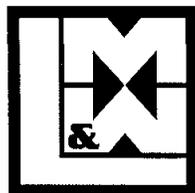


ALLEN PARISH HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2017, 2016 AND 2015



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, 2017, 2016 and 2015

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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, 2017, 2016, and 2015. 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 \$590,851 in 2017, compared to a decrease of \$859,871 in 2016 and an increase of \$429,262 in 2015. Cash and cash equivalents increased \$167,463 in 2017. Capital asset additions for 2017 were \$329,498 mostly attributable to equipment upgrades.
- The Hospital's total liabilities decreased by \$373,691 and \$496,849 in 2017 and 2016, respectively, compared to an increase of \$1,024,256 in 2015. The Hospital's accounts payable decreased by \$374,299 in 2017.
- Total operating revenue for the Hospital decreased by \$5,180,822 in 2017, compared to an increase of \$5,192,701 and \$19,168,802 in 2016 and 2015, respectively. Operating expenses decreased by \$6,507,240 in 2017, following an increase of \$5,008,502 and \$18,206,852 for fiscal years 2016 and 2015, respectively. The Hospital experienced 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.

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.

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.

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

Management's Discussion and Analysis

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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total current assets	\$ 2,367,806	\$ 1,884,907	\$ 2,588,137	\$ 2,116,780
Capital assets, net	1,287,867	1,179,915	1,324,476	1,363,780
Assets whose use is limited	-0-	-0-	-0-	2,791
Other assets	36,000	36,000	48,080	48,080
Total assets	<u>\$ 3,691,673</u>	<u>\$ 3,100,822</u>	<u>\$ 3,960,693</u>	<u>\$ 3,531,431</u>
Total current liabilities	\$ 2,147,525	\$ 2,428,474	\$ 2,549,755	\$ 1,607,562
Long-term debt, net of current maturities	690,043	782,785	1,158,353	1,076,290
Total liabilities	2,837,568	3,211,259	3,708,108	2,683,852
Invested in capital assets, net of related debt	1,014,922	1,033,701	1,097,210	1,247,807
Restricted	-0-	-0-	-0-	2,791
Unrestricted	(160,817)	(1,144,138)	(844,625)	(403,019)
Total liabilities and net position	<u>\$ 3,691,673</u>	<u>\$ 3,100,822</u>	<u>\$ 3,960,693</u>	<u>\$ 3,531,431</u>

As referenced in Table 1, total assets increased by \$590,851 in 2017, compared to a decrease of \$859,871 in 2016 and an increase of \$429,262 in 2015. Cash and cash equivalents increased by \$167,463. Net patient accounts receivable increased by \$216,881 in 2017. Total liabilities decreased by \$373,691 and \$496,849 in 2017 and 2016, respectively, compared to an increase of \$1,024,256 in 2015. The current ratio for 2017 increased to 1.1, compared to 0.8 from 2016 and 1.0 from 2015.

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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net patient service revenue	\$ 25,889,209	\$ 30,869,294	\$ 25,177,028	\$ 6,704,123
Maintenance taxes	748,397	753,012	766,559	704,850
Other revenue	343,779	539,901	1,025,919	391,732
Total operating revenues	<u>26,981,385</u>	<u>32,162,207</u>	<u>26,969,506</u>	<u>7,800,705</u>
Salaries and employee benefits	6,983,417	6,416,733	6,317,186	5,576,236
Supplies and other	16,316,368	23,842,922	19,383,210	1,810,682
Professional, mgt. and consulting fees	2,216,746	1,707,292	1,111,665	1,092,432
Insurance	225,925	264,603	306,943	395,316
Depreciation and amortization	221,546	239,692	343,736	381,223
Total operating expenses	<u>25,964,002</u>	<u>32,471,242</u>	<u>27,462,740</u>	<u>9,255,889</u>
Operating income (loss)	1,017,383	(309,035)	(493,234)	(1,455,184)
Nonoperating income (expenses)	<u>(52,841)</u>	<u>(53,987)</u>	<u>(101,760)</u>	<u>(55,535)</u>
Excess of revenue over expenses	964,542	(363,022)	(594,994)	(1,510,719)
Beginning net position	<u>(110,437)</u>	<u>252,585</u>	<u>847,579</u>	<u>2,358,298</u>
Ending net position	\$ <u><u>854,105</u></u>	\$ <u><u>(110,437)</u></u>	\$ <u><u>252,585</u></u>	\$ <u><u>847,579</u></u>

Sources of Revenues

Net Patient Service Revenue

During fiscal year 2016-2017, 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 decreased by \$4,980,085 in 2017. During the year, provisions for bad debt increased by \$20,661 versus a decrease of \$443,633 in 2016 and an increase of \$1,544,037 in 2015. Contractual allowances decreased during fiscal year 2017 by \$12,853,683, compared to a \$4,779,324 decrease in 2016 and a \$13,813,452 decrease in 2015.

