

ALLEN PARISH HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2018, 2017 AND 2016



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 d/b/a Allen Parish Hospital
 Hospital Enterprise Fund
 Years Ended June 30, 2018, 2017 and 2016

Table of Contents

	<u>Page No.</u>
Management’s Discussion and Analysis.....	i-vi
Independent Auditors’ Report on the Financial Statements and Supplementary Information.....	1-3
Financial Statements	
Statements of Net Position	4
Statements of Revenue, Expenses and Changes in Net Position	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-21
Supplementary Information	
Schedules of Net Patient Service Revenue.....	23
Schedules of Other Operating Revenue.....	24
Schedules of Operating Expenses - Salaries and Benefits.....	25
Schedules of Operating Expenses - Other Expenses.....	26
Schedules of Per Diem and Other Compensation	
Paid to Board Members	27
Schedule of Compensation, Benefits and Other	
Payments to Chief Executive Officer	28
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 <i>Government Auditing Standards</i>	29-36

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 3 of Allen Parish, State of Louisiana d/b/a Allen Parish Hospital (the Hospital) provides background information and management's analysis of the Hospital's financial performance during the fiscal years that ended June 30, 2018, 2017, and 2016. Please read it in conjunction with the financial statements beginning on page 4 and notes to the financial statements beginning on page 8 in this report.

Financial Highlights

- The Hospital's total assets increased by \$228,245 in 2018 and \$590,851 in 2017, compared to a decrease of \$859,871 in 2016. Cash and cash equivalents increased \$258,158 in 2018.
- The Hospital's total liabilities increased by \$513,904 in 2018, compared to decreases of \$373,691 and \$496,849 in 2017 and 2016, respectively. The Hospital's accounts payable increased by \$637,201 in 2018, and the Hospital's long-term debt decreased by \$164,488 in 2018.
- Total operating revenue for the Hospital increased by \$5,122,934 compared to a decrease of \$5,180,822 in 2017 and an increase of \$5,192,700 in 2016. Operating expenses increased by \$6,374,742 in 2018, following a decrease of \$6,507,240 in 2017 and an increase of \$5,008,501 in 2016. The Hospital experienced an operating loss of \$234,425 for fiscal year 2018, compared to operating income of \$1,017,383 for fiscal year 2017, compared to an operating loss of \$309,035 and \$493,234 for fiscal years 2016 and 2015, respectively.
- The Hospital collaborated with a rural hospital trade organization to establish a grant program. The Hospital entered into cooperative endeavor agreements with other regional public rural hospitals to provide intergovernmental transfer grant (IGT) funds to provide healthcare to low income patients. Operating expenses include IGT grant expense of \$18,825,981, \$13,930,744 and \$21,547,900 for fiscal years 2018, 2017, and 2016, respectively.
- The Hospital received property tax revenues of \$762,565, \$748,397 and \$753,012 for fiscal years 2018, 2017 and 2016, respectively.

Required Financial Statements

The financial statements contained in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles. These financial statements provide overall information about the Hospital's financial activities on both short-term and long-term basis. The statements of net position present information about its assets (resources) and liabilities (the amounts obligated to its creditors). The statements of revenue, expenses, and changes in net position present information about the current and prior year's activities in revenues and expenses. This statement also provides useful information for determining whether the Hospital's patient service revenue and other revenue sources were sufficient to allow the Hospital to recover all of its costs. The final required financial statement is the statement of cash flows which provides information about the Hospital's cash from operations, investing and financing activities. In addition, this statement provides useful information such as the source of cash flow, cash utilization, and the change in the cash balance during the reporting period.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Financial Analysis of the Hospital

The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's activities. These two statements report the net position of the Hospital and changes in it. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Net Position

A summary of the Hospital's Statements of Net Position are presented in Table 1 below:

TABLE 1
Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total current assets	\$ 2,619,820	\$ 2,367,806	\$ 1,884,907	\$ 2,588,137
Capital assets, net	1,264,098	1,287,867	1,179,915	1,324,476
Other assets	36,000	36,000	36,000	48,080
Total assets	<u>\$ 3,919,918</u>	<u>\$ 3,691,673</u>	<u>\$ 3,100,822</u>	<u>\$ 3,960,693</u>
Total current liabilities	\$ 2,825,917	\$ 2,147,525	\$ 2,428,474	\$ 2,549,755
Long-term debt, net of current maturities	525,555	690,043	782,785	1,158,353
Total liabilities	3,351,472	2,837,568	3,211,259	3,708,108
Invested in capital assets, net of related debt	942,642	1,014,922	1,033,701	1,097,210
Unrestricted	<u>(374,196)</u>	<u>(160,817)</u>	<u>(1,144,138)</u>	<u>(844,625)</u>
Total liabilities and net position	<u>\$ 3,919,918</u>	<u>\$ 3,691,673</u>	<u>\$ 3,100,822</u>	<u>\$ 3,960,693</u>

As referenced in Table 1, total assets increased by \$228,245 and \$590,851 in 2018 and 2017, respectively, compared to a decrease of \$859,871 in 2016. Cash and cash equivalents increased by \$258,158. Net patient accounts receivable decreased by \$94,166 in 2018. Total liabilities increased by \$513,904 in 2018 compared to a decrease of \$373,691 and \$496,849 in 2017 and 2016, respectively. Liabilities increased in 2018 due to an increase of \$637,201 in accounts payable. The current ratio for 2018 decreased to 0.9, compared to 1.1 from 2017.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Summary of Revenue, Expenses and Changes in Net Position

The following table represents the Hospital's Statements of Revenue, Expenses and Changes in Net Position for the fiscal years ended June 30:

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net patient service revenue	\$ 31,163,579	\$ 25,889,209	\$ 30,869,294	\$ 25,177,028
Maintenance taxes	762,565	748,397	753,012	766,559
Other revenue	178,175	343,779	539,901	1,025,920
Total operating revenues	<u>32,104,319</u>	<u>26,981,385</u>	<u>32,162,207</u>	<u>26,969,507</u>
Salaries and employee benefits	7,688,196	6,983,417	6,416,733	6,317,186
Supplies and other	1,923,114	1,731,374	1,490,022	2,040,172
Professional, mgt. and consulting fees	2,613,813	2,216,746	1,707,292	1,111,665
Intergovernmental transfer expense	19,625,981	14,584,994	22,352,900	17,343,038
Insurance	261,113	225,925	264,603	306,943
Depreciation and amortization	226,527	221,546	239,692	343,737
Total operating expenses	<u>32,338,744</u>	<u>25,964,002</u>	<u>32,471,242</u>	<u>27,462,741</u>
Operating income (loss)	(234,425)	1,017,383	(309,035)	(493,234)
Nonoperating income (expenses)	<u>(51,234)</u>	<u>(52,841)</u>	<u>(53,987)</u>	<u>(101,760)</u>
Excess of revenue over expenses	(285,659)	964,542	(363,022)	(594,994)
Beginning net position	854,105	(110,437)	252,585	847,579
Ending net position	<u>\$ 568,446</u>	<u>\$ 854,105</u>	<u>\$ (110,437)</u>	<u>\$ 252,585</u>

