurance settlement	-	394,867
Net cash used in capital and related financing activities	(21,241,498)	(27,187,762)
Cash flows from investing activities		
Investment income	2,310,315	1,600,807
Purchases of designated cash and investments	(54,542,397)	(73,722,883)
Proceeds from sales and maturities of designated cash and investments	52,471,829	21,147,038
Net cash provided by (used in) investing activities	239,747	(50,975,038)
Net change in cash and cash equivalents	28,854,422	(34,003,162)
Cash and cash equivalents, beginning of year	42,778,635	76,781,797
Cash and cash equivalents, end of year	\$ 71,633,057	\$ 42,778,635

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Income (loss) from operations	\$ (1,916,471)	\$ 3,211,432
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities		
Depreciation and amortization	13,688,220	14,337,236
Provision for doubtful accounts	34,853,692	48,141,217
Disposal of property and equipment	1,745,980	-
Amortization of prepaid bond insurance costs	212,894	143,394
Amortization of premium on long-term debt	(8,386)	(8,995)
Amortization of deferred outflows of resources	10,859	10,859
Interest expense on long-term debt and capital lease obligations	10,450,893	10,540,307
Changes in operating assets and liabilities		
Patient accounts receivable	(18,828,789)	(43,087,825)
Inventories and prepaid expenses	(6,947,966)	(13,585,451)
Estimated third-party payor settlements	12,297,128	1,240,333
Deferred revenue	5,793,014	26,158,312
Accounts payable and accrued expenses	(1,420,092)	(2,075,175)
Other assets and liabilities	(123,764)	(1,074,662)
Net cash provided by operating activities	<u>\$ 49,807,212</u>	<u>\$ 43,950,982</u>

See accompanying notes.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District") is a political subdivision of the State of Louisiana created by ordinance of the Tangipahoa Parish Police Jury, which is now the Parish Council, adopted on May 17, 1955, pursuant to Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, as amended. The District is governed by a Board of Commissioners consisting of five members appointed by the Parish Council.

Founded in 1954 by the citizens of Tangipahoa Parish and opening its doors on April 20, 1960, as a 60-bed, nonprofit public hospital service district facility, the former "Seventh Ward General Hospital" has evolved into what is now commonly known as the North Oaks Health System (the "System").

The System completed a restructuring in 2012 that resulted in formation of the following subsidiaries: (i) North Oaks Medical Center, L.L.C. ("NOMC"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's acute-care hospital known as North Oaks Medical Center pursuant to a Management Services Agreement between the District and the NOMC Affiliate; North Oaks Medical Center is currently licensed for 330 beds; (ii) North Oaks Rehabilitation Hospital, L.L.C. ("NORH"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's comprehensive medical rehabilitation hospital known as North Oaks Rehabilitation Hospital pursuant to a Management Services Agreement between the District and the NORH Affiliate; North Oaks Rehabilitation Hospital is currently licensed for 27 beds; and (iii) North Oaks Physician Group, L.L.C. ("NOPG"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's network of multispecialty physician clinics known as North Oaks Physicians Group pursuant to a Management Services Agreement between the District and the NOPG Affiliate. NOPG currently has 21 active clinics. On June 25, 2018, 20 on-campus clinics were licensed as provider-based clinics and became outpatient clinics of NOMC. Additionally, in 2009 in connection with the acquisition of the North Oaks Surgery Center, the System formed Gold Leaf Holdings, L.L.C. ("GLH"), a wholly-owned subsidiary of the System whose members are the District and Gold Leaf Holdings II, L.L.C. Each of the Affiliated Entities is governed by a separate Board of Managers that is subject to the power of the Board of Commissioners of the District and whose members are appointed by the Board of Commissioners of the District.

Basis of Accounting

The District reports in accordance with accounting principles generally accepted in the United States in accordance with accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the System have been prepared on the accrual basis of accounting using the economic resources measurement focus.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by the Board of Commissioners' designation or under trust agreements.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Investments

All investments are stated at fair value based on quoted market prices. Changes in the difference between the cost and the fair market value of the investments are included in investment income. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

Investment income is reported as nonoperating income.

Inventories

Inventories are valued at the lower of cost or market.

Capital Assets

The District records all capital asset acquisitions at cost except for assets donated to the District. Donated assets are recorded at appraised value at the date of donation. The District provides for depreciation of its capital assets using the straight-line method based on the estimated useful lives of the assets as suggested by the American Hospital Association. Equipment recorded under capital lease obligations is included in buildings and equipment, and the associated amortization of these assets is included in depreciation expense.

Self-Insurance Claims

Accrued self-insurance claims represent the District's best estimate of incurred but unpaid expenses for professional and general liability, workers' compensation, and employees' health insurance expense.

Net Position

The District's net position is classified into three components: invested in capital assets, net of related debt, restricted, and unrestricted. These components are defined as follows:

- Net Investment in Capital Assets – This component reports capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component reports those net positions with externally imposed constraints on their use by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component reports net positions that do not meet the definition of either of the other two components: "restricted" or "net investment in capital assets, related debt."

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Statements of Revenue, Expenses, and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in operating revenue or expenses, this includes subsidies received from the U.S. Department of Treasury, per the terms of the 2009 bond agreement, to reduce interest payments for the 2009A Build America Bonds. All peripheral transactions are reported as a component of nonoperating income.

Other nonoperating income includes revenue recognized as part of a settlement agreement related to design/construction deficiencies of a certain HVAC system and noncapital grants received are also reported as other nonoperating income.

