

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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016



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Hospital Service District of the Parish of St. Bernard, State of Louisiana
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December 31, 2017

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Report



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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the consolidated financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital Service District of the Parish of St. Bernard, State of Louisiana, as of December 31, 2017 and 2016, and the respective changes in net position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Car, Riggs & Ingram, L.L.C.

June 12, 2018



**Required Supplementary
Information**

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

The following discussion and analysis for the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) d/b/a St. Bernard Parish Hospital, provides an overview of the District's financial activities for the years ended December 31, 2017 and 2016. Please read it in conjunction with the District's financial statements, which follow this analysis.

Using These Basic Consolidated Financial Statements

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

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

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

The Consolidated Statements of Cash Flows

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

Hospital Operations and Significant Events

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

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



Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

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

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

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

Changes in the District's net position from 2016 to 2017 and significant differences in revenue and expenses between the two years are discussed further in sections hereafter.

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

Consolidated Statements of Net Position

The District's net position is the difference between its assets and liabilities as reported in the statements of net position. Table 1A presents a summary of the financial changes to the District in 2017 as compared to 2016. The District's total assets increased by \$8,197,717 or 11%.

Table 1A
Condensed Consolidated Statements of Net Position

December 31,	2017	2016	Dollar Change	Percent Change
Assets				
Current assets	\$ 23,973,921	\$ 12,450,103	\$ 11,523,818	93%
Capital assets, net	56,615,113	60,379,489	(3,764,376)	-6%
Total assets	80,589,034	72,829,592	8,197,717	11%
Liabilities				
Current liabilities	21,635,693	17,048,914	4,586,779	27%
Long-term liabilities	53,337,765	56,683,823	(3,346,058)	-6%
Total liabilities	74,973,458	73,732,737	1,240,721	2%
Net Position				
Net investment in capital assets	3,150,391	4,976,865	(1,826,474)	-37%
Unrestricted	2,465,185	(5,880,010)	8,345,195	142%
Total net position	\$ 5,615,576	\$ (903,145)	\$ 6,518,721	722%

Current Assets

There was a \$11,523,818 increase in total current assets from 2016 to 2017.

- Unrestricted Cash increased \$4.9 million. The increase includes \$4.6 million in payments related to a Hospital Full Medicaid Payment program effective July 1, 2017 for services to Medicaid beneficiaries enrolled in the Medicaid Managed Care plans. Restricted cash decreased \$0.3 million due to the payments made to McKesson for the Electronic Health Record (EHR) conversion and \$0.2 million due to the fluctuation of ad valorem tax proceeds receipts.
- Full Medicaid Payment program receivable increased \$8.4 million due to revenues accrued pursuant to the Hospital Full Medicaid Payment program participation for services to Medicaid beneficiaries enrolled in the Medicaid Managed Care plans. The accrued payments were received in the first four months of 2018.

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

- Inventory decreased \$1.2M due to Ochsner's improvements in managing the non-pharmaceutical inventory of the District per the Special Services Management Agreement.

Capital Assets

Table 2A presents the components of capital assets at December 31, 2017 and 2016. In 2017, net capital assets decreased approximately \$3.8 million. Additions of \$0.17 million to capital assets were offset by current year depreciation of \$3.9 million. The District's additions to capital assets were for necessary improvements to the Hospital building and completing purchases of furniture and fixtures, major moveable equipment and computer equipment for the operations of the Hospital.

**Table 2A
Capital Assets**

December 31,	2017	2016	Dollar Change
Land	\$ 2,890,000	\$ 2,890,000	\$ -
Hospital building	43,798,270	43,669,583	128,687
Medical office building	10,964,625	10,964,625	-
Furniture and fixtures	1,409,190	1,406,873	2,317
Major moveable equipment	10,181,248	10,152,349	28,899
Computer equipment	8,075,213	8,063,336	11,877
Land improvements	50,551	50,551	-
Subtotal	77,369,097	77,197,317	171,780
Less accumulated depreciation	(20,753,984)	(16,187,828)	(3,936,156)
Total capital assets	\$ 56,615,113	\$ 60,379,489	\$ (3,764,376)

Long-Term Debt

The District had approximately \$53.3 million in long-term debt outstanding as of the end of 2017 which was a 5% decrease from the previous year.

There were no new long-term borrowings in 2017.

Net Position

Table 3A presents the components of the District's net position at December 31, 2017 and 2016:

**Table 3A
Components of Net Position**

December 31,	2017	2016	Dollar Change	Percent Change
Net investment in capital assets	\$ 3,150,391	\$ 4,976,865	\$ (1,826,474)	-37%
Unrestricted	2,465,185	(5,880,010)	8,345,195	142%
Total net position	\$ 5,615,576	\$ (903,145)	\$ 6,518,721	722%

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

2017 and 2016 Consolidated Statements of Revenues, Expenses and Changes in Net Position

The following discussion refers to the summarized activity presented in the District's Condensed Consolidated Statements of Revenues, Expenses, and Changes in Net Position in Table 4A for 2017 and 2016.

Operating Revenue

Operating revenue increased approximately \$13.0 million from 2016 to 2017 due to revenues accrued pursuant to the Hospital Full Medicaid Payment program, effective July 1, 2017 for services to Medicaid beneficiaries enrolled in the Medicaid Managed Care plans and the additional Medicaid payments for physician services at District facilities.

Other operating revenue recognized by the District includes grants and other support for the delivery of adequate and essential medically necessary health care services to the citizens in the community who are low income and/or indigent patients of approximately \$6.0 million and \$6.1 million for the years 2017 and 2016, respectively.

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

December 31,	2017	2016	Dollar Change
Operating revenue	\$ 45,069,250	\$ 32,242,121	\$ 12,827,129
Operating expense	47,143,537	39,197,710	7,945,827
Operating income	(2,074,287)	(6,955,589)	4,881,302
Total interest income	1,989	1,475	514
Ad valorem taxes	2,457,552	2,409,402	48,150
Governmental support	422,000	422,000	-
Assumption of liabilities	6,738,255	-	6,738,255
Asset management fees	(52,500)	(52,500)	-
Interest expense	(974,288)	(1,051,830)	77,542
Non-operating income	8,593,008	1,728,547	6,864,461
Change in net position	6,518,721	(5,227,042)	11,745,763
Net position, beginning of year	(903,145)	4,323,897	(5,227,042)
Net position, end of year	\$ 5,615,576	\$ (903,145)	\$ 6,518,721

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

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

**Table 5A
Payor Mix**

December 31,	2017	2016
Managed care/commercial	26%	22%
Medicare	41%	46%
Medicaid	21%	25%
Self-pay and other	12%	7%
Total patient revenues	100%	100%

Reimbursements to the District are made on behalf of patients by the federal and state governments under the Medicare and Medicaid programs, respectively, by commercial insurance carriers and health maintenance organizations, as well as by patients on their own behalf. The difference between the covered charges and the payments under government programs and established contracts is recognized as a contractual allowance. The following table presents the contractual allowances on gross billings by payer and the provision for doubtful accounts for 2017 and 2016.

**Table 6A
Allowance Summary**

December 31,	2017	2016
Contractual Allowances		
Managed care and commercial accounts	\$ 32,579,356	\$ 26,484,934
Medicaid contractual allowances	17,319,196	12,427,829
Medicare contractual allowances	30,017,756	37,931,706
Total contractual allowances	79,916,308	76,884,469
Allowance for doubtful accounts	8,178,359	7,993,286
	\$ 88,094,667	\$ 84,837,755

Operating Expenses

The operating expenses of the Hospital increased by 20% or \$7.9 million in 2017 as outlined below.

Professional fees increased \$12.8 million. In order to support the District's receipt of Hospital Full Medicaid Payment revenue and to support the Medicaid program for services to the low-income population.