Sources of Revenues

Net Patient Service Revenue

During fiscal year 2018, the Hospital derived the majority of its total revenue from patient services. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. Total net patient service revenues increased by \$5,274,370 in 2018. Medicaid FMP funds increased by \$5,248,856 in 2018 after decreasing by \$7,281,070 in 2017. During the year, provisions for bad debt decreased by \$393,211 versus an increase of \$20,661 in 2017 and a decrease of \$443,633 in 2016. Contractual allowances increased by \$577,611 and \$5,572,613 during 2018 and 2017, respectively, compared to a decrease of \$1,209,810 in 2016.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Sources of Revenues (Continued)

Other Revenue

Other revenue includes cafeteria sales, rental income, grant income and other miscellaneous services. The Hospital holds designated and restricted funds in its balance sheets that are primarily on demand savings accounts.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30:

TABLE 3
Payor Mix by Percentage

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Medicare	28.1%	27.0%	31.5%	33.9%
Medicaid	42.7%	41.4%	28.9%	26.5%
Commercial	21.3%	24.1%	26.5%	26.4%
Self-pay and other	<u>7.9%</u>	<u>7.5%</u>	<u>13.1%</u>	<u>13.2%</u>
Total patient revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenue, Expenses and Changes in Net Position between 2018, 2017 and 2016.

Patient discharges in 2018 increased in acute by 27 from 2017. There was a decrease of 87 discharges in recovery unit (psychiatric) discharges in 2018. Patient days decreased 8.4% to 7,561 from 8,258 with a decrease in patient average length of stay in 2018. The average length of stay for acute patients decreased during the past year to 2.9 days, compared to 3.2 days in 2017 and 3.6 in 2016. The average length of stay for skilled care patients decreased to 15.8 in 2018 from 18.8 in 2017 and 23.6 days in 2016. Length of stay for psychiatric care during 2018 was 8.6 days compared to 8.3 days in 2017 and 8.2 days in 2016. Total net patient service revenue increased by \$5,274,370 or 20.4% in 2018. This increase was due to an increase in Medicaid FMP during 2018.

Net days in accounts receivable decreased to 50.3 days in 2018 compared to 53.6 days in 2017 and 59.1 days in 2016.

Employee related expenses increased 10.1% in 2018. As a percentage of net patient service revenue, these expenses are 24.7%, 27.0%, and 20.8% in 2018, 2017, and 2016, respectively.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Operating and Financial Performance (Continued)

Supplies and other expenses increased by \$5,232,727 compared to a decrease of \$7,526,554 in 2017 and an increase of \$4,459,712 in 2016. Supplies and other expenses change with the volume of patient services. The Hospital focuses on appropriately managing supply contracts to improve in supply cost management. The major increase in other expenses is related to an increase in intergovernmental grant expenditures of \$4,895,237 as discussed in Note 16 to the financial statements.

Professional, management and consulting fees increased by \$397,067, \$509,454, and \$595,627 in fiscal year 2018, 2017 and 2016, respectively. The Hospital contracted with additional outside consultants during the year.

Insurance expense increased by \$35,188 compared to decreases of \$38,678 and \$42,340 in 2017 and 2016, respectively.

Depreciation and amortization expense increased by \$4,981 in 2018 compared to decreases of \$18,146 and \$104,044 in 2017 and 2016, respectively.

Interest expense decreased \$5,853 or 9.9% in 2018 compared to an increase of \$3,093 or 5.5% in 2017 and a decrease of \$11,393 or 16.9% in 2016. The fluctuations in interest expense over the last three years are directly related to the financing activity by the Hospital within the respective fiscal year.

Maintenance tax income increased \$14,168 or 1.89% in 2018 compared to a decrease of \$4,615 or 0.61% in 2017 and a decrease of \$13,547 or 1.8% in 2016,

Other operating revenue decreased by \$165,604, \$196,122 and \$486,018 in 2018, 2017 and 2016, respectively. The decrease in 2018 was mainly attributable to a decrease of about \$179,000 in the grant the Hospital received from Medicare for improving its electronic health records as discussed in Note 15 of the financial statements.

The Hospital has experienced significant losses in the prior fiscal years, which has led to a decline in the financial position. Management has applied and received financing after the balance sheet date to restructure its current long-term debt. New physicians were hired in the rural health clinic to increase revenues. Management plans to build a new emergency room and rural health clinic financed by revenue bonds.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Capital Assets

The Hospital's capital assets activities are included in Table 4 below:

TABLE 4
Capital Assets

	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>
Land and land improvements	\$ 123,651	\$	123,651	\$	124,481	\$	124,480
Buildings	2,101,910		2,101,910		2,102,750		2,102,750
Fixed equipment	257,550		257,550		307,791		305,541
Major movable equipment	5,179,066		5,002,313		4,827,491		4,734,610
Construction in progress	<u>26,005</u>		<u>-0-</u>		<u>-0-</u>		<u>-0-</u>
Totals at historical cost	7,688,182		7,485,424		7,362,513		7,267,381
Less accumulated depreciation and amortization	<u>6,424,084</u>		<u>6,197,557</u>		<u>6,182,598</u>		<u>5,942,905</u>
Net capital assets	\$ <u>1,264,098</u>	\$	<u>1,287,867</u>	\$	<u>1,179,915</u>	\$	<u>1,324,476</u>

Major movable equipment additions in the amount of \$202,758 resulted from the purchase of a computer server and assets of two physician practices.

Long-Term Debt

As of June 30, 2018, the Hospital had \$811,456 in debt compared to \$953,945 in 2017 and \$1,159,214 in 2016. More detailed information about the Hospital's long-term liabilities is presented in the notes to financial statements.

Contacting the Hospital's Financial Manager

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



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Service District No. 3, Parish of Allen, State of Louisiana, Allen Parish Hospital (the Hospital), a component unit of the Allen Parish Police Jury, as of and for the years ended June 30, 2018, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital (the Hospital) as of June 30, 2018, 2017 and 2016, and the changes in its financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial information of Allen Parish Hospital Service District No. 3 and do not purport to, and do not, present fairly the financial position of Allen Parish Police Jury as of June 30, 2018, 2017 and 2016, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally



Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana
Page Three

accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Hospital's internal control over financial reporting and 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 Hospital'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 Hospital's internal control over financial reporting and compliance.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