Net Patient Service Revenue and Related Receivables

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the District is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors, and others for services rendered. Settlements under reimbursement agreements with Medicare are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final cost report settlements are determined. These adjustments resulted in a decrease to net patient service revenue of approximately \$741,200 in 2019 and an increase to net patient service revenue of approximately \$261,000 in 2018.

In fiscal year 2019, the District recorded Full Medicaid Payout ("FMP") revenue for Physician Supplemental payments of approximately \$14,151,000 and District Upper Payment Limit ("UPL") revenue of approximately \$16,926,000 during the year ended June 30, 2019. These amounts were recorded as other operating revenue on the accompanying statements of revenue, expenses, and changes in net position.

In fiscal year 2019, the District also received approximately \$13,000 for a Medicaid NICU outlier, which offset Medicaid contractual adjustments.

The District recorded FMP revenue for Physician Supplemental payments of approximately \$12,840,000 and District UPL revenue of approximately \$17,336,000 during the year ended June 30, 2018. These amounts were recorded as other operating revenue on the accompanying statements of revenue, expenses, and changes in net position.

In fiscal year 2018, the District also received \$94,000 for a Medicaid NICU outlier, which offset Medicaid contractual adjustments.

To provide for accounts receivable that could be uncollectible in the future, the District establishes an allowance for doubtful accounts to reduce the carrying value of patient receivables to their estimated net realizable value. The primary uncertainty related to collection is related to uninsured patient receivables, insured patient deductibles, and co-payments and other amounts due from

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

individual patients. There are various factors that can affect collection trends, such as economic changes, which can affect unemployment rates and the number of uninsured and underinsured patients, the volume of emergency room visits, high deductible plans, and business practices related to collection efforts. In 2019, in response to increasing challenges in the collection of patient accounts receivable throughout the industry as well as recent developments in collection trends of the District, management determined that certain changes in estimates regarding expected collections (primarily from self-pay accounts) were necessary. Accordingly, additional allowances related to this change in estimate were recorded at June 30, 2019. These factors are monitored continuously and can affect collection trends and the estimation process.

The District's allowance for doubtful accounts for self-pay patients increased from 83 percent of self-pay accounts receivable at June 30, 2018, to 96 percent of self-pay accounts receivable at June 30, 2019. The District has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018.

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, the District estimates a significant portion of uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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 as net patient service revenue. Records of charges forgone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

Uncompensated Care

Uncompensated care cost includes cost of care provided to uninsured and indigent patients for which the District is not compensated, care provided to patients who have the financial capacity to pay, but are unwilling to settle the claim, and care provided to Title XIX Medicaid patients, which the District is not adequately covered by the payments.

The Balanced Budget Refinement Act ("BBRA") requires that short-term acute care hospitals submit the uncompensated care cost data on the District's cost reports each year.

The District estimated uncompensated care cost amounts to \$30,891,000 and \$32,366,000 in 2019 and 2018, respectively.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Medicare and Medicaid Reimbursement

The District is reimbursed under the Medicare Prospective Payment System, which reimburses the District a predetermined amount for Medicare inpatient acute services rendered based, for the most part, on the MS Diagnosis Related Group assigned to the patient. Medicaid inpatient services are paid on a prospective per diem basis.

The District is reimbursed for Medicare outpatient services under the Ambulatory Payment Classification based on fixed rates per outpatient procedure.

Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed under fee schedule payment methodology, while other outpatient services are reimbursed based on an average of 74.56 percent and 72.83 percent of total cost for 2019 and 2018, respectively.

Medicare bad debts, Medicare Disproportionate Share Hospital payments, and Medicaid non-fee schedule outpatient services were reimbursed on a tentative basis during the year and are subject to a retroactive payment adjustment determined in accordance with appropriate Medicare or Medicaid program regulations. Retroactive cost settlements are accrued on an estimated basis in the period the related services are rendered and adjusted as necessary in future periods as final settlements are determined. Medicare and Medicaid settlements have been determined following the principles of reimbursement applicable to each program.

The District's percentage of gross patient revenue derived from Medicare and Medicaid program beneficiaries was 77 percent and 78 percent for the years ended June 30, 2019 and 2018, respectively.

Income Taxes

The District is exempt from federal income taxation as a political subdivision of the State of Louisiana, and accordingly, the accompanying basic financial statements do not include any provision for income taxes.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates related to these programs will change by a material amount in the near term.

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

New Accounting Standards Adopted

Governmental Accounting Standards Board Statement No. 88 ("GASB 88")

The District adopted GASB 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, in fiscal year 2019. This statement requires additional information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default or termination with finance-related consequences and significant acceleration clauses. The adoption of this standard did not have a significant impact on the financial statements.

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 84 ("GASB 84")

The District will adopt GASB 84, Fiduciary Activities, in fiscal year 2020 with any changes applied retroactively. This statement is meant to provide guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. Fiduciary activities meeting certain criteria (i.e. pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds) will now be reported in a fiduciary fund as part of the basic financial statements. The District is currently assessing the impact of the adoption of this GASB and its effect on the District's financial position or results of operations.

Governmental Accounting Standards Board Statement No. 87 ("GASB 87")

The District will adopt GASB 87, Leases, in fiscal year 2021 with any changes applied retroactively. This statement will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. Under this statement all leases are required to be recognized as assets and liabilities with associated deferred inflows and outflows of resources on the financial statements. Furthermore, the statement defines a lease and details the considerations for determining the lease term. The District is currently assessing the impact of the adoption of this GASB and its effect on the District's financial position or results of operations.