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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Medicare	27.0%	31.5%	33.9%	33.8%
Medicaid	41.4%	28.9%	26.5%	25.1%
Commercial	24.1%	26.5%	26.4%	29.9%
Self-pay and other	<u>7.5%</u>	<u>13.1%</u>	<u>13.2%</u>	<u>11.2%</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 2017, 2016 and 2015.

Patient discharges in 2017 increased in acute by 169 from 2016. There was an increase of 62 discharges in recovery unit (psychiatric) discharges in 2017. Observation acute short stays increased by 81 in 2017 from 2016. Patient days increased 17.2% to 8,258 from 7,044 with a decrease in patient average length of stay in 2017. The average length of stay for acute patients decreased during the past year to 3.17 days, compared to 3.56 days in 2016 and 4.25 in 2015. The average length of stay for skilled care patients decreased to 18.8 in 2017 from 23.6 days in 2016 and 23.3 days in 2015. Length of stay for psychiatric care during 2017 was 8.3 compared to 8.2 days in 2016 and 7.4 days in 2015. Total net patient service revenue decreased by \$4,980,085 or 16.1% in 2017, as compared to an increase of \$5,692,266 and \$18,472,905 in 2016 and 2015, respectively.

Net days in accounts receivable increased to 53.6 days in 2017 compared to 59.1 days in 2016 and 56.7 days in 2015.

Employee related expenses increased 8.8% in 2017. As a percentage of net patient service revenue, these expenses are 27.0%, 20.7% and 25.1% in 2017, 2016, and 2015, 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 decreased by \$7,526,554 in 2017 compared to a \$4,459,712 increase in 2016 and a \$17,572,528 increase in 2015. 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 decrease in other expenses is related to a decrease in intergovernmental grant expenditures of \$7,767,906 as discussed in Note 16 to the financial statements.

Professional, management and consulting fees increased by \$509,454, \$595,627 and \$19,233 in fiscal year 2017, 2016 and 2015, respectively. Contract business office services increased in 2017 by 265% or \$260,705. The contract services for the New Vision program increased by 110% or \$143,547 in 2017, which is the first full fiscal year that the program has provided services.

Insurance expense decreased by \$38,678, \$42,340 and \$88,373 in 2017, 2016 and 2015, respectively.

Depreciation and amortization expense decreased \$18,146, \$104,044 and \$37,486 in 2017, 2016 and 2015, respectively.

Interest expense increased \$3,093 or 5.5% in 2017 compared to a decrease of \$11,393 or 16.9% in 2016 and an increase of \$10,751 or 19.0% in 2015. 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 decreased \$4,615 or 0.61% in 2017, compared to a decrease of \$13,547 or 1.8% in 2016, and an increase of \$61,709 or 8.8% in 2015

Other operating revenue decreased by \$196,122 and \$486,018 in 2017 and 2016, respectively, compared to an increase of \$634,188 in fiscal year 2015. The decrease in 2017 was mainly attributable to a decrease of about \$275,000 in the grant the Hospital received from Medicare for improving its electronic health records as discussed in Note 15 of the financial statements.

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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 123,651	\$ 124,481	\$ 124,481	\$ 124,480
Buildings	2,101,910	2,102,750	2,102,750	2,036,030
Fixed equipment	257,550	307,791	305,541	277,266
Major movable equipment	<u>5,002,313</u>	<u>4,827,491</u>	<u>4,734,610</u>	<u>4,601,599</u>
Totals at historical cost	7,485,424	7,362,513	7,267,382	7,039,375
Less accumulated depreciation and amortization	<u>6,197,557</u>	<u>6,182,598</u>	<u>5,942,906</u>	<u>5,675,595</u>
Net capital assets	<u>\$ 1,287,867</u>	<u>\$ 1,179,915</u>	<u>\$ 1,324,476</u>	<u>\$ 1,363,780</u>

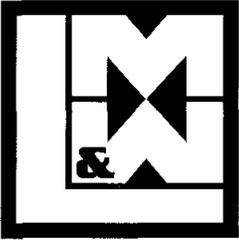
Major movable equipment and buildings additions in the amount of \$329,498 were for replacement equipment or equipment upgrades in 2017.

Long-Term Debt

At year-end, the Hospital had \$953,945 in debt compared to \$1,159,214 on June 30, 2016 and \$1,563,266 on June 30, 2015. 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, 2017, 2016 and 2015, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinions.