December 17, 2018



Allen Parish Hospital
Statements of Net Position
June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 559,060	\$ 300,902	\$ 133,439
Patient accounts receivable, net of estimated uncollectibles (Note 4)	1,456,854	1,551,020	1,334,139
Estimated third-party payor settlements	257,733	183,584	120,122
Inventory	269,531	262,641	240,925
Prepaid expenses	<u>76,642</u>	<u>69,659</u>	<u>56,282</u>
 Total current assets	 <u>2,619,820</u>	 <u>2,367,806</u>	 <u>1,884,907</u>
Capital assets, net (Note 5)	1,264,098	1,287,867	1,179,915
Other assets	<u>36,000</u>	<u>36,000</u>	<u>36,000</u>
 Total assets	 <u>\$ 3,919,918</u>	 <u>\$ 3,691,673</u>	 <u>\$ 3,100,822</u>
 Liabilities and Net Position			
Current liabilities:			
Accounts payable	\$ 1,479,360	\$ 842,159	\$ 1,216,458
Accrued expenses (Note 6)	341,002	343,024	336,328
Estimated third-party payor settlements	719,654	698,440	499,259
Current maturities of long-term debt (Note 7)	<u>285,901</u>	<u>263,902</u>	<u>376,429</u>
 Total current liabilities	 <u>2,825,917</u>	 <u>2,147,525</u>	 <u>2,428,474</u>
Long-term debt, net of current maturities (Note 7)	<u>525,555</u>	<u>690,043</u>	<u>782,785</u>
 Total liabilities	 <u>3,351,472</u>	 <u>2,837,568</u>	 <u>3,211,259</u>
 Net position:			
Invested in capital assets, net of related debt	942,642	1,014,922	1,033,701
Unrestricted	<u>(374,196)</u>	<u>(160,817)</u>	<u>(1,144,138)</u>
 Total net position	 <u>568,446</u>	 <u>854,105</u>	 <u>(110,437)</u>
 Total liabilities and net position	 <u>\$ 3,919,918</u>	 <u>\$ 3,691,673</u>	 <u>\$ 3,100,822</u>

See accompanying notes to financial statements.

Allen Parish Hospital
 Statements of Revenue, Expenses and Changes in Net Position
 Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues:			
Net patient service revenue	\$ 31,163,579	\$ 25,889,209	\$ 30,869,294
Grant income	116,568	211,350	465,043
Maintenance taxes	762,565	748,397	753,012
Other	<u>61,607</u>	<u>132,429</u>	<u>74,858</u>
Total operating revenues	<u>32,104,319</u>	<u>26,981,385</u>	<u>32,162,207</u>
Operating expenses:			
Salaries and benefits	7,688,196	6,983,417	6,416,733
Medical supplies and drugs	479,635	520,514	524,975
Supplies	257,397	250,564	225,117
Professional, management and consulting fees	2,613,813	2,216,746	1,707,292
Intergovernmental transfer expense	19,625,981	14,584,994	22,352,900
Other expenses	1,186,082	960,296	739,930
Insurance	261,113	225,925	264,603
Depreciation and amortization	<u>226,527</u>	<u>221,546</u>	<u>239,692</u>
Total operating expenses	<u>32,338,744</u>	<u>25,964,002</u>	<u>32,471,242</u>
Operating income (loss)	(234,425)	1,017,383	(309,035)
Nonoperating revenues (expenses):			
Interest income	1,886	6,132	1,893
Interest expense	<u>(53,120)</u>	<u>(58,973)</u>	<u>(55,880)</u>
Changes in net position	(285,659)	964,542	(363,022)
Beginning net position	<u>854,105</u>	<u>(110,437)</u>	<u>252,585</u>
Ending net position	\$ <u>568,446</u>	\$ <u>854,105</u>	\$ <u>(110,437)</u>

See accompanying notes to financial statements.

Allen Parish Hospital
Statements of Cash Flows
Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 31,204,810	\$ 25,808,047	\$ 30,572,106
Other operating cash receipts	940,740	1,092,176	1,292,913
Cash paid to governmental entities	(19,625,981)	(14,584,994)	(22,352,900)
Cash paid to suppliers	(4,174,712)	(4,583,438)	(3,062,558)
Cash paid to employees and for employee benefits	<u>(7,690,218)</u>	<u>(6,976,720)</u>	<u>(6,508,516)</u>
Net cash provided (used) by operating activities	<u>654,639</u>	<u>755,071</u>	<u>(58,955)</u>
Cash flows from investing activities:			
Interest on investments	1,886	6,132	1,893
Other assets	<u>-0-</u>	<u>-0-</u>	<u>12,080</u>
Net cash provided (used) by investing activities	<u>1,886</u>	<u>6,132</u>	<u>13,973</u>
Cash flows from noncapital financing activities:			
Proceeds from long-term debt	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net cash provided (used) by noncapital financing activities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(270,004)	(378,966)	(404,052)
Interest expense on long-term debt	(53,120)	(58,973)	(55,880)
Acquisition of capital assets	<u>(75,243)</u>	<u>(155,801)</u>	<u>(95,131)</u>
Net cash provided (used) by capital and related financing activities	<u>(398,367)</u>	<u>(593,740)</u>	<u>(555,063)</u>
Net increase (decrease) in cash and cash equivalents	258,158	167,463	(600,045)
Cash and cash equivalents, beginning of year	<u>300,902</u>	<u>133,439</u>	<u>733,484</u>
Cash and cash equivalents, end of year	\$ <u><u>559,060</u></u>	\$ <u><u>300,902</u></u>	\$ <u><u>133,439</u></u>

See accompanying notes to financial statements.

Allen Parish Hospital
 Statements of Cash Flows (Continued)
 Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (234,425)	\$ 1,017,383	\$ (309,035)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	226,527	221,546	239,692
Changes in:			
Patient accounts receivable	94,166	(216,881)	(104,055)
Estimated third-party payor settlements	(74,149)	(63,462)	201,478
Inventory	(6,890)	(21,716)	34,990
Prepaid expenses	(6,983)	(13,377)	(29,228)
Accounts payable	637,201	(374,299)	393,597
Accrued expenses	(2,022)	6,696	(91,783)
Estimated third-party payor settlements	<u>21,214</u>	<u>199,181</u>	<u>(394,611)</u>
Net cash provided (used) by operating activities	\$ <u>654,639</u>	\$ <u>755,071</u>	\$ <u>(58,955)</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>55,763</u>	\$ <u>54,423</u>	\$ <u>62,131</u>
Equipment acquired under capital lease	\$ <u>127,515</u>	\$ <u>173,697</u>	\$ <u>-0-</u>

See accompanying notes to financial statements.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

The Allen Parish Hospital Service District No. 3 (the "Hospital" or the "District") was created by an ordinance of the Allen Parish Police Jury.

The Hospital is a political subdivision of the Allen Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Allen Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Allen Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Allen Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides acute and psychiatric inpatient services, skilled nursing (through "swing-beds"), emergency, home health, and outpatient services, including a rural health clinic.