The Hospital maintained a staff of approximately 209 full time equivalents in 2017 as compared to 254 full time equivalents in 2016. As part of the Special Services Management Agreement, the Manager employed some of the staff formerly employed by the Foundation starting with the last pay period in October 2017. These changes translated to a decrease in salaries of approximately \$2.9 million or 21% from 2016 to 2017. Similarly, employee benefits decreased at 14%.

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

The medical and general supplies decreased \$0.2 million, purchased services decreased \$0.7 million, insurance decreased \$0.03 million, repairs and maintenance decreased \$0.2 million, and other direct expenses decreased \$0.2 million in 2017 from 2016 primarily due to the implementation of cost reduction initiatives in 2017.

Depreciation decreased \$0.4 million in 2017 due to certain assets becoming fully depreciated in 2017.

Non-Operating Income and Expenses

Ad valorem taxes are received by the District from the Tax Assessor of St. Bernard Parish. The 2011 year was the first year the District levied taxes, which have been set at 8.00 mills for the purpose of constructing, equipping, maintaining and operating hospital facilities within the District. The ad valorem taxes recognized by the District are recorded net of an allowance and remained fairly constant from 2016 to 2017.

The District received \$422,000 from the St. Bernard Parish Government as support during 2017 and 2016. This support is given by the Parish Government to the District as per a Cooperative Endeavor Agreement dated August 23, 2011 between the Hospital Service District and the St. Bernard Parish Government.

During 2017, as a part of the special services management agreement, Ochsner acquired certain payables and other liabilities of the District resulting in non-operating income of approximately \$6.7M.

Interest expense decreased by \$0.08 million in 2017 due to the payoff of the 2012A Series bonds.

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

2017 Budget to Actual Comparison

The following table presents a comparison between actual results of operations versus budgeted 2017 amounts:

**Table 7A
Budget vs Actual**

	Budget	Actual	Favorable (Unfavorable) Variance
Revenues			
Net patient service revenue net of provision for bad debts of \$8,324,267 budget and \$8,178,359 actual	\$ 25,019,997	\$ 23,937,648	\$ (1,082,349)
Full Medicaid Payment program revenue	-	13,025,379	13,025,379
Other operating revenue	944,465	2,088,832	1,144,367
UPL program revenue	6,064,490	6,017,391	(47,099)
Total revenues	32,028,952	45,069,250	13,040,298
Operating Expenses			
Salaries, wages, and benefits	15,962,704	13,376,438	2,586,266
Supplies and other	10,919,869	9,104,761	1,815,108
Professional and contractual services	5,218,771	20,725,359	(15,506,588)
Depreciation and amortization	4,325,531	3,936,979	388,552
Total operating expenses	36,426,875	47,143,537	(10,716,662)
Non-operating income, net	1,851,908	8,593,008	6,741,100
Excess of revenues over expenses	\$ (2,546,015)	\$ 6,518,721	\$ 9,064,736

Net patient revenue was below budget by \$1.1 million due to a shortfall in Inpatient revenue of 20% offset by an increase in Outpatient revenue of 12%.

Other operating revenue was favorable to budget by \$14 million, primarily due to approximately \$13 million in Hospital Full Medicaid Payment funding.

Total Operating Expenses were unfavorable to budget by \$10.7 million. Salaries, wages and benefits were favorable by \$2.6 million as a result of the Special Services Management Agreement which went into effect in October 2017. Supplies and other expenses decreased by \$1.8 million due to the decrease in inpatient volume. In addition, the Hospital benefited from Ochsner's purchasing agreements following the implementation of the Special Services Management Agreement. Professional fees were unfavorable to budget by \$15.5 million due to the District's increased support of the Medicaid program of \$15.2 million.

Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

Depreciation was favorable to budget by \$0.4 million due to certain of the Hospital's five-year capital assets being fully depreciated which was not budgeted.

In 2017, as a part of the special services management agreement, Ochsner acquired certain payables and other liabilities of the District resulting in non-operating income of approximately \$6.7M.

Liquidity, Economic Factors, and Next Year's Budget

During 2017, management and the Board implemented a number of items to help resolve the revenue cycle issues the Hospital encountered in the past. In July of 2017, the Board entered into a special services management agreement with Ochsner. The agreement with Ochsner has provided the hospital with management and administrative expertise to provide more efficient care to the patients of the hospital.

The following benefits were derived from the special services management agreement:

- Ochsner's managerial and administrative expertise in the delivery of care and operations of the Hospital
- Access to multiple medical specialties not previously available
- Integration of the Hospital with the Ochsner's network of physicians, clinics, and hospitals
- Implementation of EPIC, the premier EHR billing and collections software
- Ochsner's revenue cycle services
- Ochsner's broad access to analytical tools
- Ochsner's purchasing contracts

The Hospital's management and Board of Commissioners considered many factors when setting the fiscal year 2018 budget. Of primary importance in setting the 2018 budget is the status of the economy, which takes into account market forces and environmental factors such as:

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



Hospital Service District of the Parish of St. Bernard, State of Louisiana Management's Discussion and Analysis

Contacting the Financial Management

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

The preceding discussion and analysis for the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) d/b/a St. Bernard Parish Hospital, provides an overview of the District's financial activities for the years ended December 31, 2017 and 2016. Please read it in conjunction with the District's financial statements, which follow this analysis.



Financial Statements

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Consolidated Statements of Net Position

<i>As of December 31,</i>	2017	Restated 2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 6,124,273	\$ 1,264,795
Restricted cash	188,526	627,406
Receivables		
Patient accounts receivable, net of allowances for uncollectible accounts of \$19,610,174 and \$21,586,532 in 2017 and 2016, respectively	3,267,907	3,379,049
Grants receivable	2,577,204	2,242,366
Ad valorem receivable	2,280,933	2,126,299
Due from Hospital Manager	142,078	-
Full Medicaid Payment program receivable	8,409,786	-
Other receivable	174,427	140,369
Inventory	268,420	1,511,260
Prepaid expenses	524,784	657,912
Other current assets	15,583	500,647
Total Current Assets	23,973,921	12,450,103
NON-CURRENT ASSETS - Capital assets, net	56,615,113	60,379,489
TOTAL ASSETS	\$ 80,589,034	\$ 72,829,592
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 854,959	\$ 6,477,945
Accrued payroll	279,032	809,485
Accrued interest payable and other expenses	16,567,414	451,955
Current portion of long-term debt	2,980,000	3,229,733
Capital lease obligation - short-term portion	376,829	184,994
Short-term debt	113,136	178,880
Third party settlement reimbursements, net	423,155	5,692,127
Other current liabilities	41,168	23,795
Total Current Liabilities	21,635,693	17,048,914
LONG-TERM LIABILITIES		
Capital lease obligation - long-term portion	67,765	433,823
Long-term debt, less current portion	53,270,000	56,250,000
Total Long-term Liabilities	53,337,765	56,683,823
TOTAL LIABILITIES	74,973,458	73,732,737
NET POSITION		
Net investment in capital assets	3,150,391	4,976,865
Unrestricted	2,465,185	(5,880,010)
Total Net Position	5,615,576	(903,145)
TOTAL LIABILITIES AND NET POSITION	\$ 80,589,034	\$ 72,829,592

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

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

<i>For the Years Ended December 31,</i>	2017	Restated 2016
OPERATING REVENUES		
Net patient service revenue	\$ 23,937,648	\$ 24,473,904
Full Medicaid Payment program revenue	13,025,379	-
Other operating revenue	2,088,832	1,629,495
UPL program revenue	6,017,391	6,138,722
Total Operating Revenues	45,069,250	32,242,121
OPERATING EXPENSES		
Salaries and wages	11,219,036	14,128,358
Employee benefits	2,157,402	2,509,837
Professional fees	19,645,305	6,822,810
Medical and general supplies	5,714,181	5,903,365
Depreciation and amortization	3,936,979	4,375,936
Purchased services	1,080,054	1,749,371
Insurance	554,175	584,102
Utilities	877,486	836,064
Repairs and maintenance	1,141,774	1,307,835
Other direct expenses	817,145	980,032
Total Operating Expenses	47,143,537	39,197,710
Net Loss From Operations	(2,074,287)	(6,955,589)
NON-OPERATING INCOME (EXPENSES)		
Ad valorem revenue	2,457,552	2,409,402
Governmental support	422,000	422,000
Interest income	1,989	1,475
Gain on transfer of liabilities - Special Services		
Management agreement	6,738,255	-
Interest expense	(974,288)	(1,051,830)
Asset management fees	(52,500)	(52,500)
Total Non-Operating Income, Net	8,593,008	1,728,547
CHANGE IN NET POSITION	6,518,721	(5,227,042)
NET POSITION - Beginning of year	(903,145)	4,323,897
NET POSITION - End of year	\$ 5,615,576	\$ (903,145)