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, 2017, 2016 and 2015, and the changes in its financial position and its 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, 2017, 2016 and 2015, 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 that collectively comprise the Hospital's basic financial statements. 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 15, 2017, 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 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 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 15, 2017



Allen Parish Hospital
Statements of Net Position
June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 300,902	\$ 133,439	\$ 733,484
Patient accounts receivable, net of estimated uncollectibles (Note 4)	1,551,020	1,334,139	1,230,084
Estimated third-party payor settlements	183,584	120,122	321,600
Inventory	262,641	240,925	275,915
Prepaid expenses	<u>69,659</u>	<u>56,282</u>	<u>27,054</u>
 Total current assets	 <u>2,367,806</u>	 <u>1,884,907</u>	 <u>2,588,137</u>
Capital assets, net (Note 5)	1,287,867	1,179,915	1,324,476
Other assets	<u>36,000</u>	<u>36,000</u>	<u>48,080</u>
 Total assets	 <u>\$ 3,691,673</u>	 <u>\$ 3,100,822</u>	 <u>\$ 3,960,693</u>
 Liabilities and Net Position			
Current liabilities:			
Accounts payable	\$ 842,159	\$ 1,216,458	\$ 822,861
Accrued expenses (Note 6)	343,024	336,328	428,111
Estimated third-party payor settlements	698,440	499,259	893,870
Current maturities of long-term debt (Note 7)	<u>263,902</u>	<u>376,429</u>	<u>404,913</u>
 Total current liabilities	 <u>2,147,525</u>	 <u>2,428,474</u>	 <u>2,549,755</u>
Long-term debt, net of current maturities (Note 7)	<u>690,043</u>	<u>782,785</u>	<u>1,158,353</u>
 Total liabilities	 <u>2,837,568</u>	 <u>3,211,259</u>	 <u>3,708,108</u>
 Net position:			
Invested in capital assets, net of related debt	1,014,922	1,033,701	1,097,210
Unrestricted	<u>(160,817)</u>	<u>(1,144,138)</u>	<u>(844,625)</u>
 Total net position	 <u>854,105</u>	 <u>(110,437)</u>	 <u>252,585</u>
 Total liabilities and net position	 <u>\$ 3,691,673</u>	 <u>\$ 3,100,822</u>	 <u>\$ 3,960,693</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:			
Net patient service revenue	\$ 25,889,209	\$ 30,869,294	\$ 25,177,028
Grant income	211,350	465,043	955,303
Maintenance taxes	748,397	753,012	766,559
Other	<u>132,429</u>	<u>74,858</u>	<u>70,616</u>
Total operating revenues	<u>26,981,385</u>	<u>32,162,207</u>	<u>26,969,506</u>
Operating expenses:			
Salaries and benefits	6,983,417	6,416,733	6,317,186
Medical supplies and drugs	520,514	524,975	656,926
Supplies	250,564	225,117	548,839
Professional, management and consulting fees	2,216,746	1,707,292	1,111,665
Other expenses	15,545,290	23,092,830	18,177,445
Insurance	225,925	264,603	306,943
Depreciation and amortization	<u>221,546</u>	<u>239,692</u>	<u>343,736</u>
Total operating expenses	<u>25,964,002</u>	<u>32,471,242</u>	<u>27,462,740</u>
Operating income (loss)	1,017,383	(309,035)	(493,234)
Nonoperating revenues (expenses):			
Interest income	6,132	1,893	930
Gain (loss) on sale of equipment	-0-	-0-	(35,417)
Interest expense	<u>(58,973)</u>	<u>(55,880)</u>	<u>(67,273)</u>
Changes in net position	964,542	(363,022)	(594,994)
Beginning net position	<u>(110,437)</u>	<u>252,585</u>	<u>847,579</u>
Ending net position	\$ <u>854,105</u>	\$ <u>(110,437)</u>	\$ <u>252,585</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 25,808,047	\$ 30,572,106	\$ 25,343,599
Other operating cash receipts	1,092,176	1,292,913	1,792,478
Cash paid to governmental entities	(14,584,994)	(22,352,900)	(17,343,038)
Cash paid to suppliers	(4,583,438)	(3,062,558)	(3,195,877)
Cash paid to employees and for employee benefits	<u>(6,976,720)</u>	<u>(6,508,516)</u>	<u>(6,224,679)</u>
Net cash provided (used) by operating activities	<u>755,071</u>	<u>(58,955)</u>	<u>372,483</u>
Cash flows from investing activities:			
Interest on investments	6,132	1,893	930
Other assets	-0-	12,080	-0-
Proceeds from limited use assets	<u>-0-</u>	<u>-0-</u>	<u>2,791</u>
Net cash provided (used) by investing activities	<u>6,132</u>	<u>13,973</u>	<u>3,721</u>
Cash flows from noncapital financing activities:			
Proceeds from long-term debt	<u>-0-</u>	<u>-0-</u>	<u>300,000</u>
Net cash provided (used) by noncapital financing activities	<u>-0-</u>	<u>-0-</u>	<u>300,000</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(378,966)	(404,052)	(244,810)
Interest expense on long-term debt	(58,973)	(55,880)	(67,273)
Acquisition of capital assets	<u>(155,801)</u>	<u>(95,131)</u>	<u>(148,746)</u>
Net cash provided (used) by capital and related financing activities	<u>(593,740)</u>	<u>(555,063)</u>	<u>(460,829)</u>
Net increase (decrease) in cash and cash equivalents	167,463	(600,045)	215,375
Cash and cash equivalents, beginning of year	<u>133,439</u>	<u>733,484</u>	<u>518,109</u>
Cash and cash equivalents, end of year	<u>\$ 300,902</u>	<u>\$ 133,439</u>	<u>\$ 733,484</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 1,017,383	\$ (309,035)	\$ (493,234)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	221,546	239,692	343,736
Changes in:			
Patient accounts receivable	(216,881)	(104,055)	(148,382)
Estimated third-party payor settlements	(63,462)	201,478	(157,653)
Inventory	(21,716)	34,990	24,084
Prepaid expenses	(13,377)	(29,228)	25,969
Accounts payable	(374,299)	393,597	212,850
Accrued expenses	6,696	(91,783)	92,507
Estimated third-party payor settlements	<u>199,181</u>	<u>(394,611)</u>	<u>472,606</u>
Net cash provided (used) by operating activities	\$ <u>755,071</u>	\$ <u>(58,955)</u>	\$ <u>372,483</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>54,423</u>	\$ <u>62,131</u>	\$ <u>60,465</u>
Equipment acquired under capital lease	\$ <u>173,697</u>	\$ <u>-0-</u>	\$ <u>191,103</u>