Hospital Land

The land on which the Hospital was built was donated by Powell Lumber Company to Allen Parish Hospital Service District No. 3. The donation was made with the restriction that the land is to be used primarily as a site for a public hospital and should the donee or their successors or assignees fail to use the land for a public hospital, the title shall revert to Powell Lumber Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking, money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities of more than 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

The District provides medical care primarily to Allen Parish residents and grants credit to patients, substantially all of whom are local residents. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 10. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenue

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

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Patient Accounts Receivable

Patient accounts receivable are carried at a net amount determined by the original charge for the services provided, less an estimate for contractual adjustments or discounts provided to the third-party payors, less any payments received and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by utilizing a historical experience applied to an aging of accounts. Patient account receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off as bad debt expenses are recorded as a reduction of bad debt expense when received.

Inventory

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market basis.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings	12 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The cost of assets retired or otherwise disposed of and related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are currently credited or charged to nonoperating revenue.

Net Position

The District classifies net position into three components: invested in capital assets, net of related debt; restricted and unrestricted. Invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted consists of assets that have constraints that are externally 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. Unrestricted are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Revenue and Expenses

The Hospital's statements of revenues, expenses and changes in net assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Operating revenue also includes ad valorem taxes passed to provide the District with revenue to operate and maintain the District. Nonexchange revenues are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the District receives grants and contributions from the state of Louisiana, individuals or private and public organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all 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. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted Revenues

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Use of Estimates

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

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health and dental benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledged bank's trust department in the Hospital's name at June 30, 2018, 2017, and 2016.

Interest Rate Risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in the market interest rates. The Hospital does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Carrying amount			
Deposits	\$ <u>559,060</u>	\$ <u>300,902</u>	\$ <u>133,439</u>
	\$ <u>559,060</u>	\$ <u>300,902</u>	\$ <u>133,439</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ <u>559,060</u>	\$ <u>300,902</u>	\$ <u>133,439</u>
	\$ <u>559,060</u>	\$ <u>300,902</u>	\$ <u>133,439</u>

Account balances according to bank's records at June 30, 2018, for the Hospital are as follows:

	<u>Jeff Davis Bank</u>
Cash in bank	\$ <u>629,500</u>
Insured by FDIC	\$ <u>250,000</u>
Collateralization by fair market value	\$ <u>379,500</u>
Uncollateralized	\$ <u>-0-</u>

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Patients	\$ 3,350,446	\$ 3,335,549	\$ 3,064,401
Estimated allowances for uncollectibles	<u>(1,893,592)</u>	<u>(1,784,529)</u>	<u>(1,730,262)</u>
Net accounts receivable	\$ <u>1,456,854</u>	\$ <u>1,551,020</u>	\$ <u>1,334,139</u>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 4 - ACCOUNTS RECEIVABLE (Continued)

The following is a summary of the mix of receivables from patients and third-party payors at June 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Medicare	21%	19%	9%
Medicaid	19%	27%	22%
Commercial and other third-party payors	24%	25%	21%
Self pay	<u>36%</u>	<u>29%</u>	<u>48%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - CAPITAL ASSETS

The following is a summary of capital assets and related accumulated depreciation at June 30:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,101	-0-	-0-	104,101
Buildings	2,101,910	-0-	-0-	2,101,910
Fixed equipment	257,550	-0-	-0-	257,550
Major movable equipment	4,959,481	176,753	-0-	5,136,234
Leasehold improvements	42,832	-0-	-0-	42,832
Construction in progress	<u>-0-</u>	<u>26,005</u>	<u>-0-</u>	<u>26,005</u>
Totals at historical cost	7,485,424	202,758	-0-	7,688,182
Accumulated depreciation	<u>6,197,557</u>	<u>226,527</u>	<u>-0-</u>	<u>6,424,084</u>
Net	<u>\$ 1,287,867</u>	<u>\$ (23,769)</u>	<u>\$ -0-</u>	<u>\$ 1,264,098</u>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,931	-0-	830	104,101
Buildings	2,102,750	-0-	840	2,101,910
Fixed equipment	307,791	-0-	50,241	257,550
Major movable equipment	4,784,659	329,498	154,676	4,959,481
Leasehold improvements	<u>42,832</u>	<u>-0-</u>	<u>-0-</u>	<u>42,832</u>
Totals at historical cost	7,362,513	329,498	206,587	7,485,424
Accumulated depreciation	<u>6,182,598</u>	<u>221,546</u>	<u>206,587</u>	<u>6,197,557</u>
Net	<u>\$ 1,179,915</u>	<u>\$ 107,952</u>	<u>\$ -0-</u>	<u>\$ 1,287,867</u>
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,931	-0-	-0-	104,931
Buildings	2,102,750	-0-	-0-	2,102,750
Fixed equipment	305,541	2,250	-0-	307,791
Major movable equipment	4,704,984	79,675	-0-	4,784,659
Leasehold improvements	<u>29,626</u>	<u>13,206</u>	<u>-0-</u>	<u>42,832</u>
Totals at historical cost	7,267,382	95,131	-0-	7,362,513
Accumulated depreciation	<u>5,942,906</u>	<u>239,692</u>	<u>-0-</u>	<u>6,182,598</u>
Net	<u>\$ 1,324,476</u>	<u>\$ (144,561)</u>	<u>\$ -0-</u>	<u>\$ 1,179,915</u>

A summary of assets held under capital leases, which are included in capital assets, at June 30 follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Equipment	\$ 492,315	\$ 364,800	\$ 191,103
Accumulated depreciation	<u>96,836</u>	<u>43,447</u>	<u>21,690</u>
Total	<u>\$ 395,479</u>	<u>\$ 321,353</u>	<u>\$ 169,413</u>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 6 - COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid time off and sick days depending on length of service. Employees may accumulate paid time off and sick leave up to a specified maximum depending on years of service. The Hospital charged operations for accrued paid time off and vested sick pay of \$202,664, \$202,664 and \$144,687 in 2018, 2017 and 2016, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 7 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30 follows:

	June 30, <u>2017</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2018</u>	Due Within <u>One Year</u>
Series 2012 bonds	\$ 537,000	\$ -0-	\$ 170,000	\$ 367,000	\$ 179,000
Series 2007 bonds	144,000	-0-	21,000	123,000	22,000
Capital lease obligations	<u>272,945</u>	<u>127,515</u>	<u>79,004</u>	<u>321,456</u>	<u>84,901</u>
 Total	 \$ <u>953,945</u>	 \$ <u>127,515</u>	 \$ <u>270,004</u>	 \$ <u>811,456</u>	 \$ <u>285,901</u>
	June 30, <u>2016</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2017</u>	Due Within <u>One Year</u>
Series 2012 bonds	\$ 699,000	\$ -0-	\$ 162,000	\$ 537,000	\$ 170,000
Series 2007 bonds	164,000	-0-	20,000	144,000	21,000
Series 2014 bonds	150,000	-0-	150,000	-0-	-0-
Capital lease obligations	<u>146,214</u>	<u>173,697</u>	<u>46,966</u>	<u>272,945</u>	<u>72,902</u>
 Total	 \$ <u>1,159,214</u>	 \$ <u>173,697</u>	 \$ <u>378,966</u>	 \$ <u>953,945</u>	 \$ <u>263,902</u>
	June 30, <u>2015</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2016</u>	Due Within <u>One Year</u>
Series 2012 bonds	\$ 853,000	\$ -0-	\$ 154,000	\$ 699,000	\$ 162,000
Series 2007 bonds	183,000	-0-	19,000	164,000	20,000
Series 2014 bonds	300,000	-0-	150,000	150,000	150,000
Capital lease obligations	<u>227,266</u>	<u>-0-</u>	<u>81,052</u>	<u>146,214</u>	<u>44,429</u>
 Total	 \$ <u>1,563,266</u>	 \$ <u>-0-</u>	 \$ <u>404,052</u>	 \$ <u>1,159,214</u>	 \$ <u>376,429</u>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 7 - LONG-TERM DEBT (Continued)

