PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)

Audits of Financial Statements

December 31, 2020 and 2019

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

Independent Auditor's Report

To the Board of Commissioners
Parish Hospital Service District
For the Parish of Orleans - District A
(A Component Unit of the City of New Orleans)
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Parish Hospital Service District for the Parish of Orleans - District A (the District), a component unit of the City of New Orleans, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic 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 the business-type activities of the District as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2021 on our consideration of the District's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 28, 2021

PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
Statements of Net Position
December 31, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 8,226,976	$ 3,620,371
Receivables		
Patient accounts receivable, less allowance for uncollectible accounts of $2,518,614 in 2020 and $4,357,178 in 2019	3,902,819	5,607,300
Grant receivable	40,607	322,935
Inventory	1,095,469	1,033,357
Prepaid expenses	1,019,157	888,553
Supplemental payments receivable	23,476,631	26,911,653
Other current assets	44,454	263,204
Total current assets	37,806,113	38,647,373
Assets whose use is limited or restricted		
Under mortgage agreement for insurance	708,822	1,031,172
Under mortgage agreement for mortgage reserve fund	5,634,958	4,346,448
Total assets whose use is limited or restricted	6,343,780	5,377,620
Capital assets, net	102,868,916	108,201,871
Other Assets	26,500	26,500
Total assets	$ 147,045,309	$ 152,253,364
Deferred outflows of resources	1,445,182	-
Total assets and deferred outflows of resources	$ 148,490,491	$ 152,253,364

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

PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
Statements of Net Position (Continued)
December 31, 2020 and 2019

	2020	2019
Liabilities and net position		
Current liabilities		
Accounts payable	$ 5,228,356	$ 4,319,896
Accrued expenses	260,931	297,259
Medicare Advance Payments, current	1,445,955	-
Unearned Provider Relief Funds	2,390,312	-
Other current liabilities	4,428,971	627,868
Due to related party	12,658,758	27,858,456
Amounts due within one year on long-term debt	2,534,262	-
Intergovernmental transfer payable	8,577,682	15,907,122
Estimated third-party payor liability	11,321,389	9,276,069
Total current liabilities	48,846,616	58,286,670
Security deposits	74,000	74,000
Medicare Advance Payments, net of current portion	2,819,139	-
Long-term debt, net of current portion	92,349,874	93,379,889
Total long-term liabilities	95,243,013	93,453,889
Total liabilities	144,089,629	152,040,559
Net position		
Net investment in capital assets	9,429,962	14,821,982
Restricted for debt service	6,343,780	5,377,620
Unrestricted	(11,372,880)	(19,986,797)
Total net position	4,400,862	212,805
Total liabilities and net position	$ 148,490,491	$ 152,253,364

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

PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenues		
Net patient service revenue, net of provision for bad debts of $1,748,197 in 2020 and $4,773,586 in 2019	$ 72,193,147	$ 82,109,475
Operating grants	361,631	268,191
Other operating revenue	654,413	842,257
Total operating revenues	73,209,191	83,219,923
Operating expenses		
Salaries and benefits	24,988,426	22,564,109
Supplies and other	7,554,822	7,207,039
Other direct expenses	23,842,515	28,363,077
Professional fees	7,723,299	8,776,764
Purchased services	9,430,847	6,120,980
Depreciation	6,333,896	5,604,244
Total operating expenses	79,873,805	78,636,213
Operating (loss) income	(6,664,614)	4,583,710
Non-operating revenues (expenses)		
Interest expense	(3,815,673)	(3,567,112)
Interest income	26,969	11,728
Loss on disposal of capital asset	(12,892)	-
Provider Relief Funds	14,654,267	-
Total non-operating revenues (expenses), net	10,852,671	(3,555,384)
Grant specific to capital purchases	-	485,152
Change in net position	4,188,057	1,513,478
Net position, beginning of year	212,805	(1,300,673)
Net position, end of year	$ 4,400,862	$ 212,805