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Consolidated Statements of Cash Flows

<i>For the Years Ended December 31,</i>	2017	Restated 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenue collected	\$ 31,166,796	\$ 32,422,075
Cash paid to or on behalf of employees	(13,906,891)	(16,635,565)
Cash paid for suppliers and services	(10,941,517)	(15,633,242)
Net cash provided by operating activities	6,318,388	153,268
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Ad valorem taxes	2,302,918	2,757,316
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt and capital lease obligation	(3,403,948)	(2,618,771)
Principal payments on short-term debt	(234,844)	(349,021)
Proceeds from short-term debt	169,100	351,100
Interest paid	(927,674)	(1,032,000)
Governmental support	422,000	422,000
Purchase of capital assets	(174,831)	(46,797)
Net cash used in capital and related financing activities	(4,150,197)	(3,273,489)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received as interest	1,989	1,475
Cash paid for asset management fees	(52,500)	(52,500)
Change in restricted cash	438,880	520,698
Net cash provided by investing activities	388,369	469,673
Net Increase in Cash and Cash Equivalents	4,859,478	106,768
Cash and Cash Equivalents - beginning of year	1,264,795	1,158,027
Cash and Cash Equivalents - end of year	\$ 6,124,273	\$ 1,264,795

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Consolidated Statements of Cash Flows

<i>For the Years Ended December 31,</i>	2017	Restated 2016
RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED		
IN OPERATING ACTIVITIES		
Net loss from operations	\$ (2,074,287)	\$ (7,355,589)
Adjustments to reconcile net loss from operations to net cash flows provided by operating activities:		
Depreciation and amortization	3,936,979	4,375,936
Provision for bad debt	8,178,359	(1,976,358)
Changes in operating assets and liabilities:		
Patient accounts receivable	(8,067,217)	3,918,081
Grants receivable	(334,838)	(1,013,780)
Due from hospital manager	(142,078)	-
Full Medicaid Payment program receivable	(8,409,786)	-
Other receivable	(34,058)	(36,229)
Inventory	1,242,840	10,363
Prepaid expenses	133,128	96,632
Other current assets	485,063	248,931
Accounts payable	(2,988,175)	2,416,789
Accrued payroll	(530,453)	2,630
Third party settlement reimbursements	(1,165,528)	(347,989)
Other liabilities	16,088,439	(186,149)
Net cash provided by operating activities	\$ 6,318,388	\$ 153,268
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Equipment acquired with capital lease obligation	\$ -	\$ 329,186
Gain on transfer of liabilities - Special Services Management agreement	\$ 6,738,255	\$ -

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

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

Reporting Entity

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

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

The relationship between the Parish and the District is summarized as follows: The Parish Tax Assessor collects and remits a tax which was voter-approved and levied specifically for the District. In addition, there is a Cooperative Endeavor Agreement (CEA) dated 2009 between the District and the Parish wherein the Parish designated \$600,000 from its Sales Tax Bond Issue Series 2004 loaned to the District to pay for capital improvement projects. Interest accrues at a rate of 6% per annum and the entire unpaid balance on the loan is due on or before January 2019.

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

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

Basis of Accounting

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

Principles of Consolidation

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

Use of Estimates

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

Cash

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

Restricted Cash

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

Inventory

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

Capital Assets, net

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

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

Compensated Absences

Employees accumulate paid time off at varying rates according to years of service. Employees are immediately vested in accrued paid time off when earned. Upon termination, all unused paid time off hours are paid to the employee at the employee's current rate of pay. The hours in an employee's paid time off account are capped at 100% of the employee's annual accrual.

Net Patient Service Revenue and Related Receivables

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

A summary of net patient service revenue for the year ended December 31, 2017 and 2016 is as follows:

December 31,	2017	2016
Gross patient service revenue	\$ 112,032,310	\$ 109,311,660
Less discounts, allowance, and estimated contractual adjustments under third-part reimbursement programs	(79,916,303)	(76,844,469)
Less provision for bad debts	(8,178,359)	(7,993,287)
Net patient service revenue	\$ 23,937,648	\$ 24,473,904

Charity Care

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

Medicare and Medicaid Reimbursement Programs

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

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

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

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

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

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

The District is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the District. The percentage of total gross patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries, combined, was approximately 76% and 73% for 2017 and 2016, respectively.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amount becomes final. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits (or reopened the review) of the estimated settlements for the years ended December 31, 2012 through 2016 for Medicare and Medicaid, the District does not anticipate significant adverse adjustments to the recorded settlements for those years.

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

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

Electronic Health Record Incentive Program

The Health Information Technology for Economic and Clinical Health Act, established by the American Recovery and Reinvestment Act of 2009, provides for Medicare and Medicaid incentive payments for eligible organizations and providers that adopt and meaningfully use certified electronic health record (EHR) technology. For the years ended December 31, 2017 and December 31, 2016, the District recorded EHR incentive revenue of approximately \$-0- and \$425,000 within other operating revenue on the consolidated statement of revenues, expenses, and changes in net position.

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

Net Position

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

- a) Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets plus deferred out flows of resources less deferred inflows of resources related to those assets. Net investment in capital assets excludes unspent debt proceeds.
- b) Restricted Net Position – Net position is reported as restricted when there are limitations imposed on their use, either through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Organization had no restricted net position as of December 31, 2016 and 2015.
- c) Unrestricted Net Position – This component of net position consists of net positions that do not meet the definition of “restricted” or “net investment in capital assets,” as described above.

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

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

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

Grants and Contributions

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

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

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

Ad Valorem Revenues

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

Advertising

Advertising costs are expensed as incurred. Marketing media/advertising expenses included advertising costs of \$2,597 and \$35,572 for the years ended December 31, 2017 and 2016, respectively.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 12, 2018, and determined that there were no events that required disclosure in the notes to the financial statements. No subsequent events occurring after that date have been evaluated for inclusion in these financial statements.

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

Prior Period Adjustment

During 2017, management determined that an accrual had not been properly recognized for UPL revenues and receivables in 2016. The 2016 financial statements have been adjusted to reflect this accrual which resulted in an increase to grants receivable, unrestricted net position, and UPL program revenue of \$400,000 for this accrual.

NOTE 2: OPERATIONS AND SPECIAL SERVICES MANAGEMENT AGREEMENT

Since the commencement of operations in August of 2012, the District has experienced delays in billing and collections of net patient service revenue primarily due to software implementation issues and billing/collection management issues within the revenue cycle.

In prior periods, the District's current liabilities exceeded current assets, and the District showed a negative net position, primarily as a result of revenue cycle issues, low patient volume, lack of physician specialties, and various cost inefficiencies.

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

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

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 2: OPERATIONS AND SPECIAL SERVICES MANAGEMENT AGREEMENT (CONTINUED)

During year ended December 31, 2017, transactions between SBOMC and the Organization included: (1) SBOMC purchased all non-pharmaceutical inventory from the Organization of approximately \$1,300,000; (2) purchases from SBOMC of supplies and services in accordance with the management agreement of approximately \$1,100,000; and (3) in accordance with the management agreement SBOMC acquired certain payables and other liabilities of the Organization of approximately \$6,700,000 (included as non-operating income). The remaining amounts due from the Hospital Manager are included on the Consolidated Statements of Net Position as Due from Hospital Manager.