The following are the terms and due dates of the Hospital's long-term debt at June 30:

- Series 2007 Hospital Improvement Bonds, at a variable interest rate not to exceed 5.00%, due in variable semi-annual installments with full repayment at August 1, 2022, secured by a pledge of tax revenues.
- Series 2012 Hospital Improvement Bonds, at a variable interest rate not to exceed 6.00%, due in variable annual installments with full repayment at November 1, 2019, secured by a pledge of tax revenues and excess revenues from Hospital patient account receivables.
- Series 2014 Certificate of Indebtedness, at 4.75%, due in two annual installments of \$150,000, secured by a pledge of tax revenues. This obligation was fully repaid on September 1, 2016.
- Capital leases at varying rates of imputed interest from 5.43% to 8.93%, with total monthly payments ranging from \$998 to \$2,720 until 2023, collateralized by leased equipment with a net book value of \$395,479 at June 30, 2018.

Scheduled principal and interest payments on long-term debt and payments on capital obligations are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 201,000	\$ 25,619	\$ 84,901	\$ 17,644
2020	211,000	15,639	85,134	11,971
2021	25,000	3,224	62,397	7,503
2022	26,000	1,987	63,038	3,464
2023	<u>27,000</u>	<u>675</u>	<u>25,986</u>	<u>711</u>
Totals	\$ <u>490,000</u>	\$ <u>47,144</u>	\$ <u>321,456</u>	\$ <u>41,293</u>

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 8 - OPERATING LEASES

The hospital is committed under various noncancelable operating leases, all of which are for equipment. These expire in various years through 2022. Future minimum lease payments are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2019	\$ 117,643
2020	108,552
2021	56,320
2022	55,704
2023	<u>10,827</u>
Totals	<u>\$ 349,046</u>

NOTE 9 - RETIREMENT PLAN

On February 9, 2004, the Hospital elected to participate in the State of Louisiana's Public Employees Deferred Compensation Plan, which is a defined contribution plan. The plan was established in accordance with R.S. 42:1301-1308, and Section 457 of the *Internal Revenue Code of 1986*, as amended. At June 30, 2018, 2017 and 2016 there were 23, 23 and 27 plan members, respectively. Employees are eligible to participate in the plan beginning on the date of hire, with a minimum contribution of \$10 per month, up to 100% of compensation, for those under age 50 not to exceed \$18,500, \$18,000 and \$18,000 in calendar years 2018, 2017 and 2016, respectively, for those 50 or older \$24,500, \$24,000 and \$24,000 are the contribution limits for calendar years 2018, 2017 and 2016, respectively. The Hospital has elected to contribute 1% of the participating employees' pay. The Hospital holds all rights to change and/or stop its contribution at any time. Employees are immediately vested in employer and employee contributions. The Hospital's contribution was \$13,957, \$14,265 and \$13,241 for the years ended June 30, 2018, 2017 and 2016, respectively. Employees contributed \$85,104, \$78,977 and \$59,677 for the years ended June 30, 2018, 2017 and 2016, respectively.

NOTE 10 - PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital qualified for a Medicare low volume add-on for inpatient payments. These payments are effective for discharges occurring October 1, 2010 until September 30, 2022, if not extended by Congress. The additional payments received under the Medicare low volume add-on were \$168,077, \$148,474, and \$96,246 for the years ended June 30, 2018, 2017, and 2016, respectively. The rural health clinic is paid on a cost based methodology. Outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis. Swing bed services are reimbursed based on a prospectively determined rate per patient day based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed based upon a prospective methodology based upon length of

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 10 - PATIENT SERVICE REVENUE (Continued)

stay, diagnosis, and other factors. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's Medicare cost reports have been examined by the Medicare fiscal intermediary through June 30, 2015.

Medicaid - Inpatient acute and psychiatric services are reimbursed based on a prospectively determined per diem rate. Rural health clinics are paid on a cost based methodology. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been examined by the Medicaid fiscal intermediary through June 30, 2013.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

The following is a summary of the Hospital's net patient service revenue for the years ended June 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Gross charges	\$ 26,926,072	\$ 26,831,257	\$ 18,973,894
Less charges associated with charity patients	<u>(9,133)</u>	<u>(10,076)</u>	<u>(5,210)</u>
Gross patient service revenue	26,916,939	26,821,181	18,968,684
Less deductions from revenue:			
Medicaid FMP	20,584,740	15,335,884	22,616,954
Contractual allowances	(14,464,134)	(13,886,523)	(8,313,910)
Discounts	<u>(216,131)</u>	<u>(330,287)</u>	<u>(372,049)</u>
Patient service revenue (net of contractual adjustments)	32,821,414	27,940,255	32,899,679
Provision for bad debts	<u>(1,657,835)</u>	<u>(2,051,046)</u>	<u>(2,030,385)</u>
 Net patient service revenue	 \$ <u>31,163,579</u>	 \$ <u>25,889,209</u>	 \$ <u>30,869,294</u>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 10 - PATIENT SERVICE REVENUE (Continued)

The Hospital generated a substantial portion of its charges from Medicare and Medicaid programs at discounted rates. The following is a summary of gross Medicare and Medicaid patient charges:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Medicare and Medicaid gross patient charges	\$ 19,035,747	\$ 18,342,535	\$ 11,236,122
Contractual adjustments	<u>9,831,170</u>	<u>5,127,100</u>	<u>17,570,533</u>
 Program patient service revenue without Medicaid FMP	 \$ <u>28,866,917</u>	 \$ <u>23,469,635</u>	 \$ <u>28,806,655</u>
 Percent of total gross patient charges	 <u>71%</u>	 <u>68%</u>	 <u>59%</u>
Percent of total net patient revenue	<u>93%</u>	<u>91%</u>	<u>93%</u>

NOTE 11 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the PCF's exposure to \$400,000 per occurrence.

The Hospital has acquired additional coverage for professional medical malpractice liability through a private insurance carrier by purchasing a claims-made policy.

NOTE 12 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. The Hospital believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 10) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined. Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 12 - CONTINGENCIES (Continued)

The healthcare 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 healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes 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.