Governmental Accounting Standards Board Statement No. 89 ("GASB 89")

The District will adopt GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period, in fiscal year 2021. This statement will improve financial reporting by (1) enhancing the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) simplifying accounting for interest cost incurred before the end of a construction period. This statement will supersede GASB 62, requiring that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost was incurred. The District is currently assessing the impact of the adoption of this GASB and its effect on the District's financial position or results of operations.

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Cash, Investments, and Designated Cash and Investments

At June 30, cash and investment balances were as follows:

	<u>Maturity</u>	<u>Fair Value</u>
2019		
Securities type:		
U.S. Government-backed obligations	2019-2022	\$ 23,561,596
Fixed income		1,438,275
Equity securities		2,856,461
Cash & cash equivalents, certificates of deposit, & accrued interest receivable		<u>124,415,567</u>
		<u>\$ 152,271,899</u>
2018		
Securities type:		
U.S. Government-backed obligations	2018-2021	\$ 21,837,346
Cash & cash equivalents, certificates of deposit, & accrued interest receivable		<u>100,531,922</u>
		<u>\$ 122,369,268</u>

The table below reconciles the cash, investments, and designated cash and investments by security type to the amounts recorded on the statements of net position at June 30:

	<u>Statement of Net Position Classification</u>					<u>Total</u>
	<u>Cash and</u>	<u>Current</u>		<u>Long-Term</u>	<u>Long-Term</u>	
		<u>Equivalents</u>	<u>Designated</u>			
	<u>Investments</u>	<u>Investments</u>	<u>Investments</u>	<u>Investments</u>		
2019						
U.S. Government-backed obligations	\$ -	\$ 6,572,965	\$ 1,195,266	\$ -	\$ 15,793,365	\$ 23,561,596
Fixed income	-	-	1,438,275	-	-	1,438,275
Equity securities	-	-	2,856,461	-	-	2,856,461
Cash & cash equivalents, certificates of deposit, & accrued interest receivable	<u>71,633,057</u>	<u>-</u>	<u>32,897,013</u>	<u>19,315,295</u>	<u>570,202</u>	<u>124,415,567</u>
	<u>\$ 71,633,057</u>	<u>\$ 6,572,965</u>	<u>\$ 38,387,015</u>	<u>\$ 19,315,295</u>	<u>\$ 16,363,567</u>	<u>\$ 152,271,899</u>

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Continued

	Statement of Net Position Classification					Total
	Cash and Equivalents	Current Designated Investments	Short-Term Investments	Long-Term Investments	Long-Term Designated Investments	
2018						
U.S. Government- backed obligations \$	-	\$ 6,555,156	-	-	\$ 15,282,190	\$ 21,837,346
Cash & cash equivalents, certificates of deposit, & accrued Interest receivable	42,778,635	-	10,200,000	47,128,102	425,185	100,531,922
	<u>\$ 42,778,635</u>	<u>\$ 6,555,156</u>	<u>\$ 10,200,000</u>	<u>\$ 47,128,102</u>	<u>\$ 15,707,375</u>	<u>\$ 122,369,268</u>

Louisiana statutes authorize the District to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The cash and cash equivalents, certificates of deposit, and accrued interest receivable are all secured with pledged collateral from the financial institution.

The District has a policy for the composition of asset allocation and specific allocation of funds as outlined below, and the result is that maturity terms are staggered.

Asset Class	Desired Percentage Range of Overall Portfolio
Cash	0% to 10%
Fixed income	35% to 55%
Equities	45% to 65%

Credit Risk - Investments

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of Credit Risk

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3 (GASB 40)*, 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 5 percent of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Continued

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 June 30, 2019 and 2018, the District had no investments requiring concentration of credit risk disclosure.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the District be protected by Federal Deposit Insurance Corporation ("FDIC") insurance or collateral. The fair value of the collateral pledged must equal 100 percent of the deposits not covered by FDIC insurance. As of June 30, 2019, \$120,964,058 of the District's bank balances of \$122,464,058 were collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured. The remaining balance was protected by FDIC insurance.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2019 and 2018, the District was not exposed to custodial credit risk for its investments, as all were registered in the name of the District.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of June 30, 2019 and 2018:

Investment Type	Fair Value	Years		
		< 1	1-5	> 5
2019				
U.S. Government-backed obligations	\$ 23,561,596	\$ 12,508,540	\$ 10,297,260	\$ 755,796
2018				
U.S. Government-backed obligations	\$ 21,837,346	\$ 7,371,622	\$ 14,465,724	-

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Continued

The District's group purchasing organization, Premier Healthcare Solutions, Inc. ("PHSI"), completed an initial public offering on September 26, 2013. This resulted in the District's 9,518 shares of PHSI stock being converted into 225,090 shares of Class B units in the public company. The District's initial ownership interest in PHSI was recorded as an equity-based investment of \$75,000 at June 30, 2013. In conjunction with the offering, PHSI sold 35,985 shares of the District's stock at \$25.38 per share. This resulted in the District recognizing a realized gain of approximately \$844,000 in October 2013. The remaining 189,105 shares were converted into Class B common shares. These shares are exchangeable pro rata over seven years into Class A common shares or to retain as Class B shares. The carrying value of the Premier investment was approximately \$5,676,000 as of June 30, 2019 and \$4,399,000 as of June 30, 2018 and is included in other long-term assets.