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

NOTE 3: CASH AND RESTRICTED CASH

Cash and Restricted Cash

At December 31, 2017 and 2016, the Organization had \$6,312,799 and \$1,892,200, respectively, in non-interest bearing demand deposits as follows:

December 31,	2017	2016
Cash	\$ 6,124,273	\$ 1,264,795
Restricted Cash	188,526	627,406
Total	\$ 6,312,799	\$ 1,892,201

These deposits are stated at cost, which approximates market.

Custodial Credit Risk

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

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

The District's cash deposits and money market accounts included in cash and cash equivalents on its statement of net position as of December 31, 2017 and 2016, were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 3: CASH AND RESTRICTED CASH (CONTINUED)

Concentration of Credit Risk

As required under GASB statement 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2017 and 2016, the Organization had no investments requiring concentration of credit risk disclosure.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the District's future operating results. Further, the effect of economic conditions on the state of Louisiana may have an adverse effect on cash flows related to the Medicaid program.

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

NOTE 4: AD VALOREM TAXES

Ad valorem taxes are normally levied and billed in November of each year and are due by December 31st of the year levied. Revenues are recognized when levied due to the extent they are determined to be currently collectible. Ad valorem taxes are billed and collected using the assessed values determined by the Tax Assessor of St. Bernard Parish. The 2011 year was the first year the District levied taxes, which have been set at 8.00 mills for the purpose of constructing, equipping, maintaining and operating hospital facilities within the District. Effective August 22, 2016, the Board approved a millage increase to 8.16. The ad valorem taxes receivable as of December 31, 2017 and 2016, are recorded net of allowances of \$2,280,933 and \$2,126,299, respectively, on the accompanying consolidated statements of net position.

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

NOTE 5: COOPERATIVE ENDEAVOR AGREEMENTS

Parish of St. Bernard

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

St. Bernard Hospital Foundation

On August 23, 2011, the District and the Foundation entered into a Joint Venture Cooperative Endeavor Agreement (Agreement) to engage in a joint venture to construct and operate a hospital facility and provide emergency and other essential and specialized hospital services to the citizens of St. Bernard Parish, State of Louisiana. This agreement was to facilitate the New Markets Tax Credit (NMTTC) transaction, described further in Note 7. On this date, the District transferred all construction in progress associated with the hospital to the Foundation. Using the proceeds of the NMTTC Notes (Facility A and B), the Foundation substantially completed the construction of the hospital building, acquired essential equipment, materials and supplies necessary for beginning the operation of the hospital, and employed and contracted with all of the physicians, health professionals, administrative staff, employees and contractors required for the operation of the hospital. Under the terms of the Agreement, the District was obligated to make the land that the

District owns, including all of the District's rights, privileges, appurtenances, and amenities, available to itself and the Foundation for the term of the Agreement, in order for the Foundation to complete construction of the hospital building, which was completed in July 2012. Pursuant to the agreement, the District provides the administrative, professional and financial management of the business, policies, and operations of the hospital. There is also a revenue-sharing agreement which requires a waterfall payment of costs in the following order:

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

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 5: COOPERATIVE ENDEAVOR AGREEMENTS (CONTINUED)

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

Ochsner

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

NOTE 6: CAPITAL ASSETS

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

	Beginning Balance	Additions/ Transfers in	Disposals/ Retirements/ Transfers out	Ending Balance
Land	\$ 2,890,000	\$ -	\$ -	\$ 2,890,000
Hospital building	43,669,583	128,687	-	43,798,270
Medical office building	10,964,625	-	-	10,964,625
Furniture and fixtures	1,406,873	2,317	-	1,409,190
Major moveable equipment	10,152,349	31,950	(3,051)	10,181,248
Computer equipment	8,063,336	11,877	-	8,075,213
Land improvements	50,551	-	-	50,551
Total acquisition cost	77,197,317	174,831	(3,051)	77,369,097
Less accumulated depreciation:				
Hospital building	(4,874,255)	(1,093,641)	-	(5,967,896)
Medical office building	(959,405)	(274,115)	-	(1,233,520)
Furniture and fixtures	(457,235)	(96,994)	-	(554,229)
Major moveable equipment	(6,184,081)	(1,172,154)	823	(7,355,412)
Computer equipment	(4,337,700)	(1,296,704)	-	(5,634,404)
Land improvements	(5,152)	(3,371)	-	(8,523)
Total accumulated depreciation:	(16,817,828)	(3,936,979)	823	(20,753,984)
Capital assets, net	\$ 60,379,489	\$ (3,762,148)	\$ (2,228)	\$ 56,615,113

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 6: CAPITAL ASSETS (CONTINUED)

Capital asset activity for the fiscal year ended December 31, 2016 is as follows:

	Beginning Balance	Additions/ Transfers	Disposals/ Retirements	Ending Balance
Land	\$ 2,890,000	\$ -	\$ -	\$ 2,890,000
Hospital building	43,669,583	-	-	43,669,583
Medical office building	10,964,625	-	-	10,964,625
Furniture and fixtures	1,406,873	-	-	1,406,873
Major moveable equipment	10,158,758	5,001	(11,410)	10,152,349
Computer equipment	8,030,467	41,796	(8,927)	8,063,336
Land improvements	50,551	-	-	50,551
Total acquisition cost	77,170,857	46,797	(20,337)	77,197,317
Less accumulated depreciation:				
Hospital building	(3,782,532)	(1,091,723)	-	(4,874,255)
Medical office building	(685,289)	(274,116)	-	(959,405)
Furniture and fixtures	(351,598)	(105,637)	-	(457,235)
Major moveable equipment	(4,737,670)	(1,457,821)	11,410	(6,184,081)
Computer equipment	(2,903,357)	(1,443,270)	8,927	(4,337,700)
Land improvements	(1,783)	(3,369)	-	(5,152)
Total accumulated depreciation:	(12,462,229)	(4,375,936)	20,337	(16,817,828)
Capital assets, net	\$ 64,708,628	\$ 813,866	\$ (1,727,221)	\$60,379,489

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was \$3,936,979 and \$4,375,936, respectively.

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 7: SHORT-TERM AND LONG-TERM DEBT

The following table summarizes the Organization's outstanding debt at December 31, 2017 and 2016:

Short-Term Debt		2017	2016
Note Payable: Principal and interest payable monthly at rate of 6.50% through August 20, 2018.	A	\$ 96,571	\$ -
Note Payable: Principal and interest payable monthly at rate of 9.39% through May 31, 2016.	B	8,813	8,813
Note Payable: Principal and interest payable monthly at rate of 10.50% through May 5, 2018.	E	7,752	
Note Payable: Principal and interest payable monthly at rate of 5.25% through January 25, 2017.	C	-	31,398
Note Payable: Principal and interest payable monthly at rate of 5.25% through August 20, 2017.	D	-	138,669
Total short-term debt		\$ 113,136	\$ 178,880

Long-Term Debt		2017	2016
New Markets Tax Credit Facility A: Interest payable semi-annually at rate of 1.00%. Principal is payable annually 2019 through 2051.	F	33,028,779	33,028,779
New Markets Tax Credit Facility B: Interest payable semi-annually at rate of 1.00%. Principal is payable annually 2019 through 2051.	G	11,671,221	11,671,221
Tax-Exempt Limited Tax Certificates, Series 2012 A: Interest payable semi-annually at rate of 3.67%, reduced to 2.66% effective March 1, 2015. Principal is payable annually through March 2018.	H	1,110,000	2,710,000
Tax-Exempt Limited Tax Certificates, Series 2012 B: Interest payable semi-annually at rate of 3.10%, reduced to 2.42% effective March 1, 2015. Principal is payable annually March 2018 through March 2020.	I	4,000,000	4,000,000
Intergovernmental Loan from St. Bernard Parish: Interest rate of 6% per annum, payable on or before January 2019.	J	600,000	600,000
Hospital Revenue Bonds, Series 2014: Interest payable semi-annually at a rate of 4.90%. Principal is payable annually through December 2024.	K	5,840,000	6,525,000
Note payable to vendor: Interest rate 0%, principal monthly payments through September 2016.	L	-	944,733
Total long term debt		56,250,000	59,479,733
Less: Current maturities of long-term debt		(2,980,000)	(3,229,733)
Total long-term debt – noncurrent portion		\$ 53,270,000	\$ 56,250,000

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

(A) In August of 2017, the District issued a short-term note payable of \$152,031 related to the financing portion of the premiums and related fees and taxes for various insurance policies, secured by a security interest in all right, title and interest to the policies. The outstanding principal of the note will be paid in 10 monthly installments ranging from \$8,461 to \$16,333 beginning September 21, 2017, with the final installment due June 21, 2018. Interest is payable monthly at a rate of 6.50%. The balance of the note as of December 31, 2017 and 2016 was \$96,571 and \$-0- respectively.