Professional Liability Risk (Note 11) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

Litigation and Other Matters - Various other claims in the ordinary course of business are pending against the Hospital. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

NOTE 13 - AD VALOREM TAXES

The Hospital levies two property taxes on all property subject to taxation in the service district. The three mills tax was imposed for ten years, beginning with the year 2007 and ending with the year 2016, subsequently renewed for another ten years ending with the year 2026. The twelve mills tax runs for a period of ten years, beginning with the year 2003 and ending with the year 2012, subsequently renewed for another ten years ending with the year 2022. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the Hospital. Property tax notices are mailed by November 5 each year and are due by December 31. The lien date is January 31.

NOTE 14 - CHARITY CARE

The Hospital provides charity care to patients who are financially unable to pay for part or all of the healthcare services they receive. The patient will either qualify for 100% of the charity care or owe a reduced "sliding scale" amount based on the patient's level of income in comparison to the Federal Poverty Guidelines based on a 150% scale. Accordingly, the Hospital does not report the amount it expects not to collect in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including wages and related benefits, supplies and other operating expenses. Amounts identified as charity care charges were \$9,133, \$10,076 and \$5,210, for the years ended June 30, 2018, 2017 and 2016, respectively. The costs related to the charity care charges were approximately \$10,000, \$9,000 and \$8,000, for the fiscal years ended in 2018, 2017 and 2016, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately \$4,000, \$3,000, and \$2,000 for the years ended June 30, 2018, 2017 and 2016, respectively.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2018, 2017 and 2016

NOTE 15 - GRANTS

The District recognized operating grant income of approximately \$179,000 and \$455,000 from Medicare during the years ended June 30, 2017 and 2016, respectively, as an incentive for implementing electronic health records (EHR). The key component of receiving the EHR incentive payment is “demonstrating meaningful use”, which is meeting a series of objectives that make use of an EHR’s potential related to the improvement of quality, efficiency and patient safety. The Centers for Medicare and Medicaid has indicated that demonstrating meaningful use will be phased in during the next few years in three stages, with each progressive stage incorporating more stringent measures. The District’s policy is to record the incentive payments once various stages have been met rather than recognizing ratably throughout the attestation period. In order to receive the incentive payments under each stage, a hospital must attest through a secure mechanism that they have met the meaningful use criteria. The EHR payments each year are based on management’s best estimate. The payments can be retained and additional payments can be earned for each stage if the District meets certain criteria in future implementation. The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries.

Various other grants were received during the year for other uses.

NOTE 16 - IGT GRANT EXPENSE

The Hospital (“Grantor”) collaborated with a rural hospital trade organization (“RHC”) to establish a grant program, whereby Grantor entered into cooperative endeavor agreements (“CEAs”) with other regional public rural hospitals (“Grantees”) to provide intergovernmental transfer grant (“IGT”) funds to enhance access to adequate and essential medically necessary healthcare services to the rural communities served by Grantees. Grant amounts were calculated based upon schedules prepared by RHC when it was determined that sufficient funds were available to make such IGT grants. The aggregate IGT grant expense is \$18,825,981, \$13,930,744 and \$21,547,900 for the years ended June 30, 2018, 2017 and 2016, respectively.

NOTE 17 - OPERATIONS

The Hospital has experienced significant losses in the prior fiscal years, which has led to a decline in the financial position. Additionally, the Hospital has experienced problems meeting its current obligation. Management has applied and received financing after the balance sheet date to restructure its current long-term debt. Additionally, management has hired new physicians in the rural health clinic to increase the revenue. Management’s plans include building a new emergency room and rural health clinic financed by revenue bonds.

NOTE 18 - SUBSEQUENT EVENTS

On November 28, 2018, the Hospital issued two series of Hospital Service Bonds. Series 2018A was issued in the principal amount of \$600,000 at 4.25%. Series 2018B was issued in the principal amount of \$1,400,000 at 5.00%.

Events have been evaluated through December 17, 2018, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Allen Parish Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Routine services			
Adult and pediatric	\$ 2,146,716	\$ 2,141,135	\$ 220,698
Psychiatric	6,670,287	7,294,722	4,721,353
Swing bed	<u>98,119</u>	<u>143,619</u>	<u>132,554</u>
Total routine services	<u>8,915,122</u>	<u>9,579,476</u>	<u>5,074,605</u>
Other professional services			
Radiology	2,251,405	2,203,731	1,999,850
Nuclear medicine	330,135	296,420	270,193
Laboratory	3,152,464	3,079,764	2,451,104
Blood	94,985	66,574	73,311
Intravenous therapy	152,469	98,546	48,741
Respiratory therapy	818,612	806,223	657,727
Physical therapy	953,817	1,002,762	949,478
Electrocardiology	275,185	277,625	232,842
Central supply	227,689	198,134	147,223
Pharmacy	1,755,875	1,788,662	1,301,792
Observation room	150,783	151,609	103,421
Rural health clinic	1,950,403	2,010,233	1,614,342
Emergency room	5,189,532	4,635,541	3,403,104
Home health visits	629,009	523,200	566,600
Contract physician	<u>78,587</u>	<u>112,757</u>	<u>79,561</u>
Total other professional services	<u>18,010,950</u>	<u>17,251,781</u>	<u>13,899,289</u>
Gross charges	<u>26,926,072</u>	<u>26,831,257</u>	<u>18,973,894</u>
Less charges associated with charity patients	<u>(9,133)</u>	<u>(10,076)</u>	<u>(5,210)</u>
Gross patient service revenue	26,916,939	26,821,181	18,968,684
Less deductions from revenue:			
Medicaid FMP	20,584,740	15,335,884	22,616,954
Contractual allowances	(14,464,134)	(13,886,523)	(8,313,910)
Discounts	<u>(216,131)</u>	<u>(330,287)</u>	<u>(372,049)</u>
Patient service revenue	32,821,414	27,940,255	32,899,679
Less provision for bad debts	<u>(1,657,835)</u>	<u>(2,051,046)</u>	<u>(2,030,385)</u>
Net patient service revenue	<u>\$ 31,163,579</u>	<u>\$ 25,889,209</u>	<u>\$ 30,869,294</u>

Allen Parish Hospital
Schedules of Other Operating Revenue
Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Meals	\$ 24,680	\$ 20,265	\$ 23,013
Medical records transcript fees	10,144	9,923	14,516
Rental	13,075	7,800	8,100
Other income	5,072	94,441	29,229
340B income	<u>8,636</u>	<u>-0-</u>	<u>-0-</u>
 Total other operating revenue	 <u>\$ 61,607</u>	 <u>\$ 132,429</u>	 <u>\$ 74,858</u>