Note 3. Concentration of Credit Risk

The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30 was as follows:

	2019	2018
Medicare	35%	33%
Medicaid	11	7
Self-pay	1	8
Other (managed care, commercial)	53	52
	100%	100%

Note 4. Designated Cash and Investments

The terms of the District's Revenue Bonds (see Note 8) require funds to be maintained on deposit in certain accounts with the trustee. The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the related bond resolutions. As of June 30, the funds were deposited as follows:

	2019	2018
Bond principal account	\$ 2,704,645	\$ 2,656,922
Bond interest account	3,832,521	3,864,687
Reserve accounts and other	15,829,164	15,315,737
	\$ 22,366,330	\$ 21,837,346

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 5. Capital Assets

The District's investment in capital assets consisted of the following as of June 30, 2019:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	\$ 7,458,000	\$ -	\$ -	\$ -	\$ 7,458,000
Buildings and fixed equipment	316,856,000	725,000	1,013,000	(31,407,000)	287,187,000
Equipment	175,045,000	2,532,000	1,344,000	(80,663,000)	98,258,000
Construction in progress	3,845,000	484,000	(2,357,000)	(1,721,000)	251,000
	503,204,000	3,741,000	-	(113,791,000)	393,154,000
Less accumulated depreciation	281,975,000	13,688,000	-	(112,045,000)	183,618,000
Capital assets, net	<u>\$ 221,229,000</u>	<u>\$ (9,947,000)</u>	<u>\$ -</u>	<u>\$ (1,746,000)</u>	<u>\$ 209,536,000</u>

The District's investment in capital assets consisted of the following as of June 30, 2018:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	\$ 7,456,000	\$ 2,000	\$ -	\$ -	\$ 7,458,000
Buildings and fixed equipment	313,284,000	140,000	3,432,000	-	316,856,000
Equipment	168,905,000	4,244,000	2,344,000	(448,000)	175,045,000
Construction in progress	2,712,000	6,909,000	(5,776,000)	-	3,845,000
	492,357,000	11,295,000	-	(448,000)	503,204,000
Less accumulated depreciation	268,086,000	14,337,000	-	(448,000)	281,975,000
Capital assets, net	<u>\$ 224,271,000</u>	<u>\$ (3,042,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 221,229,000</u>

During 2019, the District performed a review of their fixed assets and determined that fixed assets with cost basis of \$112,070,000 were no longer in use and should be retired. Of this amount, \$112,045,000 were fully depreciated.

Note 6. Employee Retirement Plan

The District has a defined contribution plan for employees. Under the plan, the District is required to contribute a specified percentage of eligible employees' salaries based on years of service. Participants may contribute up to the maximum level allowed by the Internal Revenue Code ("IRC") or 25 percent of gross salary, whichever is less. The participants vest immediately in all participant contributions and vest 100 percent over a five-year cliff vesting schedule in all District contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59½, severe financial hardship, or death.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 6. Continued

Retirement expense included in employee benefit expense was approximately \$4,636,000 and \$4,637,000 in 2019 and 2018, respectively, representing the required contributions in both years.

The District also sponsors deferred compensation plans 415(m) and 457 of the IRC. The District reports the plan assets and a corresponding liability in the accompanying basic financial statements. Accordingly, the District has recorded an asset and a corresponding liability of approximately \$1,815,000 and \$1,882,000 for the fair market value of the plans' combined assets as of June 30, 2019 and 2018, respectively.

Note 7. Risk Management

The District participates in the State of Louisiana Patient Compensation Fund (the "Fund"). The Fund provides malpractice coverage to the District for claims in excess of \$100,000, up to \$500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to \$500,000 per occurrence. District management has no reason to believe that the District will be prevented from continuing its participation in the Fund.

The District is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the District and are currently in various stages of litigation. The District accrued approximately \$5,700,000 and \$4,465,000 as of June 30, 2019 and 2018, respectively, for the estimated losses and expenses related to general and malpractice liability claims for which the District is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the District arising from services provided to patients. The District has made an accrual on estimates for these claims.

The District is self-insured for its workers' compensation and employee health claims. The District has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The District accrued approximately \$1,084,000 and \$1,864,000 at June 30, 2019 and 2018, respectively, for employee health insurance and workers' compensation claims.

The following table summarizes the changes in the self-insurance liability:

Year Ended June 30	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2019	\$ 6,329,000	\$ 30,737,000	\$ 30,282,000	\$ 6,784,000
2018	\$ 6,804,000	\$ 27,531,000	\$ 28,006,000	\$ 6,329,000

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Long-Term Debt

The District's long-term debt consisted of the following:

	June 30	
	2019	2018
Hospital Revenue Bonds, Series 2003A	\$ 21,825,000	\$ 21,825,000
Hospital Revenue Bonds, Series 2003B	16,800,000	17,400,000
Hospital Revenue Bonds, Series 2009A	99,000,000	99,000,000
Bonds, Series 2011	16,035,000	17,690,000
Bonds, Series 2013	20,615,000	23,810,000
Bonds, Series 2015	7,850,000	8,600,000
Total	182,125,000	188,325,000
Plus unamortized bond premium on 2004, 2003, and 2013 bonds	39,682	48,070
	182,164,682	188,373,070
Less current portion	6,355,000	6,200,000
Long-term debt, less current maturities	\$ 175,809,682	\$ 182,173,070

On July 2, 2003, the District issued \$70,000,000 of Hospital Revenue and Refunding Bonds, Series 2003A (Series 2003A Bonds). Approximately \$50,000,000 of the Series 2003A Bonds proceeds were used to repay a portion of previously issued bonds. In December 2013, the District issued Series 2013 Bonds totaling \$36,240,000, primarily for the payoff of a portion of the Series 2003A Bonds. The Series 2003A Bonds mature annually starting in 2025, bearing interest at 5 percent. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2019.