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

PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 72,559,292	$ 72,935,371
Receipts from operating grants	194,016	33,568
Payments for operating expenses	(54,925,431)	(43,046,723)
Payments to employees and for employee-related costs	(24,519,980)	(22,336,527)
Net cash (used in) provided by operating activities	(6,692,103)	7,585,689
Cash flows from capital and related financing activities		
Proceeds from disposal of capital assets	1,500	-
Acquisition and construction of capital assets	(1,015,333)	(1,015,446)
Receipts from non-operating grants	17,044,579	-
State grant towards capital assets	-	485,156
Escrow deposits	(966,160)	(1,031,241)
Proceeds from issuance of long-term debt	95,710,589	-
Principal payments on long-term debt	(93,379,889)	-
Cost of issuance	(1,525,450)	-
Principal payments on mortgage loan	(826,364)	-
Interest payments	(3,771,733)	(3,567,112)
Net cash provided by (used in) capital and related financing activities	11,271,739	(5,128,643)
Cash flows from investing activities		
Interest income	26,969	11,728
Net cash provided by investing activities	26,969	11,728
Increase in cash and cash equivalents	4,606,605	2,468,774
Cash and cash equivalents, beginning of year	3,620,371	1,151,597
Cash and cash equivalents, end of year	$ 8,226,976	$ 3,620,371

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

PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities		
Operating (loss) income	$ (6,664,614)	$ 4,583,711
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities		
Depreciation	6,333,896	5,604,244
Provision for bad debts	(1,838,564)	2,497,913
Changes in:		
Patient accounts receivable	3,543,045	(2,562,706)
Grant receivable	282,328	(234,623)
Estimated third-party payor settlements, net	2,045,320	410,610
Inventory	(62,112)	(74,287)
Prepaid expenses and other assets	(175,615)	(25,381)
Supplemental payments receivable	3,435,022	(12,794,159)
Accounts payable	908,460	760,382
Accrued expenses	(36,328)	-
Intergovernmental transfer payable	(7,329,440)	2,596,471
Other current liabilities	3,801,103	(1,483,519)
Medicare Advance Payments	4,265,094	-
Due to related party	(15,199,698)	8,307,033
Net cash (used in) provided by operating activities	$ (6,692,103)	$ 7,585,689

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

Note 1. Description of Reporting Entity

Organization

The Parish Hospital Service District for the Parish of Orleans - District A (the District) is a Louisiana hospital service district established by Act 830 of the 2006 regular session of the Louisiana Legislature, as amended, which has been codified as Louisiana Revised Statutes 46:1094 through 1097. The District is divided into two areas as follows: (a) Orleans Parish east of the Industrial Canal and (b) all of Orleans Parish except the geographical areas of the Industrial Canal and the area of Orleans Parish bounded by Earhart Boulevard, Carrollton Avenue, Loyola Avenue, and Iberville Street. The District was created to study the feasibility of building or acquiring and operating hospital facilities within the District. Currently, the mission of the District is to operate a state-of-the art hospital, and to provide emergency and other essential hospital services to the residents of New Orleans East. The District opened the New Orleans East Hospital (NOEH) on July 12, 2014. The District operated a 24-hour urgent care facility on the hospital campus that remained operational until the opening of NOEH in 2014.

The two areas of the District are governed by separate governing Boards consisting of thirteen (13) commissioners each, who are qualified voters and residents of Orleans Parish and who reflect the ethnic, cultural, and gender diversity of the Parish, seven (7) of whom are appointed by the Chief Executive Officer of Orleans Parish.

Reporting Entity

The District is a component unit of the City of New Orleans, the reporting entity, as defined by the Governmental Accounting Standards Board pronouncement. The accompanying financial statements present information only on the fund maintained by the District, and does not present information on the City of New Orleans, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Cooperative Endeavor Agreement

On April 1, 2014, a Cooperative Endeavor Agreement (CEA) was entered into between the District, Louisiana Children's Medical Center (LCMC), and Touro Infirmary. Louisiana Children's Medical Center and Touro Infirmary are collectively referred to as the Joint Parties throughout the CEA.