See accompanying notes to financial statements.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

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, 2017, 2016 and 2015

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, 2017, 2016 and 2015

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, 2017, 2016 and 2015

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, 2017, 2016, and 2015.

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, 2017, 2016 and 2015

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Carrying amount			
Deposits	\$ <u>300,902</u>	\$ <u>133,439</u>	\$ <u>733,484</u>
	\$ <u>300,902</u>	\$ <u>133,439</u>	\$ <u>733,484</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ <u>300,902</u>	\$ <u>133,439</u>	\$ <u>733,484</u>
	\$ <u>300,902</u>	\$ <u>133,439</u>	\$ <u>733,484</u>

Account balances according to bank's records at June 30, 2017, for the Hospital are as follows:

	Jeff Davis <u>Bank</u>
Cash in bank	\$ <u>520,878</u>
Insured by FDIC	\$ <u>494,626</u>
Collateralization by fair market value	\$ <u>26,252</u>
Uncollateralized	\$ <u>-0-</u>

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Patients	\$ 3,335,549	\$ 3,064,401	\$ 3,864,382
Estimated allowances for uncollectibles	<u>(1,784,529)</u>	<u>(1,730,262)</u>	<u>(2,634,298)</u>
Net accounts receivable	\$ <u>1,551,020</u>	\$ <u>1,334,139</u>	\$ <u>1,230,084</u>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

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>2017</u>	<u>2016</u>	<u>2015</u>
Medicare	19%	9%	8%
Medicaid	27%	22%	11%
Commercial and other third-party payors	25%	21%	31%
Self pay	<u>29%</u>	<u>48%</u>	<u>50%</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, 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>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,930	1	-0-	104,931
Buildings	2,036,030	66,720	-0-	2,102,750
Fixed equipment	277,266	28,275	-0-	305,541
Major movable equipment	4,571,973	244,853	111,842	4,704,984
Leasehold improvements	<u>29,626</u>	<u>-0-</u>	<u>-0-</u>	<u>29,626</u>
Totals at historical cost	7,039,375	339,849	111,842	7,267,382
Accumulated depreciation	<u>5,675,595</u>	<u>343,736</u>	<u>76,425</u>	<u>5,942,906</u>
Net	\$ <u>1,363,780</u>	\$ <u>(3,887)</u>	\$ <u>35,417</u>	\$ <u>1,324,476</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Equipment	\$ 364,800	\$ 191,103	\$ 717,001
Accumulated depreciation	<u>43,447</u>	<u>21,690</u>	<u>389,047</u>
Total	\$ <u>321,353</u>	\$ <u>169,413</u>	\$ <u>327,954</u>