On August 28, 2003, the District issued \$20,000,000 of Hospital Revenue Bonds, Series 2003B (Series 2003B Bonds). These serial bonds mature annually in amounts ranging from \$2,625,000 in 2030 to \$5,920,000 in 2033, at variable interest rates not to exceed 12 percent.

On September 10, 2009, the District entered into a transaction with a financial institution to purchase the Series 2003B Bonds with the outstanding principal amount of \$19,000,000. The financial institution chose not to remarket the bonds in 2014, the first fifth-year period. The financial institution has the option to tender the bond every fifth year. In addition, the interest rate was modified to be a variable rate based on 65.00 percent of the London Interbank Offered Rate (LIBOR) plus 2.50 percent with a LIBOR floor of 2.00 percent. On May 1, 2013, the variable interest rate was renegotiated to 65.00 percent of LIBOR plus 2.25 percent. In April 2015, the District renegotiated with the financial institution to change the remaining mandatory sinking fund payment schedule and extend the right to remarket the bond to February 2024, which will be the only remarket option for the remaining bank years. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2019.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Continued

On October 7, 2009, the District issued \$99,000,000 of Hospital Revenue Bonds, Series 2009 (Series 2009A Bonds), which are insured, taxable Build America Bonds with a coupon interest rate of 7.2 percent. These bonds qualify for a 32 percent interest payment subsidy from the U.S. Department of the Treasury. The subsidy was reduced from 35 percent to 32 percent in July 2013 due to a federal sequestration reduction. During 2019 and 2018, the District received approximately \$2,340,000 and \$2,329,000 of subsidies, respectively, which have been recorded as operating revenue in the statements of revenue, expenses, and changes in net position. These bonds funded a major expansion program on the NOMC campus. These bonds mature annually in amounts ranging from \$1,170,000 in 2030 to \$12,390,000 in 2042. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2019.

On November 3, 2011, the District issued \$25,000,000 of Hospital Revenue Bonds, Series 2011 (Series 2011 Bonds). These bonds mature annually beginning in 2014 through 2027 in amounts ranging from \$1,345,000 to \$2,305,000 and bear interest at a fixed annual rate of 4.36 percent. The Series 2011 Bonds are callable for redemption at any time prior to their stated maturities at the option of the District, at whole but not in part, at the principal amount thereof, including accrued interest at the redemption date, plus a premium of up to 5 percent, depending on the date of redemption. The District renegotiated with the financial institution to reduce the interest rate from an annual rate of 4.36 percent to 3.86 percent and to remove the entire redemption premium with the effective date of July, 1, 2017.

The District issued \$10,000,000 of Fixed Rate Bonds, Series 2015, on May 20, 2015. The proceeds of the bond issue were used to reimburse the district for capital expenditures including those related to the emergency department and kitchen expansion. There is no put option on these bonds. Principal payments are due from years 2019 - 2028.

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2019, were as follows:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 6,355,000	\$ 10,205,801
2021	6,600,000	10,006,017
2022	6,830,000	9,794,050
2023	7,065,000	9,568,455
2024	7,295,000	9,329,323
2025-2029	38,030,000	42,251,502
2030-2034	25,040,000	34,730,480
2035-2039	49,380,000	23,781,600
2040-2042	35,530,000	5,194,440
	<u>\$ 182,125,000</u>	<u>\$ 154,861,668</u>

Included in the estimated interest payments in the table above is approximately \$47,000,000 of interest for the Series 2009 Build America Bonds that is estimated to be received by the District as a subsidy from U.S. Department of the Treasury over the remaining term of the bonds.

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Continued

The following table summarizes the changes in the long-term debt:

Year Ended June 30	Beginning of Fiscal Year Long-Term Debt	Additions	Principal Payments	Balance at Fiscal Year-End
2019	\$ 188,325,000	\$ -	\$ 6,200,000	\$ 182,125,000
2018	\$ 194,235,000	\$ -	\$ 5,910,000	\$ 188,325,000

Note 9. Charity Care

The estimated cost of total uncompensated care for the years ended June 30, 2019 and 2018 is approximately \$379,000 and \$1,098,000, respectively. This estimate is based on the cost-to-charge ratio of patient care costs, including salaries and benefits, supplies, other operating expenses, and depreciation, to gross patient charges.

Note 10. Governmental Regulations

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, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. 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 District is in compliance with fraud and abuse laws and regulations, 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.

Note 11. Operating Leases

The District leases various equipment and facilities under operating leases expiring at various dates through 2024. Total rental expense for the years ended June 30, 2019 and 2018, for all operating leases was \$2,832,208 and \$1,928,347, respectively.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 11. Continued

The following is a schedule by year of approximate future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 2,265,777
2021	1,738,694
2022	1,174,985
2023	564,232
2024	25,800
Total	<u>\$ 5,769,488</u>

Note 12. Commitments

At June 30, 2018 the District had various commitments totaling approximately \$5,407,000. These commitments relate to various capital equipment purchases.

Note 13. Louisiana Medicaid Supplemental Payment Programs

The District has entered into a series of collaborative agreements and cooperative endeavors designed to provide additional Medicaid funds to help improve or expand allowable healthcare services for Medicaid beneficiaries or low-income, uninsured patients in the community.