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

(C) In March of 2016, the District issued a short-term note payable of \$154,287 related to the financing portion of the premiums and related fees and taxes for various insurance policies, secured by a security interest in all right, title and interest to the policies. The outstanding principal of the note will be paid in 10 monthly installments ranging from \$15,127 to \$15,733 beginning April 25, 2016, with the final installment due January 25, 2017. Interest is payable monthly at a rate of 5.25%. The balance of the note as of December 31, 2017 and 2016 was \$-0- and \$31,398 respectively.

(D) In August of 2016, the District issued a short-term note payable of \$196,813 related to the financing portion of the premiums and related fees and taxes for various insurance policies, secured by a security interest in all right, title and interest to the policies. The outstanding principal of the note will be paid in 10 monthly installments ranging from \$19,297 to \$20,070 beginning September 21, 2016, with the final installment due June 21, 2017. Interest is payable monthly at a rate of 5.25%. The balance of the note as of December 31, 2017 and 2016 was \$-0- and \$138,669, respectively.

(E) In August of 2017, the District issued a short-term note payable of \$17,069 related to the financing portion of the premiums and related fees and taxes for various insurance policies, secured by a security interest in all right, title and interest to the policies. The outstanding principal of the note will be paid in 9 monthly installments ranging from \$1,831 to \$1,963 beginning September 5, 2017, with the final installment due May 5, 2018. Interest is payable monthly at a rate of 10.50%. The balance of the note as of December 31, 2017 and 2016 was \$7,752 and \$-0-, respectively.

(F) On August 23, 2011, the Foundation issued a note payable (Facility A) to SBP Redevelopment II, LLC. The note is subject to credit and loan agreements executed by the Foundation (as borrower),

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

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

St. Bernard Parish Redevelopment, LLC as the community development entity (CDE) under the New Markets Tax Credit Program, and SBP Redevelopment II, LLC (Lender).

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

The remaining Facility A note funds received were expended and the certificate of occupancy for the hospital facility was received during 2012.

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

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

For the years ended December 31, 2017 and 2016, the Foundation paid the CDE a total of \$52,500 and \$52,500, respectively for ongoing management services related to the NMTCs as required per the agreement. The Foundation is required to pay a total of \$250,000 in asset management fees to the CDE from 2015 through 2019.

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

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

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

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

(J) During the fiscal year ended December 31, 2009, the District entered into a cooperative endeavor agreement with the St. Bernard Parish Government (the Parish), whereas the Parish designated \$600,000 from its issue of Sales Tax Bonds, Series 2004, to be loaned to the District to pay for capital improvement projects. Interest shall accrue on the loan at the rate of 6.00% per annum. The District shall repay the Parish the entire unpaid balance of the loan on or before January 2019.

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

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

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

(L) On September 22, 2014, the District entered into a contract with a vendor to purchase and implement software. This contract encompassed the majority of the District's software used for daily operations, patient management, inventory, payroll, and financial accounting. Interest is not imposed on the payment plan. Principal was to be paid in full by September 2016. As of December 31, 2016, the District had not paid the full principal. During 2017, the District made all principal payments leaving no balance on the note payable as of December 31, 2017.

Debt Covenant Compliance

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

Future minimum payments on long-term debt obligations at December 31, 2017 are as follows:

December 31,	Principal	Interest
2018	2,980,000	874,068
2019	3,039,367	760,921
2020	3,747,665	673,250
2021	2,039,672	601,238
2022	2,091,798	548,441
2023-2027	8,170,194	2,022,392
2028-2032	6,617,131	1,561,540
2033-2037	6,955,532	1,223,131
2038-2042	7,311,239	867,434
2043-2047	7,685,137	493,535
2048-2052	5,612,265	112,808
	<u>\$ 56,250,000</u>	<u>\$ 9,738,768</u>

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

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

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

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

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

The following table summarizes the Organization's outstanding debt activity for the year ended December 31, 2016:

Short-Term Debt	2015	Additions	Reduction	2016	Due within 1 year
Note Payable, payable through July 21, 2016	\$ 133,938	\$ -	\$ (133,938)	\$ -	\$ -
Note Payable, payable through May 31, 2016	42,863	-	(34,050)	8,813	8,813
Note Payable, payable through June 21, 2017.	-	198,813	(58,144)	138,669	138,669
Note Payable, payable Through January 25, 2017	-	154,287	(122,889)	31,398	31,398
Total short-term debt	\$ 176,801	\$ 353,100	\$ (349,021)	\$ 178,880	\$ 178,880
Long-Term Debt					
NMTC Facility A	\$ 33,028,779	\$ -	\$ -	\$ 33,028,779	\$ -
NMTC Facility B	11,671,221	-	-	11,671,221	-
Tax-Exempt Limited Tax Certificates, Series 2012 A	4,255,000	-	(1,545,000)	2,710,000	1,600,000
Tax-Exempt Limited Tax Certificates, Series 2012 B	4,000,000	-	-	4,000,000	-
Intergovernmental Loan from St. Bernard Parish	600,000	-	-	600,000	-
Note Payable, payable through January 25, 2016.	23,221	-	(23,221)	-	-
Hospital Revenue Bonds, Series 2014	7,180,000	-	(655,000)	6,525,000	685,000
Note payable to vendor	1,201,459	-	(256,726)	944,733	944,733
Total long-term debt	\$ 61,959,680	\$ -	\$ (2,479,947)	\$ 59,479,733	\$ 3,229,733

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 8: CAPITAL LEASE OBLIGATION

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

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

Assets recorded under capital leases are included in the major movable equipment of the capital assets on the Consolidated Statement of Net Position. The net book value of assets recorded under capital leases as of December 31, 2017 and 2016, consists of the following:

December 31,	2017	2016
Equipment	\$ 1,101,982	\$ 1,101,982
Less accumulated amortization	(817,655)	(606,425)
Capital lease equipment, net	\$ 284,327	\$ 495,557

Amortization of assets held under the capital lease were \$211,230 and \$220,396 for the years ending December 31, 2017 and 2016, respectively, and is included in depreciation and amortization expense.

The following is a schedule, by years, of future minimum payments required under the leases together with their present value as of December 31, 2017:

2018	\$ 376,837
2019	60,312
2020	12,205
Total minimum lease payments	449,354
Less: amount representing imputed interest	(4,760)
Present value of minimum lease payments	\$ 444,594

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

NOTE 9: UPPER PAYMENT LIMIT PROGRAM

Since October 8, 2012, the District formed collaborations with the State and several units of local governments in Louisiana to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. These collaborations enable the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. The District recognizes all funds received under the UPL program as operating revenues in the period applicable to the receipt of the funds. Any amounts related to that year that are not received as of fiscal year-end are recorded as receivables and reflected in other current assets in the accompanying consolidated statements of net position. These receivables can be subject to adjustments that are reflected in the period they become known. The District recognized \$6,017,391 and \$5,738,722 in net revenue related to this program during the years ended December 31, 2017 and 2016, respectively.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Commitments

Meraux Foundation Commitment

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

Low Income and Needy Care Collaboration Agreement

In April of 2012, the District entered into a Low Income and Needy Care Collaboration Agreement with certain participating private hospitals primarily to improve access and provide low income and needy care services in the community it serves by the participating hospitals. The agreement was effective when the District became operational with an initial term through December 31, 2013 and may be renewed annually unless the other party provides notice to terminate. Expenses incurred under this agreement totaled \$2,340,000 and \$3,950,000 for the years ending December 31, 2017 and 2016, respectively, and are included in the accompanying Consolidated Statements of Revenues, Expenses, and Changes in Net Position in the caption professional fees.