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, \$144,687 and \$162,934 in 2017, 2016 and 2015, 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.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

NOTE 7 - LONG-TERM DEBT

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

	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>
	June 30, <u>2014</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2015</u>	Due Within <u>One Year</u>
Series 2012 bonds	\$ 1,000,000	\$ -0-	\$ 147,000	\$ 853,000	\$ 154,000
Series 2007 bonds	201,000	-0-	18,000	183,000	19,000
Series 2014 bonds	-0-	300,000	-0-	300,000	150,000
Capital lease obligations	<u>115,975</u>	<u>191,103</u>	<u>79,812</u>	<u>227,266</u>	<u>81,913</u>
 Total	 \$ <u>1,316,975</u>	 \$ <u>491,103</u>	 \$ <u>244,812</u>	 \$ <u>1,563,266</u>	 \$ <u>404,913</u>

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.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

NOTE 7 - LONG-TERM DEBT (Continued)

- Capital leases at varying rates of imputed interest from 5.58% to 8.72%, with total monthly payments ranging from \$998 to \$2,720 until 2022, collateralized by leased equipment with a net book value of \$321,353 at June 30, 2017.

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

Year Ending <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>
2018	\$ 191,000	\$ 29,965	\$ 72,902	\$ 15,105
2019	201,000	21,144	62,665	10,756
2020	211,000	9,999	61,107	6,873
2021	25,000	3,224	36,899	3,877
2022	26,000	1,987	39,372	1,404
2023	<u>27,000</u>	<u>675</u>	<u>-0-</u>	<u>-0-</u>
Totals	\$ <u>681,000</u>	\$ <u>66,994</u>	\$ <u>272,945</u>	\$ <u>38,015</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.

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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 145,193
2019	103,207
2020	89,570
2021	41,884
2022	<u>93,275</u>
Totals	\$ <u>473,129</u>

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

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, 2017, 2016 and 2015 there were 23, 27 and 26 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 \$18,000, \$18,000 and \$18,000 in calendar years 2017, 2016 and 2015, respectively, for those 50 or older \$24,000, \$24,000 and \$24,000 are the contribution limits for calendar years 2017, 2016 and 2015, 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 \$14,265, \$13,241 and \$15,230 for the years ended June 30, 2017, 2016 and 2015, respectively. Employees contributed \$78,977, \$59,677 and \$59,101 for the years ended June 30, 2017, 2016 and 2015, 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, 2017, if not extended by Congress. The additional payments received under the Medicare low volume add-on were \$148,474, \$96,246 and \$133,589 for the years ended June 30, 2017, 2016, and 2015, 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 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, 2012.

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.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

NOTE 10 - PATIENT SERVICE REVENUE (Continued)

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Gross charges	\$ 26,831,257	\$ 18,973,894	\$ 18,417,260
Less charges associated with charity patients	<u>(10,076)</u>	<u>(5,210)</u>	<u>(9,922)</u>
Gross patient service revenue	26,821,181	18,968,684	18,407,338
Less deductions from revenue:			
Contractual allowances	1,449,361	14,303,044	9,523,720
Discounts	<u>(330,287)</u>	<u>(372,049)</u>	<u>(280,012)</u>
Physician supplemental revenue	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Patient service revenue (net of contractual adjustments)	27,940,255	32,899,679	27,651,046
Provision for bad debts	<u>(2,051,046)</u>	<u>(2,030,385)</u>	<u>(2,474,018)</u>
 Net patient service revenue	 \$ <u>25,889,209</u>	 \$ <u>30,869,294</u>	 \$ <u>25,177,028</u>

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>2017</u>	<u>2016</u>	<u>2015</u>
Medicare and Medicaid gross patient charges	\$ 18,342,535	\$ 11,236,122	\$ 11,128,298
Contractual adjustments	<u>5,127,100</u>	<u>17,570,533</u>	<u>12,043,942</u>
 Program patient service revenue without Medicaid UCC	 \$ <u>23,469,635</u>	 \$ <u>28,806,655</u>	 \$ <u>23,172,240</u>
 Percent of total gross patient charges	 <u>68%</u>	 <u>59%</u>	 <u>60%</u>
Percent of total net patient revenue	<u>91%</u>	<u>93%</u>	<u>92%</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.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

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.

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.