East Jefferson General Hospital Cooperative Endeavor Agreement

On November 30, 2015, the District entered into a cooperative endeavor agreement with East Jefferson General Hospital ("EJGH"), a Louisiana hospital service district, and other participating hospital service districts ("HSD"). The Centers for Medicare and Medicaid Services ("CMS") have previously approved Medicaid State Plan Amendments ("SPA"), submitted by the Louisiana Department of Health ("LDH"), which provides for reimbursement to non-rural, non-state public hospitals up to the Medicaid inpatient upper payment limit. Under this agreement, EJGH has agreed to cooperate in the establishment of a funding program by negotiating with all Medicaid Managed Care Organizations ("MCOs") to receive a specific portion of Full Medicaid Pricing ("FMP") payments LDH made to ("MCOs"). EJGH shall make supplemental payments to the other HSDs for the purpose of ensuring that adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens and medically underserved non-rural populations in Louisiana in a manner defined in the agreement. Funding for each participating HSD is based upon a formula utilizing each district's reported Medicaid patient days and Medicaid losses. The term of this agreement is one year with automatic renewals for additional terms of one year each unless previously terminated.

For this agreement, the District recognized total revenue, of approximately \$16,926,000 and \$17,336,000 in 2019 and 2018, respectively. The revenue earned from this agreement is included as a component of other operating revenue in the accompanying statements of revenue, expenses, and changes in net position.

**Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2019 and 2018**

NOTES TO BASIC FINANCIAL STATEMENTS

Note 13. Continued

Physician Rate Enhancement Agreement

On June 1, 2016, the HSD and the NOPG entered into a Physician Rate Enhancement Funds ("PREFs") Assignment Agreement with LDH. Under the program LDH increased PMPM rate for reimbursement of physician services to include the FMP for safety-net physicians to receive enhanced rates. The PREFs can only be paid to a HSD that elects to provide the state match for the federal funding associated with these Physician Rate Enhancement payments. NOPG has to contract with or be employed by the HSD to provide inpatient and outpatient physician services to be eligible to receive the funds. Under the agreement, NOPG assigns all rights and authorities to HSD to contract for and to collect payment of PREFs.

For this agreement, the District recognized total revenue, of approximately \$14,151,000 and \$12,840,000 in 2019 and 2018, respectively. The revenue earned from this agreement is included as a component of other operating revenue in the accompanying statements of revenue, expenses, and changes in net position.

Professional Services Agreement

NOPG and NOMC entered into agreements with a private health care provider. Under the terms of this agreement the private healthcare provider agrees to work cooperatively with the NOPG and NOMC to improve access to healthcare for low-income and/or indigent citizens. The agreement may be terminated by either party with thirty days' written notice.

The District recorded approximately \$36,538,000 and \$30,801,000 as deferred revenues as of June 30, 2019 and 2018, respectively. The District also recorded \$30,801,000 and \$28,610,000 as of June 30, 2019 and 2018, respectively, as other operating revenue on the accompanying statements of revenue, expenses, and changes in net position.

Note 14. Fair Value Measurement

The District holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the District's mission, the District determined that the disclosures related to these investments only need to be disaggregated by major type. The District elected a narrative format for the fair value disclosures.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements:

- Fixed income and equity securities of \$4,294,736 and \$-0- as of June 30, 2019 and 2018, respectively, are valued using prices quoted in active markets for those securities (Level 1 inputs).
- Government agency bond obligations of \$23,561,596 and \$21,837,346 as of June 30, 2019 and 2018, respectively, are valued using significant other observable inputs for those securities (Level 2 inputs).



**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 24, 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 of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of This Report

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

HORNE LLP

Ridgeland, Mississippi
October 24, 2019

**HOSPITAL DISTRICT NO. 1 OF THE PARISH OF
Tangipahoa, State of Louisiana**

**Independent Accountant's Report
On Applying Agreed-Upon Procedures
For the Reporting Period
July 1, 2018 through June 30, 2019**



Independent Accountant's Report on Applying Agreed-Upon Procedures

The Board of Commissioners
Hospital Service Health System No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have performed the procedures enumerated below, which were agreed to by Hospital Service Health System No. 1 of Tangipahoa Parish, State of Louisiana, d/b/a North Oaks Health System (the "Health System") and the Louisiana Legislative Auditor ("LLA") on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures ("SAUPs") for the fiscal period July 1, 2018 through June 30, 2019. The Health System's management is responsible for those control and compliance areas identified in the SAUPs.

This agreed-upon procedures engagement was performed 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 findings are as follows:

Written Policies and Procedures

1. Determine whether the Health System's written policies and procedures address each of the following financial/business functions: budgeting, purchasing, disbursements, receipts/collections, payroll/personnel, contracting, credit cards, travel and expense reimbursement, ethics, debt service and disaster recovery/business continuity.

We obtained and examined the Health System's policies and procedures documentation for each of the financial/business functions listed above and confirmed the inclusion of all necessary items as defined by LLA's SAUPs 1.

Board/Committee Meetings

2. Determine whether the managing Board met (with quorum) at least monthly, or on a frequency in accordance with the Board of Commissioners' (the "Board") enabling legislation, charter, bylaws or other equivalent document.
3. Determine that the minutes referenced or included financial activity.

4. Obtain the prior year audit report and observe the unrestricted fund balance. If the unrestricted fund balance in the prior year had a negative ending balance, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted balance.

Not applicable for Year 3 in accordance with guidance per SAUPs Year 3 – Fiscal Years Ending 6/30/2019 through 5/31/2020, issued May 17, 2019.