The CEA provides that the Joint Parties will manage and be responsible for the day-to-day operations of the public hospital and emergency department doing business as NOEH. LCMC is serving the primary role of managing, and being responsible for the day-to-day operations of NOEH, and to provide supplemental operational support for NOEH to support and enhance the continuity and viability of NOEH's operations for the citizens of eastern New Orleans.

Note 1. Description of Reporting Entity (Continued)

Cooperative Endeavor Agreement (Continued)

Under the CEA, the Joint Parties are obligated for: (i) employing or contracting with those required to operate NOEH; (ii) providing comprehensive administrative, professional, operational, revenue cycle, and financial management of NOEH; (iii) obtaining and maintaining the appropriate licenses, software, and hardware and corresponding support services related to those technology systems; and (iv) assisting NOEH in recruiting medical staff. The agreement commenced on the Effective Date, as defined, and will expire June 30, 2029, with an option to renew for up to 10 years. See Note 8 for further details.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The basic financial statements provide information about the District's activities. The books and records must be kept in accordance with the requirements of the Secretary of the U.S. Department of Housing and Urban Development. The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally, government grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions. Income from operations that are not part of the District but deposited in the District's account are to be classified as non-operating income to the extent that the revenue is not directly associated with a related expense. Income from investments and contributions must be classified as non-operating income. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

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

The determination of the allowance for uncollectible accounts receivable and amounts estimated to be recovered from and/or due to third-party payors are particularly sensitive estimates and are subject to change.

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash includes amounts in noninterest and interest-bearing demand deposits and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted consists of cash balances held in escrow.

Inventories

Inventories, which consist primarily of drugs and supplies, are valued at the lower of cost (first-in, first-out method) or market.

Cost of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District did not capitalize any interest costs allocated to building and construction in progress for the years ended December 31, 2020 and 2019, respectively.

Deferred Outflow of Resources

In 2020, the District incurred costs in connection with the advance refunding of the District's long-term mortgage debt, which have been deferred and are being amortized over the life of the original term debt. Accumulated amortization on this deferred outflow was $80,268 at December 31, 2020. The amortization expense in the same amount for the year ended December 31, 2020 is included within interest expense on the statement of revenues, expenses, and changes in net position.

Grants and Contributions

From time to time, the District receives grants from the State of Louisiana, as well as contributions from individuals and private 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 as non-operating revenues and expenses.

Note 2. Summary of Significant Accounting Policies (Continued)

Coronavirus Aid, Relief, and Economic Security Act
In response to the economic impact of COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted by Congress and was subsequently signed into law on March 27, 2020. The CARES Act included a variety of economic assistance provisions for businesses and individuals. The District suspended non-emergent or non-critical surgeries, procedures and appointments beginning in mid-March through early-May in 2020 due to COVID-19.

The District received benefits related to provider relief funding totaling $17,044,579. These funds are considered voluntary nonexchange transactions that are subject to eligibility requirements and recognized when expended for its intended purpose. The District recognized $14,654,267 of benefits related to provider relief funding which is presented within non-operating revenues (expenses) in its statements of revenues, expenses, and changes in net position for the year ended December 31, 2020. The balance of $2,390,312 is deferred as a current liability until recognition criteria are evaluated in the year ending December 31, 2021.

The District recognized revenue related to the CARES Act funding based on information available at December 31, 2020, based upon laws and regulations governing the funding as well as interpretations issued by the Department of Health and Human Services (HHS).

As HHS continues to issue new reporting requirements for the CARES Act funding, there is at least a reasonable possibility that amounts recorded under CARES Act funding may change in future periods.