The Patient Protection and Affordable Care Act (PPACA) was passed into law in 2010. This federal legislation is extremely complex and will substantially change the landscape of the healthcare industry. The PPACA has the potential to affect both payment rates and coverage issues for all healthcare payors. While the overall impact of the PPACA cannot currently be estimated, it would have a negative impact on the Hospital's revenues.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

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 \$10,076, \$5,210 and \$9,922, for the years then ended June 30, 2017, 2016 and 2015, respectively. The costs related to the charity care charges were approximately \$9,000, \$8,000 and \$13,000, for the fiscal years ended in 2017, 2016 and 2015, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately \$4,000, \$5,000, and \$13,000 for the years ended June 30, 2017, 2016 and 2015, respectively.

NOTE 15 - GRANTS

The District recognized operating grant income of approximately \$179,000, \$455,000 and \$946,000 from Medicare during the years ended June 30, 2017, 2016 and 2015, 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.

Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 2017, 2016 and 2015

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 \$13,930,744, \$21,547,900 and \$16,760,872 for the years ended June 30, 2017, 2016 and 2015, respectively.

NOTE 17 - SUBSEQUENT EVENTS

Events have been evaluated through December 15, 2017, 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>2017</u>	<u>2016</u>	<u>2015</u>
Routine services			
Adult and pediatric	\$ 2,141,135	\$ 220,698	\$ 239,524
Psychiatric	7,294,722	4,721,353	4,217,292
Swing bed	<u>143,619</u>	<u>132,554</u>	<u>159,397</u>
 Total routine services	 <u>9,579,476</u>	 <u>5,074,605</u>	 <u>4,616,213</u>
Other professional services			
Radiology	2,203,731	1,999,850	1,836,319
Nuclear medicine	296,420	270,193	293,473
Laboratory	3,079,764	2,451,104	2,438,178
Blood	66,574	73,311	95,306
Intravenous therapy	98,546	48,741	51,600
Respiratory therapy	806,223	657,727	605,640
Physical therapy	1,002,762	949,478	1,101,656
Electrocardiology	277,625	232,842	172,631
Central supply	198,134	147,223	142,285
Pharmacy	1,788,662	1,301,792	1,287,589
Observation room	151,609	103,421	63,271
Rural health clinic	2,010,233	1,614,342	1,501,261
Emergency room	4,635,541	3,403,104	3,466,342
Home health visits	523,200	566,600	664,400
Contract physician	<u>112,757</u>	<u>79,561</u>	<u>81,096</u>
 Total other professional services	 <u>17,251,781</u>	 <u>13,899,289</u>	 <u>13,801,047</u>
 Gross charges	 <u>26,831,257</u>	 <u>18,973,894</u>	 <u>18,417,260</u>
 Less charges associated with charity patients	 <u>(10,076)</u>	 <u>(5,210)</u>	 <u>(9,922)</u>
 Gross patient service revenue	 26,821,181	 18,968,684	 18,407,338
Less deductions from revenue:			
Contractual allowances	1,449,361	14,303,044	9,523,720
Discounts	<u>(330,287)</u>	<u>(372,049)</u>	<u>(280,012)</u>
 Patient service revenue	 27,940,255	 32,899,679	 27,651,046
 Less provision for bad debts	 <u>(2,051,046)</u>	 <u>(2,030,385)</u>	 <u>(2,474,018)</u>
 Net patient service revenue	 <u>\$ 25,889,209</u>	 <u>\$ 30,869,294</u>	 <u>\$ 25,177,028</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Meals	\$ 20,265	\$ 23,013	\$ 22,736
Medical records transcript fees	9,923	14,516	8,412
Rental	7,800	8,100	5,825
Other income	<u>94,441</u>	<u>29,229</u>	<u>33,643</u>
 Total other operating revenue	 \$ <u>132,429</u>	 \$ <u>74,858</u>	 \$ <u>70,616</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Administration	\$ 382,749	\$ 410,622	\$ 406,691
Plant operations and maintenance	97,062	93,151	84,883
Housekeeping	67,171	63,256	72,505
Dietary and cafeteria	123,662	114,414	137,629
Medical records	126,442	117,904	89,436
Nursing services, acute care	836,139	804,022	777,401
Psychiatric unit	1,637,197	1,474,070	1,416,206
Radiology	301,985	283,836	291,668
Laboratory	372,455	391,121	351,319
Respiratory therapy	141,982	120,517	134,023
Central supply	19,206	30,317	32,552
Pharmacy	220,807	173,440	127,954
Emergency room	791,989	650,395	625,706
Home health	298,659	295,730	279,277
Rural health clinic	<u>741,894</u>	<u>608,632</u>	<u>679,105</u>
 Total salaries	 <u>6,159,399</u>	 <u>5,631,427</u>	 <u>5,506,355</u>
 Payroll taxes	 437,197	 415,831	 417,442
Health insurance	368,419	352,171	374,047
Retirement	14,265	13,241	15,230
Other	<u>4,137</u>	<u>4,063</u>	<u>4,112</u>
 Total benefits	 <u>824,018</u>	 <u>785,306</u>	 <u>810,831</u>
 Total salaries and benefits	 <u>\$ 6,983,417</u>	 <u>\$ 6,416,733</u>	 <u>\$ 6,317,186</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Legal and accounting	\$ 188,240	\$ 89,673	\$ 126,934
Repairs and maintenance	172,460	159,254	209,214
Telephone	88,424	95,368	75,254
Utilities	125,862	132,856	127,921
Travel	127,305	96,877	102,338
Rentals	91,199	76,233	63,119
Dues and subscriptions	75,505	16,373	39,292
Intergovernmental transfer	14,584,994	22,352,900	17,343,038
Miscellaneous	<u>91,301</u>	<u>73,296</u>	<u>90,335</u>
 Total other expenses	 \$ <u>15,545,290</u>	 \$ <u>23,092,830</u>	 \$ <u>18,177,445</u>