Bank Reconciliations

5. Obtain from management a listing of all bank accounts held by the Health System.
6. Select the Health System's operating account and a sample of four other bank accounts provided in the listing obtained from management in SAUP 5. For each sample, randomly select one month from the fiscal period, obtain a bank statements and corresponding reconciliations for month selected and determine whether:
 - a) Bank reconciliations have been prepared within two months of the related statement closing date;
 - b) Bank reconciliations were properly reviewed by management;
 - c) Management has researched reconciling items that have been outstanding for more than twelve months from the statement closing date and documented such research accordingly, if applicable.

Not applicable for Year 3 in accordance with guidance per SAUPs Year 3 – Fiscal Years Ending 6/30/2019 through 5/31/2020, issued May 17, 2019.

Collections

7. Obtained from management a listing of all deposit sites maintained by the Health System and select a sample of five deposit sites. For each deposit site, obtained from management a listing of all cash collection locations maintained by the Health System.
8. Select a sample of one collection location for each deposit site provided in the listing obtained from management in SAUP 7. For each sample, obtain and inspect written policies and procedures related to employee job duties. Observe that job duties are properly segregated at each collection location such that:
 - a) Employees that are responsible for cash collections do not share cash drawers/registers.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
 - c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

9. Inquire with management whether each person who has access to cash is covered by a bond or insurance policy for theft.
10. Select two deposit dates for each of the five bank accounts selected for SAUP 6 and obtain supporting documentation such that:
 - a) Observe that receipts are sequentially pre-numbered.
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - c) Trace the deposit slip total to the actual deposit per the bank statement.
 - d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles or the deposit is less than \$100).
 - e) Trace the actual deposit per the bank statement to the general ledger.

We performed inquiries and reviewed supporting documentation related to the cash collection process and noted all cash collection documentation is forwarded to the finance department and they are solely responsible for reconciling cash to all bank accounts and general ledger accounts. This is consistent with management's written policies regarding the cash collection process. We inspected supporting documentation, including bank statements, check copies, EFT transfers, etc., noting all deposits were submitted timely.

Non-Payroll Disbursements

11. Obtain from management a listing of all Health System disbursements for the reporting period and a listing of all employees involved with non-payroll purchasing and payment functions.
12. Obtain written policies and procedures related to employee job duties and observe job duties are properly segregated such that:
 - a) At least two employees are involved in initiating a purchase request, approving a purchase and placing an order/making the purchase.

We reviewed supporting documentation related to the disbursement sample and noted all purchases were properly approved by someone other than the person initiating the purchase via the written requisition or through the purchase order system.

- b) At least two employees are involved in processing and approving payment to vendors.

We performed inquiries and reviewed supporting documentation and noted that at least two employees are involved in the processing and approval of payments to vendors.
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

We reviewed management's purchasing/disbursement-related policies and noted that the policy currently lists the Senior Accountants as the positions whose responsibilities include adding vendors to the Health System's purchasing/ disbursement system. We noted that the position responsible for processing payments is the AP Specialist and they do not have the ability to add vendors to the Health System's purchasing/disbursement system.

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

We reviewed management's purchasing/disbursement related policies as well as observed that final authorization for disbursements does not come from the person responsible for initiating or recording purchases. We performed inquiries and observed that all checks issued by the Health System have dual signatures. The checks are printed with the signatures on them with the knowledge and consent of the signers. The signed checks are likewise maintained by an authorized user until mailed or picked up.

- 13. Select a sample of five disbursements, excluding credit cards and travel reimbursements, provided in the listing obtained from management in SAUP 11. Obtain supporting documentation for each transaction and:

- a) Observe that the disbursement matched the related original invoice/billing statement.
- b) Observe that the disbursement documentation included evidence (e.g. initial/date, electronic logging) of segregation of duties tested under SAUP 12, as applicable.

We reviewed supporting documentation related to the disbursement sample and noted all purchases were properly reconciled back to original documentation including but not limited to the purchase order, invoice, billing statement, etc. Per testing performed on disbursement sample, we noted proper segregation of duties as required in SAUP 12.

Credit Cards

- 14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards maintained by the Health System.

- 15. Select a sample of five cards used from the listing obtained from management in SAUP 14 during the reporting period. For each sample, obtain one monthly statement and reconciliation during the reporting period and:

- a) Observe that there is evidence that the monthly statement and supporting documentation (e.g. original receipts for purchases, exception reports, etc.) were reviewed and approved in writing/electronically by someone other than the authorized card holder;

We reviewed monthly statements and supporting documentation related to credit card activity selected and noted all statements were properly reconciled and all items were approved in accordance with written policy.

- b) Observe that finance charges and/or late fees were not assessed on the selected statements.

We reviewed statements related to all credit card activity selected and noted no assessment of finance charges and/or late fees.

- 16. Using the monthly statements obtain from management in SAUP 15, select 10 transactions from each statement and obtain supporting documentation including

- a) Determine whether the transaction is supported by an original itemized receipt that identified what was purchased;
- b) Determine whether the transaction is supported by documentation of the business/public purpose; and
- c) For meal charges only, determine whether the transaction is supported documentation of the individuals participating.

We performed inquiries and reviewed supporting documentation related to the credit card transaction sample and noted that all transactions had necessary documentation in accordance with written policies.