Under the CARES Act, the District also received $4,265,094 in advances under the Medicare Accelerated and Advance Payments Program (AAPP) in April 2020. Through the Continuing Appropriations Act, 2021 and Other Extensions Act (the CA Act) that was enacted October 1, 2020, the District will not be subject to recoupment of their Medicare payments for a period of one year from the date they received their AAPP payments. Starting on the date that is one year from their receipt of the AAPP payments, repayment will be made out of the District's future Medicare payments. The schedule for such repayments will be as follows:

- Twenty five percent (25%) of the District's Medicare payments will first offset against the outstanding AAPP balance for the next eleven (11) months.
- Fifty percent (50%) of the District's Medicare payments will first offset against the outstanding AAPP balance for the next six (6) months.
- The District will receive a letter setting forth their remaining balance and will have thirty (30) days to pay the balance in full.
- Any unpaid balance after the 30 days will accrue interest at a rate of four percent (4%).

Note 2. Summary of Significant Accounting Policies (Continued)

Coronavirus Aid, Relief, and Economic Security Act (Continued)
The District has recorded these advances on the statement of net position, with $1,445,955 as a current liability and $2,819,139 as a non-current liability.

Management continues to monitor the potential impact of COVID-19 and the coronavirus on its operations and financial results. Actions taken by local, state, and federal governments have helped to mitigate the spread of the coronavirus. However, potential surges in COVID-19 cases could negatively impact future financial results of the District.

Net Patient Service Revenue and Related Receivables
The District has agreements with third-party payors that provide for payments to the District in amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The District provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the District is exposed to certain credit risks. The District manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities. See Note 5.

Medicare and Medicaid Reimbursement Programs
The District is reimbursed under the Medicare Prospective Payment System for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the District is paid prospectively for Medicare inpatient capital costs based on the federal specific rate.

As a reform initiative, Louisiana Medicaid introduced Healthy Louisiana, a state-wide managed care Medicaid initiative. Medicaid recipients enroll in one of five available health plans. The plans are accountable to the Louisiana Department of Health (LDH) and to the State of Louisiana (State). There are differences between these plans, including their provider networks, referral policies, health management programs, services, and incentives offered to participants. Medicaid recipients can choose which Healthy Louisiana plan to enroll in.

Note 2. Summary of Significant Accounting Policies (Continued)

Medicare and Medicaid Reimbursement Programs (Continued)

The District's reimbursements from the Healthy Louisiana plans follow the same methodology as Louisiana Medicaid; that is, LDH's objective to continue collecting all Medicaid hospital program service costs through the annual cost report uniformly, whether the service is covered by traditional Medicaid fee for service or a Prepaid Plan.

The District qualifies as a disproportionate share provider under the Medicare regulations. As such, the District receives an additional payment for Medicare inpatients served. Through June 30, 2016, the District was paid as a disproportionate share provider for Medicaid inpatients. See Note 10 for further discussion on the Medicaid program.

Through December 31, 2016, the District was considered a new hospital, as defined. As such, the District was paid upon filing its Medicare cost report for inpatient and outpatient capital costs, at an expected rate of eighty-five percent (85%). For the years ended December 31, 2020 and 2019, the District is paid prospectively for Medicare inpatient capital costs at the federal specific rate.

Except for Medicare disproportionate share and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

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

Retroactive cost settlements, based upon actual cost reports, are estimated for those programs subject to retroactive settlement and recorded in the financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between an estimated settlement and a final settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made. The District's Medicare cost for the reporting periods ended June 30, 2015, 2016, 2017, and 2018 have been audited by the Medicare fiscal intermediary. The District's Medicaid cost for the reporting period ended June 30, 2015 has been audited by the Medicaid fiscal intermediary.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near-term.

Note 2. Summary of Significant Accounting Policies (Continued)

Medicare and Medicaid Reimbursement Programs (Continued)

Net patient service revenue decreased by approximately $873,000 in the year ended December 31, 2020, and increased by approximately $523,000, in the year ended December 31, 2019, due to changes in estimates resulting from the filing of cost reports, changes in allowances and estimated settlements on prior year cost reports, and revisions based on updated information from the fiscal intermediary.