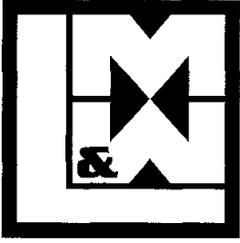
Allen Parish Hospital
Schedules of Per Diem and
Other Compensation Paid to Board Members
Year Ended June 30, 2017

	<u>Paid on Behalf of Commissioners</u>
Mr. Patrick Deshotels	\$ -0-
Mr. Ryland Dunnehoo	-0-
Mr. Sherman Fontenot	-0-
Mr. Roy Marcantel	-0-
Mr. Randy All	-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, 2017

Agency Head Name: Jackie Reviel
 Position: CEO

<u>Purpose</u>	<u>Amount</u>
Salary	97,692
Health insurance	4,308
Retirement	-0-
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	-0-
Travel	-0-
Registration fees	910
Conference travel	3,930
Continuing professional education fees	-0-
Housing	-0-
Unvouchered expenses	-0-
Special meals	59
Professional dues	-0-
Cell phone	-0-



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Brenda J. Lloyd, CPA
Karlie P. Brister, CPA
Joseph M. Chevalier, CPA

Retired 2015
Bobby G. Lester, CPA

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, 2017, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated December 15, 2017.

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 opinions 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 and therefore, material weaknesses or significant deficiencies may exist that were not

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

identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies: 2017-1, 2017-2, 2017-3 and 2017-4.

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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item: 2017-5.

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 and questioned costs. 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 Governmental 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 15, 2017



Allen Parish Hospital
Schedule of Current Year Findings and Responses
Year Ended June 30, 2017

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 – Yes

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

FINDING 2017-1 - 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 2017-2 - 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, 2017

Section II. Financial Statement Findings (Continued)

FINDING 2017-2 - 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 2017-3 - 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 2017-4 - Medicare and Medicaid Cost Report Settlements

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 was 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.

FINDING 2017-5 - Service Organization Control Report

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.



Allen Parish Hospital
Schedule of Current Year Findings and Responses
Year Ended June 30, 2017

Section II. Financial Statement Findings (Continued)

FINDING 2017-5 - Service Organization Control Report (Continued)

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

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, 2017

Section I. Financial Statement Findings

FINDING 2016-1 - 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 2017-1.

FINDING 2016-2 - 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 2017-2.



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2017

Section I. Financial Statement Findings (Continued)

FINDING 2016-3 - 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 is partially resolved. Retirement contributions were remitted timely during a portion of the fiscal year. During the latter part of the fiscal year, time to remit withholdings increased. See current year finding 2017-3.

FINDING 2016-4 - Deficit Balance in Net Position

Fiscal Year Initially Reported: June 30, 2016

Finding: The Hospital should maintain a positive balance in its net position. As of June 30, 2016, the Hospital has a deficit balance of \$110,437 in its net position.

Recommendation: The Hospital should continue efforts to improve its volume, reduce expenses, improve collections on accounts receivable, secure additional capital and partner with another hospital facility.

Response: In the eight (8) months of the Hospital's current fiscal year, there has been tremendous improvement in the Hospital's collections on accounts receivable, resulting in an increase of over twenty (20) percent. The Hospital continues to make every effort to increase volumes and has begun seeing more revenue production based on an increased census. Management is continually monitoring expenses in order to assess the efficiency of the Hospital's spending. Also, management is seeking potential partnerships that will give the Hospital the ability to bring additional services to Allen Parish Hospital, which will result in increased revenue, while incurring minimal additional expenses.