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 10: COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

Workers' Compensation

The Foundation purchased commercial insurance that provides coverage for workers' compensation claims up to \$1,000,000 per claim in excess of its self-insured limits. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic social factors. Due to the start-up nature of the hospital operations, workers' compensation reserves were not material to the consolidated financial statements as of December 31, 2017 and 2016.

Medical Malpractice

The District participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides for malpractice coverage to the District for claims in excess of \$100,000 and up to \$500,000 per claim. According to state law, medical malpractice liability (exclusive of future medical care awards and litigation expenses) is limited to \$500,000 per occurrence.

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

NOTE 11: RISK MANAGEMENT AND REGULATORY MATTERS

Regulatory Matters

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

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a so-called Recovery Audit

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Notes to Consolidated Financial Statements

NOTE 11: RISK MANAGEMENT AND REGULATORY MATTERS (CONTINUED)

Contractor (RAC) program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare reimbursement in an amount estimated to equal the overpayment.

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

Similarly, the Centers for Medicare & Medicaid Services (CMS) created new entities titled Audit Medicaid Integrity Contractors (MIC) in order to continue its efforts to ensure the highest integrity of its healthcare programs. The goal of the provider audits is to identify overpayments and to ultimately decrease the payment of inappropriate Medicaid claims. The MIC is to review claims submitted by all types of Medicaid providers, including all settings of care and types of services, with most audits taking place at staff headquarters and on occasion on-site at a provider's place of business. The Organization has not been the subject of any RAC or MIC audits during 2017 or 2016.

NOTE 12: DEFINED CONTRIBUTION 403(B) PLAN

All new full-time employees are immediately eligible to join the defined contribution 403(b) plan, St. Bernard Parish Hospital Retirement Savings Plan (Plan) established on November 1, 2012. Participants make pre-tax contributions to the Plan and receive employer matching contributions up to 50% of the first 1%. Employer contributions to the 403(b) plan totaled \$48,106 and \$58,731 for 2017 and 2016, respectively. To vest in the employer annual non-discretionary contribution, employees must complete at least 3 years of service.

NOTE 13: RELATED PARTIES

See discussion of the District and St. Bernard Parish Government related party transactions in Note 1.

There was no compensation paid to board members for the years ended December 31, 2017 or 2016.

NOTE 14: TAX ABATEMENT

The St. Bernard Parish Assessor (the "Assessor") negotiates property tax abatement agreements on St. Bernard Parish's (the Parish) behalf on an individual basis. Each agreement was negotiated for a variety of economic development purposes, including business relocation, retention, and expansion. The Assessor has tax abatement agreements with six entities as of December 31, 2017:

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

Notes to Consolidated Financial Statements

NOTE 14: TAX ABATEMENT (CONTINUED)

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

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

NOTE 15: CONSOLIDATING BLENDED COMPONENT UNIT CONDENSED FINANCIAL INFORMATION

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

2017					
	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total	
Current assets	\$ 23,797,733	\$ 176,188	\$ -	\$ 23,973,921	
Other assets – non-current	57,866,179	-	(57,866,179)	-	
Capital assets, net	12,969,107	43,646,006	-	56,615,113	
Total assets	\$ 94,633,019	\$ 43,822,194	\$ (57,866,179)	\$ 80,589,034	
Current liabilities	\$ 20,750,382	\$ 885,311	\$ -	\$ 21,635,693	
Other liabilities – non-current	-	57,933,944	(57,866,179)	67,765	
Long-term debt - less amounts due within one year	8,570,000	44,700,000	-	53,270,000	
Net position	65,312,637	(59,697,061)	-	5,615,576	
Total liabilities and net position	\$ 94,633,019	\$ 43,822,194	\$ (57,866,179)	\$ 80,589,034	

2016					
	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total	
Current assets	\$ 11,943,087	\$ 507,016	\$ -	\$ 12,450,103	
Other assets – non-current	40,599,425	-	(40,599,425)	-	
Capital assets, net	13,073,679	47,305,810	-	60,379,489	
Total assets	\$ 65,616,191	\$ 47,812,826	\$ (40,599,425)	\$ 72,829,592	
Current liabilities	\$ 14,233,085	\$ 2,815,829	\$ -	\$ 17,048,914	
Other liabilities – non-current	-	41,033,248	(40,599,425)	433,823	
Long-term debt - less amounts due within one year	11,550,000	44,700,000	-	56,250,000	
Net position	39,833,106	(40,736,251)	-	(903,145)	
Total liabilities and net position	\$ 65,616,191	\$ 47,812,826	\$ (40,599,425)	\$ 72,829,592	

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

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

The following table presents the condensed consolidating statement of revenues, expenses and changes in net position for the District and its blended component unit as of December 31, 2017 and 2016:

	2017			
	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Operating Revenues	\$ 44,992,269	\$ 18,538,146	\$ (18,461,165)	\$ 45,069,250
Operating Expenses				
Salaries, wages, and benefits	-	13,376,438	-	13,376,438
Professional fees	19,694,588	18,411,882	(18,461,165)	19,645,305
Purchased services	975,636	104,418	-	1,080,054
Supplies and other expenses	6,452,699	78,627	-	6,531,326
Insurance and utilities	1,151,774	279,887	-	1,431,661
Repair and maintenance	45,763	1,096,011	-	1,141,774
Depreciation and amortization	291,652	3,645,327	-	3,936,979
Total operating expenses	28,612,112	36,992,590	(18,461,165)	47,143,537
Net Income (Loss) From Operations	16,380,157	(18,454,444)	-	(2,074,287)
Non-Operating Revenues (Expenses)				
Ad valorem taxes	2,457,552	-	-	2,457,552
Government support	422,000	-	-	422,000
Interest income	1,540.00	449.00	-	1,989
Gain on transfer of liabilities - Special Services Management agreement	6,738,255	-	-	6,738,255
Interest expense*	(519,970)	(454,318)	-	(974,288)
Asset management fees*	-	(52,500)	-	(52,500)
Total non-operating revenues, net	9,099,377	(506,369)	-	8,593,008
Change in Net Position (Deficit)	25,479,534	(18,960,813)	-	6,518,721
Net Position, Beginning of Year	39,833,103	(40,736,248)	-	(903,145)
Net Position, End of Year	\$ 65,312,637	\$ (59,697,061)	\$ -	\$ 5,615,576

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

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

2016				
	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total
Operating Revenues	\$ 32,227,690	12,233,370	\$ (12,218,939)	\$ 32,242,121
Operating Expenses				-
Salaries, wages, and benefits	-	16,638,195	-	16,638,195
Professional fees	13,835,573	5,206,176	(12,218,939)	6,822,810
Purchased services	1,654,183	95,188	-	1,749,371
Supplies and other expenses	6,704,004	179,393	-	6,883,397
Insurance and utilities	1,137,370	282,796	-	1,420,166
Repair and maintenance	19,445	1,288,390	-	1,307,835
Depreciation and amortization	291,536	4,084,400	-	4,375,936
Total operating expenses	23,642,111	27,774,538	(12,218,939)	39,197,710
Net Income (Loss) From Operations	8,585,579	(15,541,168)	-	(6,955,589)
Non-Operating Revenues (Expenses)				
Ad valorem taxes	2,409,402	-	-	2,409,402
Government support	422,000	-	-	422,000
Interest income	1,475	-	-	1,475
Interest expense*	(577,633)	(474,197)	-	(1,051,830)
Asset management fees*	-	(52,500)	-	(52,500)
Total non-operating revenues, net	2,255,244	(526,697)	-	1,728,547
Change in Net Position (Deficit)	10,840,823	(16,067,865)	-	(5,227,042)
Net Position, Beginning of Year	28,992,283	(24,668,386)	-	4,323,897
Net Position, End of Year	\$ 39,833,106	\$ (40,736,251)	\$ -	\$ (903,145)