Effective January 1, 2019, NOEH entered in an agreement with the Louisiana Quality Network (LQN) to facilitate payments to NOEH under the State of Louisiana's Medicaid Managed Care Quality Incentive Program (Program). The Louisiana Department of Health (LDH) amended its agreements with its MCOs to include quality-based performance measures and quality-based outcomes. With the expected achievement of the defined quality measures, LDH will fund the MCOs, who in turn will fund LQN, for the Managed Care Incentive Payment (MCIP). For each measurement year, LDH will evaluate the performance relative to the specific quality measures. In the event LDH finds a deficiency in the accomplishment of those performance measures, there is the potential for recoupment of the MCIPs. Under the terms of the agreement with LQN, NOEH recognized estimated incentive payments of approximately $991,000 and $1,556,000 for the years ended December 31, 2020 and 2019, respectively, which is reported within net patient service revenue.

Financial Assistance

Financial assistance and discounted care are offered to those low-income patients who meet certain financial guidelines. The District uses a sliding scale method to determine the dollar amount to be considered as financial assistance for eligible patients. The minimum financial assistance approval begins with incomes at 400% of the Federal Poverty Level and continues to increase discounts as the individual or family income reaches 200% of the Federal Poverty Level. Any guarantor at or below 200% of the Federal Poverty Level, as adjusted for family size, will be entitled to financial assistance sponsorship for the full amount (100%) of patient responsibility related to appropriate hospital-based medical services that are not covered by private or public third-party sponsorship.

During the years ended December 31, 2020 and 2019, estimated costs associated with providing financial assistance were approximately $2,627,000 and $1,980,000, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Statements of Revenues, Expenses, and Changes in Net Position

The District's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the District's principal activity.

Contributions of capital assets of financial resources required to be used to acquire capital assets are reported separately after non-operating revenues and expenses.

Net Position

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

Net Investment in Capital Assets - This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted - This component of net position 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 - All other net position is reported in this category.

Restricted Resources

When the District has both restricted and unrestricted resources available to finance a particular program, it is the Districts policy to use restricted resources before unrestricted resources.

Capital Assets

The District's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Costs associated with capital asset acquisitions under $2,500 are generally expensed as incurred. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Buildings and Improvements	30 Years
Furniture and Equipment	3 - 10 Years

Note 2. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

The District reviews its long-lived assets, including property and equipment and other intangibles, for impairment when an event or change in facts and circumstances indicates that their carrying amount may not be recoverable, but at least annually.

The District determines recoverability of the assets by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate or estimated fair values in the case of nonrevenue generating assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. There was no such charge in 2020 nor in 2019.

Board of Commissioners

Members of the District's Board of Commissioners receive no compensation or per diem.

Compensated Absences

As described in Note 1, the District entered into a CEA with Louisiana Children's Medical Center and Touro Infirmary. Through the CEA the personnel of the District are employees of Touro Infirmary. Compensated absences and payroll liabilities associated with employees are included in the amount owed to Touro Infirmary as detailed further in Note 8.

Risk Management

The District 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, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. See Note 7 for further details.

Recently Issued Accounting Principles

In June 2017, the GASB issued Statement No. 87 (GASB 87). The objective of GASB Statement No. 87, *Leases*, is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Management is still evaluating the potential impact of adoption on the District's financial statements. The requirements of this statement were initially effective for reporting periods beginning after December 15, 2019, however, due to the COVID-19 pandemic GASB voted unanimously to delay the implementation of GASB 87 to be effective for reporting periods beginning on or after July 1, 2021. Management has elected to postpone implementation in accordance with GASB's new effective date. Management does not expect the implementation of this standard to have a significant effect on its financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Principles (Continued)

In May 2020, the GASB issued Statement 96 (GASB 96), *Subscription-Based Information Technology Arrangements.* The objective of GASB 96 is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022. Management is evaluating the potential impact of adoption on the District's financial statements.