Allen Parish Hospital
Schedules of Operating Expenses - Salaries and Benefits
Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Administration	\$ 418,334	\$ 382,749	\$ 410,622
Plant operations and maintenance	127,729	97,062	93,151
Housekeeping	80,749	67,171	63,256
Dietary and cafeteria	133,184	123,662	114,414
Medical records	121,972	126,442	117,904
Nursing services, acute care	949,865	836,139	804,022
Psychiatric unit	1,816,097	1,637,197	1,474,070
Radiology	318,448	301,985	283,836
Laboratory	336,316	372,455	391,121
Respiratory therapy	167,562	141,982	120,517
Central supply	29,613	19,206	30,317
Pharmacy	223,574	220,807	173,440
Emergency room	843,742	791,989	650,395
Home health	296,018	298,659	295,730
Rural health clinic	<u>880,878</u>	<u>741,894</u>	<u>608,632</u>
 Total salaries	 <u>6,744,081</u>	 <u>6,159,399</u>	 <u>5,631,427</u>
 Payroll taxes	 482,382	 437,197	 415,831
Health insurance	444,655	368,419	352,171
Retirement	13,957	14,265	13,241
Other	<u>3,121</u>	<u>4,137</u>	<u>4,063</u>
 Total benefits	 <u>944,115</u>	 <u>824,018</u>	 <u>785,306</u>
 Total salaries and benefits	 <u>\$ 7,688,196</u>	 <u>\$ 6,983,417</u>	 <u>\$ 6,416,733</u>

Allen Parish Hospital
Schedules of Operating Expenses - Other Expenses
Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Legal and accounting	\$ 198,298	\$ 188,240	\$ 89,673
Repairs and maintenance	152,568	172,460	159,254
Telephone	75,202	88,424	95,368
Utilities	131,525	125,862	132,856
Travel	102,380	127,305	96,877
Rentals	224,979	91,199	76,233
Dues and subscriptions	97,791	75,505	16,373
Miscellaneous	<u>203,339</u>	<u>91,301</u>	<u>73,296</u>
 Total other expenses	 \$ <u>1,186,082</u>	 \$ <u>960,296</u>	 \$ <u>739,930</u>

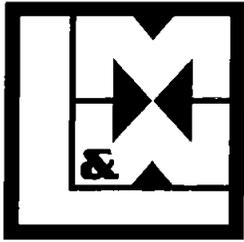
Allen Parish Hospital
Schedules of Per Diem and
Other Compensation Paid to Board Members
Year Ended June 30, 2018

	Paid on Behalf of <u>Commissioners</u>
Mr. Sherman Fontenot	\$ -0-
Mr. Roy Marcantel	-0-
Ms. Paula Manuel	-0-
Ms. Nancy Burleigh	-0-
Mr. Chad Guidry	-0-
Dr. Matthew Courville	<u>-0-</u>
 Total	 \$ <u><u>-0-</u></u>

Allen Parish Hospital
 Schedule of Compensation, Benefits and
 Other Payments to Chief Executive Officer
 Year Ended June 30, 2018

Agency Head Name: Jackie Reviel
 Position: CEO

Purpose	Amount
Salary	\$ 110,000
Health insurance	4,441
Retirement	-0-
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	-0-
Travel	568
Registration fees	2,050
Conference travel	3,191
Continuing professional education fees	-0-
Housing	-0-
Unvouchered expenses	-0-
Special meals	397
Professional dues	-0-
Cell phone	-0-



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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
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Hospital Service District No. 3, Parish of Allen, a component unit of the Allen Parish Police Jury, ("the Hospital") as of and for the years ended June 30, 2018, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana
Page Two

control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies: 2018-1, 2018-2, 2018-3, 2018-4 and 2018-5.

Compliance and Other Matters

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

The Hospital's Response to Findings

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings. The Hospital's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

December 17, 2018



Allen Parish Hospital
Schedule of Current Year Findings and Responses
Year Ended June 30, 2018

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified – No
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – No

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

FINDING 2018-1 - Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to insure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Response: Our goal will be to obtain the knowledge necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP.

FINDING 2018-2 - Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.



Allen Parish Hospital
Schedule of Current Year Findings and Responses
Year Ended June 30, 2018

Section II. Financial Statement Findings (Continued)

FINDING 2018-2 - Segregation of Duties (Continued)

Response: We now have a CFO and the duties will be assigned and segregated. Internal controls will be in place to prevent intentional and unintentional errors. The CFO is now reviewing the reconciliations each month after the controller completes the process.

FINDING 2018-3 - Retirement Contributions

Finding: Contributions to the retirement account for employee withholdings should be made within ten days. The employees' withholdings for their retirement accounts were not remitted in a timely fashion.

Recommendation: The Hospital should remit the employees' withholdings for their retirement plan within ten days of the payroll end date.

Response: The Hospital is now current with the remittance of employees' withholdings for their retirement contributions. Additionally, we have implemented cash management controls which will allow the Hospital to continue to timely remit these withholdings.

FINDING 2018-4 - Home Health Accounts Receivable Valuation

Finding: Management's estimate of home health accounts receivable and revenue was overstated by approximately \$280,000.

Recommendation: We recommend management change the process for recording the estimate of home health accounts receivable based on uncompleted episodes.

Response: The process to calculate the allowance has been changed for 2019 to match how we calculate the Hospital's allowance using paid claim data with 100% allowance for unpaid claims over 120 days until we are able to go live with a contract management software.



Allen Parish Hospital
Schedule of Current Year Findings and Responses
Year Ended June 30, 2018

Section II. Financial Statement Findings (Continued)

FINDING 2018-5 - Credit Card

Finding: The Hospital's credit and department store cards are in the custody of the employee who processes accounts payable and has access to recording journal entries.

Recommendation: We recommend segregating the custody of credit and department store cards from employees who have access to recording payables and journal entries.

Response: Administration will sign out and track purchases instead of allowing accounting to control the credit cards.

Section III. Federal Awards Findings and Questioned Costs

Not applicable

Section IV. Management Letter

Not applicable



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2018

Section I. Financial Statement Findings

FINDING 2017-1 - Financial Statements

Fiscal Year Initially Reported: June 30, 2007

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to insure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Response: Our goal will be to obtain the knowledge necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP.

Resolution: This matter has not been resolved. See current year finding 2018-1.

FINDING 2017-2 - Segregation of Duties

Fiscal Year Initially Reported: June 30, 2007

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: We now have a CFO and the duties will be assigned and segregated. Internal controls will be in place to prevent intentional and unintentional errors. The CFO is now reviewing the reconciliations each month after the controller completes the process.

Resolution: This matter has not been resolved. See current year finding 2018-2.



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2018

Section I. Financial Statement Findings (Continued)

FINDING 2017-3 - Retirement Contributions

Fiscal Year Initially Reported: June 30, 2016

Finding: Contributions to the retirement account for employee withholdings should be made within ten days. The employees' withholdings for their retirement accounts were not remitted in a timely fashion.

Recommendation: The Hospital should remit the employees' withholdings for their retirement plan within ten days of the payroll end date.

Response: The Hospital is now current with the remittance of employees' withholdings for their retirement contributions. Additionally, we have implemented cash management controls which will allow the Hospital to continue to timely remit these withholdings.

Resolution: This matter has not been resolved. See current year finding 2018-3.