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements for the reporting period.
18. Select a sample of five reimbursements from the listing obtained from management in SAUP 17. For each sample, obtain the related expense reimbursement forms or prepaid expense documentation, as well as supporting documentation, and determine:
 - a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

We reviewed management's travel and expense reimbursement policy and noted that mileage is reimbursed per the IRS standard mileage rates. We also noted that lodging is set not to exceed the single occupancy rate available. We noted that the Health System has a set per diem rate as well as language to address any event where the rate could exceed the GSA rates. If expenses are higher than the allowed per diem, administrative approval is required.

- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

We performed inquiries and reviewed supporting documentation related to the reimbursement sample and noted all expenses reimbursed (or prepaid) had original receipts identifying what was purchased, documentation regarding the business/public purpose of the travel and all other required documentation per the Health System's policies.

- c) Observe that each reimbursement is supported by documentation for the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy.

We reviewed supporting documentation related to each reimbursement and noted all were approved in accordance with written policy

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

We reviewed supporting documentation related to each reimbursement and noted all were approved in accordance with written policy

Contracts.

19. Obtain from management a listing of all contracts in effect during the reporting period.
20. Select a sample of five contracts during the reporting period, excluding payments to practitioners, provided in the listing obtained from management in SAUP 19. Obtain the related contracts, paid invoices and:
 - a) Observe whether each contract was bid in accordance with the Louisiana Public Bid Law (e.g. solicited quotes or bids, advertised), if required by law.
 - b) Observe whether each contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.
- d) Select one payment from the fiscal period for each of the five contracts selected, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Not applicable for Year 3 in accordance with guidance per SAUPs Year 3 – Fiscal Years Ending 6/30/2019 through 5/31/2020, issued May 17, 2019.

Payroll and Personnel

- 21. Obtain from management a listing of all employees during the reporting period. Select a sample of five employees, obtain their paid salaries and personnel files, and agree the paid salaries to authorized salaries/pay rates within their personnel files.
- 22. Select one pay period during the reporting period and for the five employees selected above in SAUP 21, obtain attendance leave records and leave documentation, and:
 - a) Observe that all selected employees documented their daily attendance and leave (e.g. vacation, sick, compensatory).
 - b) Observe that supervisors approved the attendance and leave of the selected employees.
 - c) Observe that any leave accrued or taken for those selected employees is reflected in the Health system's cumulative leave records.
- 23. Obtain from management a listing of all employees that received termination payments during the reporting period. Select a sample of the two employees and obtain related documentation of the hours and pay rates used in termination payment calculations. Agree hours to the employees' cumulative leave records and agree pay rates to the employees' authorized pay rates per their personnel files.
- 24. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid and associated forms were submitted to the applicable agencies by the required deadlines.

Not applicable for Year 3 in accordance with guidance per SAUPs Year 3 – Fiscal Years Ending 6/30/2019 through 5/31/2020, issued May 17, 2019.

Ethics

- 25. Using the sample of five employees from the listing provided in SAUP 21, obtain ethics compliance documentation from management and determine whether the Health System maintained documentation to demonstrate:
 - a) Each employee completed one hour of required ethics training during the reporting period.
 - b) Each employee attested through signature verification that they have read the Health System's ethics policy during the reporting period.

Not applicable for Year 3 in accordance with guidance per SAUPs Year 3 – Fiscal Years Ending 6/30/2019 through 5/31/2020, issued May 17, 2019.

Debt Service

26. If debt was issued during the reporting period, obtain supporting documentation from the Health System, and determine whether approval was obtained from the State Bond Commission.
27. If the Health System had outstanding debt during the reporting period, obtain from management a listing of all bonds/notes outstanding. Select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Not applicable for Year 3 in accordance with guidance per SAUPs Year 3 – Fiscal Years Ending 6/30/2019 through 5/31/2020, issued May 17, 2019.

Other

28. Inquire of management whether the Health System had any misappropriations of public funds or assets during the reporting period. If applicable, review supporting documentation and determine whether the Health System reported the misappropriation to the legislative auditor and the Health System attorney of the parish in which the Health System is domiciled.
29. Observe whether the Health System has posted on its premises and website the notice required by R.S 24:523.1 related to the reporting of misappropriation, fraud, waste or abuse of public funds.

Not applicable for Year 3 in accordance with guidance per SAUPs Year 3 – Fiscal Years Ending 6/30/2019 through 5/31/2020, issued May 17, 2019.

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 control and compliance 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 control and compliance 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.

HORNE LLP

Ridgeland, Mississippi
October 24, 2019



Independent Auditor's Report on Other Supplementary Information

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited the statement of net position of the Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District"), as of June 30, 2019 and 2018, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and have issued our report thereon dated October 24, 2019. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Compensation, Benefits, and Other Payments to Agency Head are presented for the purpose of additional analysis, as required by Louisiana Revised Statute 24:513 A (3), and is not a required part of the basic financial statements.

The Schedule of Compensation, Benefits, and Other Payments to Agency Head is the responsibility of the Board of Commissioners and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

HORNE LLP

Ridgeland, Mississippi
October 24, 2019

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Year Ended June 30, 2019

Schedule of Compensation, Benefits, and Other Payments to Agency Head

Agency Head:

Chief Executive Officer

<u>Purpose</u>		<u>Amount</u>
Salary	\$	657,375
Benefits-insurance		11,256
Benefits-retirement		108,695
Benefits-other		-
Car allowance		-
Vehicle provided by government		-
Per diem		-
Reimbursements		-
Travel		-
Registration fees		7,255
Conference travel		-
Continuing professional education fees		-
Housing		-
Unvouchered expenses		-
Special meals		-
	\$	<u>784,581</u>

See Independent Auditor's Report on Supplementary Information.