Note 3. Cash and Cash Equivalents

Custodial Credit Risk - Deposits

Statutes authorize the District to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions).

The District's cash deposits and money market accounts included in cash and cash equivalents on its statements of net position, as of December 31, 2020 and 2019, were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Concentration of Credit Risk

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3,* concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2020 and 2019, the District had no investments requiring concentration of credit risk disclosure.

Note 4. Capital Assets

Capital assets activity as of and for the year ended December 31, 2020 is as follows:

	December 31, 2019	Additions	Disposals	December 31, 2020
Capital assets, not being depreciated				
Land	**$ 3,400,000**	**$ -**	**$ -**	**$ 3,400,000**
Capital assets, being depreciated				
Building	**114,336,500**	**503,543**	**-**	**114,840,043**
Furniture and equipment	**25,559,019**	**511,790**	**(39,250)**	**26,031,559**
Total capital assets being depreciated	**139,895,519**	**1,015,333**	**(39,250)**	**140,871,602**
Total capital assets	**143,295,519**	**1,015,333**	**(39,250)**	**144,271,602**
Less: accumulated depreciation	**(35,093,648)**	**(6,333,896)**	**24,858**	**(41,402,686)**
Capital assets, net	**$ 108,201,871**	**$ (5,318,563)**	**$ (14,392)**	**$ 102,868,916**

Capital assets activity as of and for the year ended December 31, 2019 is as follows:

	December 31, 2018	Additions	Disposals	December 31, 2019
Capital assets, not being depreciated				
Land	$ 3,400,000	$ -	$ -	$ 3,400,000
Capital assets, being depreciated				
Buildings	113,816,370	520,130	-	114,336,500
Furniture and equipment	25,063,703	495,316	-	25,559,019
Total capital assets being depreciated	138,880,073	1,015,446	-	139,895,519
Total capital assets	142,280,073	1,015,446	-	143,295,519
Less: accumulated depreciation	(29,489,404)	(5,604,244)	-	(35,093,648)
Capital assets, net	$ 112,790,669	$ (4,588,798)	$ -	$ 108,201,871

Depreciation expense totaled $6,333,896 and $5,604,244 for the years ended December 31, 2020 and 2019, respectively.

Note 5. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 2020 and 2019 is earned under agreements with third-party payors and self-paying patients. These agreements with third-party payors provide for payments to the District at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, health maintenance organizations, and various commercial insurance and preferred provider organizations.

Note 5. Net Patient Service Revenue (Continued)

The District provides care to patients who meet certain criteria under its financial assistance care policy at amounts less than its established rates.

A summary of the District's net patient revenue for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Gross patient service revenue	**$ 207,109,370**	$ 227,645,631
Contractual adjustments	**(130,541,127)**	(138,779,349)
Financial assistance and bad debts	**(4,375,096)**	(6,756,807)
Total	**$ 72,193,147**	$ 82,109,475

Note 6. Mortgage Payable

On December 21, 2012, the District entered into a Federal Housing Administration (FHA) 242-insured mortgage loan not to exceed $97,604,300, which was a significant source of funding the construction, demolition, and remediation costs; design, project management, legal and organizational fees; equipment and furnishings; and financing charges of the Methodist Hospital Acquisition and Development Project (the Project). The interest rate on this mortgage is 3.82% per annum. This mortgage is insured through the U.S. Department of Housing and Urban Development (HUD).

Effective July 31, 2020, the District refunded the above-mentioned debt with new debt, using the proceeds of the new debt to fully satisfy the old debt as well as providing funds to cover the costs of issuing the new debt. The principal borrowed is $95,710,589 and is insured by the U.S. Department of Housing and Urban Development (HUD). The 2020 mortgage bears interest at 3.30%, which is payable annually together with principal payments that begun in 2020. The 2020 mortgage is scheduled to mature in 2045. During the year ended December 31, 2020, the District fulfilled its debt service obligations making its scheduled principal payment of $826,364, together with interest. Interest incurred on both the 2012 and 2020 mortgages totaled $3,735,405 in 2020. Interest incurred on the 2012 mortgage in 2019 totaled $3,567,112. The principal balance outstanding at December 31, 2020 is 94,884,136. The principal outstanding was $93,379,889 at December 31, 2019.