FINDING 2017-4 - Medicare and Medicaid Cost Report Settlements

Fiscal Year Initially Reported: June 30, 2016

Finding: An estimate for Medicare and Medicaid cost report settlements was not recorded. Also, the payments and receipts for the prior year cost report settlements were not reconciled. Therefore, receivables from third-party payors and net patient service revenue were overstated by approximately \$194,000.

Recommendation: We recommend that an estimate for the current year Medicare and Medicaid cost report be made and recorded on an interim basis. Also, payments and receipts for prior year cost report settlements should be reconciled to a subsidiary schedule.

Response: Management will generate an estimate for the current year Medicare and Medicaid cost report settlements. This estimate will be based on historical settlements, in conjunction with the utilization of current fiscal year data. Management will also create a subsidiary schedule that will be used to track and reconcile prior year cost report settlements. The CFO will be the responsible party for maintaining these reports.

Resolution: This matter has been resolved.



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2018

Section I. Financial Statement Findings (Continued)

FINDING 2017-5 - Service Organization Control Report

Fiscal Year Initially Reported: June 30, 2016

Finding: Management did not acquire a service organization control (SOC) report in a timely manner.

Recommendation: A SOC report should be acquired timely so management can have assurance the service organization controls are adequate to mitigate risks.

Response: Management will acquire service organization control reports in a timely manner to mitigate risks.

Resolution: This matter has been resolved.

Section II. Federal Awards Findings and Questioned Costs

Not applicable

Section III. Management Letter

Not applicable



ALLEN PARISH HOSPITAL
INDEPENDENT AUDITORS' REPORT
ON APPLYING AGREED UPON
PROCEDURES

FOR THE YEAR ENDED
JUNE 30, 2018



LESTER, MILLER & WELLS
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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Board of Commissioners
of Allen Parish Hospital Service District No. 3
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Board of Commissioners of Allen Parish Hospital Service District No. 3 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 July 1, 2017 through June 30, 2018. The Hospital's management is responsible for those C/C areas identified in the SAUPs.

The 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 of which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
 - 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.
 - c) **Disbursements**, including processing, reviewing, and approving
 - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or 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).
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - 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.

To the Board of Commissioners
of Allen Parish Hospital Service District No. 3
and the Louisiana Legislative Auditor

- 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 of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
- 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.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Exceptions: There are no written policies for the following areas: budgeting, receipts, collections, payroll, ethics or debt service. The policy for purchasing does not state how vendors are added. The policy for disbursements does not include the processing of disbursements.

Management's Response: Management will develop policies on budgeting, receipts, collections, payroll, ethics and debt service. The procedures for adding vendors and disbursements are included in the CPSI procedure manual.

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
 - b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. *Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*
 - c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Exceptions: Of the twelve (12) months tested, one (1) did not have a monthly meeting. Of the eleven (11) board meetings, one (1) did not reference budget-to-actual comparisons, and zero (0) referenced a plan to eliminate the negative unrestricted fund balance in the general fund.

Management's Response: Management has implemented Finance Committee meetings prior to the board meeting to discuss budget-to-actual comparisons and to discuss the plans to improve financial performance of the Hospital.



Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:
- Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
 - Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
 - Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Exceptions: Of the three (3) bank accounts tested, one (1) did not have evidence that the reconciliation was prepared within two (2) months, one (1) did not have evidence that management or a board member reviewed the reconciliation, and two (2) did not have documentation reflecting outstanding items over twelve (12) months were researched.

Management's Response: All accounts will be reconciled timely with a quarterly review of all asset account reconciliations.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
- Employees that are responsible for cash collections do not share cash drawers/registers.
 - Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
 - Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.
6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.



To the Board of Commissioners
of Allen Parish Hospital Service District No. 3
and the Louisiana Legislative Auditor

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
- Observe that receipts are sequentially pre-numbered.
 - Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - Trace the deposit slip total to the actual deposit per the bank statement.
 - Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).
 - Trace the actual deposit per the bank statement to the general ledger.

Exceptions: Of the two (2) deposit sites tested, two (2) sites had employees who are responsible for collecting cash that share cash drawers. One (1) site had employees who are responsible for collecting cash and preparing deposits. One (1) site had employees who collect cash that are responsible for reconciling cash collections.

Management's Response: All cash posting will be centralized and collection/posting duties separated.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
- At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - At least two employees are involved in processing and approving payments to vendors.
 - The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.
10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:
- Observe that the disbursement matched the related original invoice/billing statement.
 - Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.



To the Board of Commissioners
of Allen Parish Hospital Service District No. 3
and the Louisiana Legislative Auditor

Exceptions: Per inquiry and observation of invoices, disbursements did not include evidence of segregation of duties. The employee responsible for processing payments can add and change vendors without someone reviewing the changes, and the employee responsible for processing payments also mails the checks.

Management's Response: A review of all vendor additions will be conducted monthly with an additional review by either the controller or CFO prior to making a change in the system.

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

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.
12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
 - a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Exceptions: Of the five (5) cards tested, two (2) did not have evidence that the statements were reviewed and approved. Finance charges and late fees were assessed on one (1) statement. Of the twenty-three (23) transactions tested, one (1) transaction did not have the original receipt and eight (8) transactions did not have written documentation of the business purpose present.

Management's Response: A process to check out and return the card/cards will be implemented to ensure proper documentation is turned in. Additional documentation will be requested if not submitted upon return of the card.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each



To the Board of Commissioners
of Allen Parish Hospital Service District No. 3
and the Louisiana Legislative Auditor

selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).
- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Exceptions: No exceptions noted in applying the above procedures

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:
 - a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
 - b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).
 - c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.
 - d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Exception: Of the five (5) contracts tested, one (1) was not approved by the governing board.

Management's Response: Management will review the contract process to ensure all contracts requiring board approval are submitted for approval.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:
 - a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and



To the Board of Commissioners
of Allen Parish Hospital Service District No. 3
and the Louisiana Legislative Auditor

does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.
 - c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.
19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Exceptions: Of the five (5) employees tested, one (1) employee's attendance and leave record did not have evidence of approval from supervisor. Retirement contributions are not remitted timely.

Management's Response: The policy will be revised to reflect that it is the employee's responsibility to review their time in the system. The retirement contribution will be made the week after payroll and will be reviewed monthly to ensure they are not missed or delayed.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:
- a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Exceptions: Of the five (5) employees tested, zero (0) did not attest to reading the ethics policy through signature verification during the fiscal period.

Management's Response: Management will develop and implement a policy requiring employees to attest annually that they have read the Hospital's ethics policy.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.
22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain



To the Board of Commissioners
of Allen Parish Hospital Service District No. 3
and the Louisiana Legislative Auditor

supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Exceptions: In accordance with the instructions of the Statewide Agreed-Upon Procedures, we did not apply the procedures to the above section for fiscal year 2018, since fiscal year 2017 did not contain any exceptions.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds

Exceptions: No exceptions noted in applying the above procedures.

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

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

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

December 6, 2018