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana Notes to Consolidated Financial Statements

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

The following table presents the condensed consolidating statement of cash flows for the District and its blended component unit as of December 31, 2017 and 2016:

2017					
	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total	
Net cash provided by (used in):					
Operating activities	\$ 6,011,805	\$ 306,583	\$ -	\$ -	\$ 6,318,388
Noncapital financing activities	2,302,918	-	-	-	2,302,918
Capital and related financing activities	(3,805,688)	(344,509)	-	-	(4,150,197)
Investing activities	375,869	12,500	-	-	388,369
Net increase (decrease) in cash and cash equivalents					
	4,884,904	(25,426)	-	-	4,859,478
Cash and cash equivalents - beginning					
of year	1,202,479	62,316	-	-	1,264,795
Cash and cash equivalents - end of year	\$ 6,087,383	\$ 36,890	\$ -	\$ -	\$ 6,124,273
2016					
	Hospital Service District of the Parish of St. Bernard, State of Louisiana	St. Bernard Hospital Foundation, Inc.	Eliminations	Total	
Net cash provided by (used in):					
Operating activities	\$ (30,816)	\$ 184,084	\$ -	\$ -	\$ 153,268
Noncapital financing activities	2,757,316	-	-	-	2,757,316
Capital and related financing activities	(3,087,867)	(185,622)	-	-	(3,273,489)
Investing activities	444,673	25,000	-	-	469,673
Net increase (decrease) in cash and cash equivalents					
	83,306	23,462	-	-	106,768
Cash and cash equivalents - beginning					
of year	1,119,173	38,854	-	-	1,158,027
Cash and cash equivalents - end of year	\$ 1,202,479	\$ 62,316	\$ -	\$ -	\$ 1,264,795



**Supplementary
Information**



**Hospital Service District of the Parish of St. Bernard, State of Louisiana
Schedule of Compensation, Benefits, and Other Payments to Agency Head
For the Year Ended December 31, 2017**

Agency Head Name: Kim Keene, Chief Executive Officer

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



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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), as of and for the year ended December 31, 2017, and the related notes to the consolidated financial statements, which collectively comprise the District's consolidated basic financial statements, and have issued our report thereon dated June 12, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

June 12, 2018



Hospital Service District of the Parish of St. Bernard, State of Louisiana
Schedule of Current Year Findings and Responses
December 31, 2017

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

Hospital Service District of the Parish of St. Bernard, State of Louisiana
Schedule of Prior Year Findings and Responses
December 31, 2017

Section I – Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and Louisiana Revised Statute 24:513

SIGNIFICANT DEFICIENCY

2015-01 – Access Rights of User Profiles (Repeat Finding)

Observation: During the audit of the District’s 2016 and 2015 consolidated financial statements CRI noted a lack of formal procedures in requesting and granting specific user rights in accordance with employee job duties. We also noted that some personnel were granted access to systems or functionality within systems that is not required by their job duties.

Status: *Resolved*

COMPLIANCE AND OTHER MATTERS

2015-02 – Disclosure of Conflict of Interest by Board Members (Repeat Finding)

Observation: Two board members did not file nor disclose conflicts of interest for the year ending December 31, 2016 and 2015.

Status: *Resolved*

2016-01: Employee Payroll Fraud

Observation: During 2016, the District discovered an employee over reported taxes withheld on her W-2 and underreported taxes withheld on certain other employees’ W-2s for the years ended December 31, 2014 and 2013 totaling \$5,676 and \$400, respectively.. Total payroll taxes reported and paid to the Federal Government owed by the District were correct; however, the affected employees were reissued corrected W-2s for the impacted years and were required to file amended tax returns.

Status: *Resolved*

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

AGREED-UPON PROCEDURES REPORT

For the Year Ended December 31, 2017



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CPAs and Advisors

CRlcpa.com



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

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

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by Hospital Service District of the Parish of St. Bernard, State of Louisiana (the Hospital) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2017 through December 31, 2017. The Hospital's management is responsible for those C/C 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 our results are as follows:

Written Policies and Procedures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible

ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

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

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

Results: Policy regarding debt service does not address debt issuance approval, EMMA reporting requirements, and debt reserve requirements. This is considered an exception.

Board

- 2. Obtained and reviewed the board/committee minutes for the fiscal period, and the Board's charter/bylaws during the fiscal period, and:

- a) Observed that the managing board met (with a quorum) at least monthly in accordance with the Board's enabling legislation, charter, or other equivalent document.

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

- b) Observed that the minutes obtained and inspected in a) above either referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the Hospital's prior audit (GAAP-basis).

- 1) If the budget-to-actual comparisons showed that management was deficit spending during the fiscal period, observed that there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, observed that the meeting minutes for at least one board meeting during the fiscal period reflect that the board was monitoring the plan.

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

- c) Observed that the minutes obtained and inspected in a) above either referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

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

Bank Reconciliations

- 3. Obtained a listing of client bank accounts from management and management's representation that the listing was complete.

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

4. Using the listing provided by management, selected one-third of the Hospital's bank accounts on a three year rotating basis as there were more than five bank accounts. For each of the bank accounts selected, obtained bank statements and reconciliations for all months in the fiscal period and observed that:

- a) Bank reconciliations had been prepared;

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

- b) Bank reconciliations included evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and

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

- c) If applicable, management has documentation reflecting that it has researched reconciling items that had been outstanding for more than 6 months as of the end of the fiscal period.

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

Collections

5. Obtained a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

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

6. Using the listing provided by management in #5 above, selected all of the Hospital's cash collection locations. For each cash collection location selected:

- a) Determined who is responsible for collecting cash through inquiry with management.

- b) Obtained existing written documentation (e.g. insurance policy, policy manual, job description) and inspected the documentation obtained to determine that each person responsible for collecting cash, as identified in #6a above, is (1) bonded, or there is sufficient general liability insurance covering each person, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account, and (3) not required to share the same cash register or drawer with another employee.

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

- c) Obtained existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and observed that the Hospital has a formal process to reconcile cash collections to the general ledger and by revenue source by a person who is not responsible for cash collections in the cash collection location selected.

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

d) Selected the highest (dollar) week of cash collections from the general ledger during the fiscal period and:

- 1) Obtained the Hospital's collection documentation, deposit slips, and bank statements, for each cash collection included in the highest (dollar) week, traced daily collections to the deposit date on the corresponding bank statement and observed that the deposits were made within one day of collection. If deposits were not made within one day of collection, reported the number of days from receipt to deposit for each day at each collection location.

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

- 2) Obtained sequentially numbered receipts, system reports, or other related collection documentation, observed that daily cash collections are completely supported by documentation.

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

7. Obtained existing written documentation from management (e.g. policy manual, written procedure) and observed that the Hospital has a process specifically defined (as identified by the Hospital) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who was not responsible for collections.

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

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

8. Obtained the general ledger and sorted/filtered for Hospital disbursements. Obtained management's representation that the general ledger population is complete.

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

9. Using the disbursement population from #8 above, randomly selected 25 disbursements, excluding credit card/debit card/fuel card/P-card purchases or payments. Obtained supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and reported whether the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system that separates initiation from approval functions.

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

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

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

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

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

10. Using Hospital documentation (e.g. electronic system control documentation, policy manual, written procedure), observed that the person responsible for processing payments was prohibited from adding vendors to the Hospital's purchasing/disbursement system.