In connection with the mortgage, the District is obligated to pay an annual mortgage insurance premium as well as maintain a mortgage reserve fund. As presented on the statements of net position, the District has assets limited as to their use for these specific requirements. The District's required mortgage insurance reserve fund balance at December 31, 2020 is $5,632,483. The District has met this requirement with its balance in the mortgage reserve fund of $5,634,958.

Note 6. Mortgage Payable (Continued)

The following is a summary of the mortgage activity for the year ended December 31, 2020:

	Mortgage Loan Advances
Long-term debt at January 1, 2020	**$ 93,379,889**
Additional borrowings	**95,710,500**
Principal payments	**(94,206,253)**
Long-term debt at December 31, 2020	**$ 94,884,136**

The following is a summary of the mortgage activity for the year ended December 31, 2019:

	Mortgage Loan Advances
Long-term debt at January 1, 2019	$ 93,379,889
Additional borrowings	-
Principal payments	-
Long-term debt at December 31, 2019	$ 93,379,889

Future principal and interest payments due on the mortgage loan are as follows:

December 31,	Principal	Interest
2021	$ 2,534,262	$ 3,093,074
2022	2,619,169	3,008,167
2023	2,706,921	2,920,415
2024	2,797,613	2,829,723
2025	2,891,344	2,735,992
2026-2030	15,976,345	12,160,335
2031-2035	18,838,125	9,298,556
2036-2040	22,212,524	5,924,157
2041-2045	24,307,833	1,953,066
Total	$ 94,884,136	$ 43,923,484

Note 7. Risk Management and Regulatory Matters

Professional and General Liability Insurance

Professional and general liability claims have been asserted against the District and are in various stages of developing. Events occurring through December 31, 2020 may result in the filing of additional claims. The District has a risk management program that provides professional and general liability coverage up to $33,000,000 in the aggregate.

Professional liability claims are limited through the District's participation in the Louisiana Patient's Compensation Fund (the Fund). The Fund was established through state legislation and statutorily limits each medical professional liability claim to $500,000. The District is self-insured for the first $100,000 of each claim. The remaining $400,000 of each claim is covered by the Fund. The District has additional coverage that reduces this self-insurance limit to $10,000 and would cover any claims not covered by the Fund.

Estimated Employee Health and Workers' Compensation Claims

As mentioned in Note 1, the personnel servicing the District are employed by Touro Infirmary. Touro Infirmary's medical plan is self-insured up to $750,000 for non-domestic claims and fully self-insured for domestic claims. For workers' compensation, Touro Infirmary is self-insured for claims up to $800,000. Touro Infirmary has a risk management program that provides excess coverage for non-domestic employee health claims and both domestic and non-domestic workers' compensation claims on an occurrence basis.

Regulatory Matters

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

Note 8. Commitments and Contingencies

Federal and Private Grants

The District receives grants from federal and private sources. The District is subject to discretionary audits by the funding sources. There have been no audits by funding sources during the years ended December 31, 2020 and 2019, and management does not anticipate any adjustments as a result of future audits. Any adjustments from an audit performed by the funding source would flow through the financial statements during the year of the audit as a change in accounting estimate.

Note 8. Commitments and Contingencies (Continued)

Cooperative Endeavor Agreement

As mentioned in Note 1, the District entered into a CEA with Louisiana Children's Medical Center and Touro Infirmary, collectively referred to as the Joint Parties.

As detailed in Notes 6, the District is obligated on a mortgage that is insured by HUD. So long as a mortgage on the District's property is insured or held by the Secretary of HUD, the Secretary may make a written request to the District and the Joint Parties to terminate the CEA with or without cause. The terms of the CEA provide that the District shall pay to the Joint Parties a fee that is comprised of management fees, revenue cycle billing and collection services, and direct and indirect operating components. The District and the Joint Parties have agreed that Operating Revenues of NOEH, as defined, shall be the only source of funds for paying the management fee.

The Joint Parties may also terminate the CEA prior to the expiration of its term. Should the accumulated and unpaid fees and operational obligations of the Joint Parties reach $12,000,000, the Joint Parties are relieved of performing further their operational obligations.

Through the CEA, the District has recognized expense of approximately $2,555,000 and $3,071,000 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, the District owes the Joint Parties approximately $12,659,000 and $27,858,000 for both the costs incurred by LCMC and Touro Infirmary on behalf of the District as well as expenses recognized by the District and the annual management fee. These amounts are included within other current liabilities on the District's financial statements.

As represented by the Joint Parties, they are not seeking relief from performing their operational obligations.

Construction Commitments

In 2018, the District received grant funds for construction in the amount of $1,050,070. In accordance with the policy described in Note 2, this revenue has been classified as non-operating for the year ended December 31, 2019. For the year ended December 31, 2020 the District did not receive grant funds for construction.

Note 9. Concentrations of Third-Party Payor Credit Risk

The District grants credit without collateral to its patients, who are mostly local residents that are insured under third-party payor agreements. The mix of receivables from patients and third-party payors, net of contractual allowances and discounts, at December 31, 2020 and 2019, was as follows:

	2020	2019
Medicare/Medicaid	**82.2%**	81.2%
Managed Care/Commercial	**13.4%**	13.0%
Self Pay	**4.4%**	5.9%
Total	**100.0%**	100.0%

Note 10. Upper Payment Limit (UPL)

The District and other health care providers have collaborated with the State and units of local government in Louisiana, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population.

The provision of this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal UPL. Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. For the years ended December 31, 2020 and 2019, the District has recognized approximately $40,721,354 and $45,646,137, respectively, under UPL programs specific to hospital and physician operations, classifying these within net patient service revenue on the statements of revenues, expenses, and changes in net position.

Note 11. Subsequent Events

The District has evaluated subsequent events through April 28, 2021, the date which the financial statements were available to be issued. The District determined that no additional events occurred that require disclosure.

LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

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*

Independent Auditor's Report

To the Board of Commissioners
Parish Hospital Service District
For the Parish of Orleans - District A
(A Component Unit of the City of New Orleans)
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Parish Hospital Service District for the Parish of Orleans - District A (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 28, 2021.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 28, 2021

PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
Schedule of Compensation, Benefits, and Other Payments to Agency Head
For the Year Ended December 31, 2020

Agency Head
Joe Ticheli, General Manager

Purpose	Amount
Salary	$0
Benefits-Insurance	$0
Benefits-Retirement	$0
Deferred Compensation (CAA)	$0
Benefits-Executive Incentive	$0
Benefits-Administrative Retention	$0
Benefits-Vacation Payout	$0
Car Allowance	$0
Vehicle Provided by Government	$0
Cell Phone	$0
Dues	$0
Vehicle Rental	$0
Per Diem	$0
Reimbursements	$0
Travel	$0
Registration Fees	$0
Conference Travel	$0
Housing	$0
Unvouchered Expenses	$0
Special Meals	$0
Other	$0

Louisiana Revised Statute (R.S.) 24:513(A)(3) as amended by Act 706 of the 2014 Regular Legislative Session requires that the total compensation, reimbursements, and benefits of an agency head or political subdivision head or chief executive officer related to the position, including but not limited to travel, housing, unvouchered expense, per diem, and registration fees to be reported as a supplemental report within the financial statement or local government and quasi-public auditees. In 2015, Act 462 of the 2015 Regular Session of the Louisiana Legislature further amended R.S. 24:513(A)(3) to clarify that nongovernmental entities or not-for- profit entities that received public funds shall report only the use of public funds for the expenditures itemized in the supplemental report.