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

11. Using Hospital documentation (e.g. electronic system control documentation, policy manual, written procedure), observed that the persons with signatory authority or who made the final authorization for disbursements had no responsibility for initiating or recording purchases.

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

12. Inquired of management and observed that the supply of unused checks is maintained in a locked location, with access restricted to those persons (as identified by management) that do not have signatory authority. Alternately, if the checks are electronically printed on blank check stock, inspected Hospital documentation (electronic system control documentation) and observed that only the persons with signatory authority have system access to print checks.

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

13. If a signature stamp or signature machine is used, inquired of the signer to determine that his or her signature was maintained under his or her control or is used only with the knowledge and consent of the signer. Inquired of the signer to determine that signed checks are likewise maintained under the control of the signer or authorized user until mailed.

Results: No signature stamp or signature machine use was noted, therefore this procedure is not applicable.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

14. Obtained from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), in effect during the fiscal period for all employees/officers, including the card numbers and the names of the persons who maintained possession of the cards. Obtained management's representation that the listing was complete.

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

15. Using the listing obtained from management in #14 above, randomly selected two (2) cards (at least one-third of the cards that were used during the fiscal period). Obtained the monthly statements for the selected cards for the fiscal period. Selected the monthly statement with the largest dollar activity for each card (for a debit card, selected the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Observed that there is evidence that the monthly statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

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

- b) Observed that no finance charges and/or late fees were assessed on the selected statements.

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

16. Using the monthly statements or combined statements selected under #15 above, obtained supporting documentation for all transactions for each of the 2 cards selected (i.e. each of the cards should have one month of transactions subject to testing).

- a) For each transaction, observed that the transaction was supported by:

- 1) An original itemized receipt (i.e., identifies precisely what was purchased).

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

- 2) Documentation of the business/public purpose. For meal charges, there should also have been documentation of the individuals participating.

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

- 3) If applicable, other documentation that is required by the written policy obtained in #1g above (e.g., purchase order, written authorization.)

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

- b) For each transaction, compared the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the Hospital's written purchasing/disbursement policies obtained in #1b above and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and determined that the transaction complied with the requirements.

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

- c) For each transaction, compared the Hospital's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and

determined that the transaction complied with the requirements (e.g. cash advances or non-business purchases, regardless whether they are reimbursed).

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

Travel and Expense Reimbursement

17. Obtained from management a listing of all travel and related expense reimbursements, by person, during the fiscal period. Obtained management's representation that the listing was complete.

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

18. Using the Hospital's written policies related to travel and expense reimbursements obtained in #1h above, compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and determined that no amounts exceeded GSA rates.

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

19. Using the listing from #17 above, selected the three persons who incurred the most travel costs during the fiscal period. Obtained the expense reimbursement reports or prepaid expense documentation of each selected person for the fiscal period, including the supporting documentation, and chose the largest travel expense for each person to inspect. For each of the three travel expenses selected:

a) Compared expense documentation to written policies and observed that each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging).

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

b) Reported whether each expense is supported by:

1) An original itemized receipt that identifies precisely what was purchased.

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

2) Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).

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

3) If applicable, other documentation as may be required by written policy obtained in #1h above (e.g., authorization for travel, conference brochure, certificate of attendance).

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

- c) Compared the Hospital's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and determined that the transactions complied with the requirements (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse).

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

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

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

Contracts

20. Obtained a listing of all contracts in effect during the fiscal period. Obtained management's representation that the listing or general ledger was complete.

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

21. Using the listing from #20 above, selected the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtained the related contracts and paid invoices related to the five vendors selected and:

- a) Observed that there was a formal/written contract that supports the services arrangement and the amount paid.

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

- b) Compared each contract's detail to the Louisiana Public Bid Law or Procurement Code. Determined whether each contract was subject to the Louisiana Public Bid Law or Procurement Code and:

- 1) If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)

Results: None of the five (5) vendors were subject to Louisiana Public Bid Law or Procurement Code.

- 2) If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

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

- c) Determined whether the contract was amended. If so, determined the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

Results: No contract amendments were noted.

- d) Selected the largest payment from each of the five contracts, obtained the supporting invoice, compared the invoice to the contract terms as observed in the contract, and observed that the invoice and related payment complied with the terms and conditions of the contract.

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

- e) Obtained board minutes and observed that there is documentation of board approval as required by policy.

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

Payroll and Personnel

- 22. Obtained a listing of employees with their related salaries, and obtained management's representation that the listing is complete. Randomly selected five employees, obtained their personnel files, and:

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

- a) Determined compensation paid to each employee during the fiscal period and observed that payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

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

- b) Inspected changes made to hourly pay rates/salaries during the fiscal period and reported whether those changes were approved in writing and in accordance with written policy obtained in #1e above.

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

- 23. Obtained attendance and leave records and randomly selected one pay period in which leave had been taken by at least one employee. Within that pay period, randomly selected 25 employees and:

- a) Observed that all selected employees documented their daily attendance and leave (e.g., vacation, sick, compensatory).

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

- b) Observed that there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees.

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

- c) Observed that there was written documentation that the Hospital maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees that earn leave.

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

- 24. Obtained from management a list of those employees/officials that were terminated during the fiscal period and management's representation that the list was complete. If any termination payments were made during the fiscal year, selected the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtained the personnel files and if applicable, employment contract for the two employees. Observed that the termination payments were made in strict accordance with the policy obtained in #1e above and/or employment contract and approved by management.

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

- 25. Obtained supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Observed that the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines (as identified by management).

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

Ethics

- 26. Using the five randomly selected employees from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and observed that the entity maintained documentation to demonstrate that required ethics training was completed.

Results: The employees selected were exempt from the ethics compliance requirements as prescribed by Louisiana Revised Statute 1170(a)(3)(c).

- 27. Inquire of management whether any alleged ethics violations were reported to the Hospital during the fiscal period. If applicable, obtained and inspected documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the Hospital's ethics policy obtained in #1i above. If management received allegations, observed that management investigated allegations received, and whether the allegations were addressed in accordance with policy obtained in #1i above.

Results: Management represented the Hospital did not have any alleged violations during the fiscal period. Therefore, this procedure is not applicable.

Debt Service

28. If debt was issued during the fiscal period, obtain supporting documentation from the Hospital, and report whether State Bond Commission approval was obtained.

Results: We noted no new debt was issued during the fiscal period. Therefore, this procedure is not applicable.

29. If the Hospital had outstanding debt during the fiscal period, obtain supporting documentation from the Hospital and observed that the Hospital made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

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

30. If the Hospital had tax millages relating to debt service, obtain supporting documentation for the millages levied during the fiscal period and observed that millage collections exceed debt service payments by more than 10% during the fiscal period. Also, observed that there are no millages that continue to be received for debt that has been paid off.

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

Other

31. Inquire of management whether the Hospital had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the Hospital reported the misappropriation to the legislative auditor and the district attorney of the parish in which the Hospital is domiciled.

Results: Management stated the hospital had no misappropriation of public funds or assets. Therefore, this procedure is not applicable.

32. Observe and report whether the Hospital has posted on its premises and website, the notice required by R.S. 24:523.1.

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

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

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

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

The purpose of this report is solely to describe the scope of procedures performed on those C/C areas identified in the SAUPs, and the result of the procedures performed, 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.

Cam, Riggs & Ingram, L.L.C.

June 12, 2018



June 12, 2018

Louisiana Legislative Auditor
1600 North 3rd Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

And

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

RE: Management's Response to Statewide Agreed-Upon Procedures
Hospital Service District of the Parish of St. Bernard, State of Louisiana

Dear Sirs:

St. Bernard Parish Hospital will review policies and procedures in regard to the comments for each financial function and make appropriate changes that will improve operations and internal controls in each area that are cost effective and within our budget constraints.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kim Keene", is written over the word "Sincerely,".

Kim Keene,
Chief Executive Officer