Resolution: This matter has been resolved. As of June 30, 2017, the Hospital has a positive balance in its net position.



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2017

Section I. Financial Statement Findings (Continued)

FINDING 2016-5 - Medicare and Medicaid Contractuals

Fiscal Year Initially Reported: June 30, 2012

Finding: The allowances for accounts receivable were understated by approximately \$450,000, which overstated net income by the same amount. The model utilized was based on the prior year percentages and was not updated for current reimbursement percentages.

Recommendation: We recommend reviewing the calculation and making the necessary adjustments to provide an accurate estimate of the allowances for accounts receivable.

Response: Management has updated the method used for calculating Medicare and Medicaid contractuals. This method includes utilizing twelve (12) months of payment data for Medicare, Medicaid and Commercial payors. Utilizing the new model, which updates monthly, we can be sure that the reimbursement percentages are current and accurate, providing for a more accurate estimate of allowances for accounts receivable.

Resolution: This matter has been resolved.

FINDING 2016-6 - 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 was overstated by approximately \$145,000.

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 not been resolved. See current year finding 2017-4.



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2017

Section I. Financial Statement Findings (Continued)

FINDING 2016-7 - Late Filing of Report with Louisiana Legislative Auditor

Fiscal Year Initially Reported: June 30, 2016

Finding: Louisiana Revised Statute 24:513 requires the Hospital to file its audited financial statements within six months of year end. The Hospital was unable to file within the required time period. The Hospital applied and received an extension from the Louisiana Legislative Auditor.

Recommendation: We recommend that the Hospital continue to access its current status as a going concern and finalize its financial statements in a timely manner for the audit.

Response: Management will ensure that the financial statements are finalized in a timely manner for auditing purposes. Management has implemented a month-end process that will ensure necessary entries are posted in a timely manner. These processes, along with more continuity within our personnel in the finance department will allow for the timely delivery of the financial information for future audits.

Resolution: This matter has been resolved.

FINDING 2016-8 - 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 is not resolved. See current year finding 2017-5.

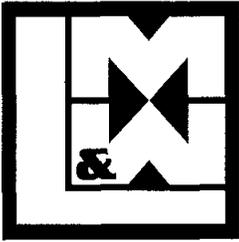
Section II. Federal Awards Findings and Questioned Costs

Not applicable

Section III. Management Letter

Not applicable





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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, 2016 through June 30, 2017. 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 the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - 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**, including receiving, recording, and preparing deposits
 - 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

- g) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
- h) **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. Note: Ethics requirements are not applicable to nonprofits.
- i) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Findings: The Hospital did not have written policies and procedures for the following areas: budgeting, purchasing, disbursements, receipts, payroll/personnel, contracting, credit cards, ethics, and debt service. A policy was provided for travel and expense reimbursement for continuing professional education. The policy includes allowable expenses, dollar thresholds for meals, documentation requirements, and required approvers.

Management's Response: Management is in the process of drafting policies and procedures to address the control and compliance areas identified in the SAUPs. Management will present the policies and procedures to the board for approval by March 2018.

Board (or Finance Committee, if applicable)

- 2. Obtain and review the board/committee minutes for the fiscal period, and:
 - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
 - b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
 - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
 - c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Findings: Per the governing board's by-laws, the board is to meet monthly. The board met eleven of the twelve months with a quorum. One meeting was cancelled and not rescheduled. A budget was approved during the fiscal year; however, the Allen Parish Hospital is a hospital service district and is not required to comply with the Local Government Budget Act. The minutes did not reference monthly budget-to-actual comparisons. The minutes included non-budgetary financial information, such as evaluating contracts and policies.

Management's Response: Management will prepare monthly budget-to-actual comparisons to be presented to the board and to be recorded in the board minutes starting February 2018.



Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

Findings: We obtained a list of bank accounts, and management provided representation that the list was complete.

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
- Bank reconciliations have been prepared;
 - Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
 - If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Findings: All bank reconciliations tested were prepared monthly. The prepared bank reconciliations did not include evidence that a member of management or a board member reviewed the reconciliations. Management had documentation reflecting that reconciling items outstanding for six months had been researched.

Management's Response: The CFO will review bank reconciliations on a monthly basis starting January 2018 and sign the reconciliation as evidence of review.

Collections

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

Findings: We obtained a list of collection locations, and management provided representation that the list was complete.

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each cash collection location selected:
- Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.



- b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.
- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
 - Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

Findings: Written documentation was not provided that stated whether each person responsible for collecting cash was (1) bonded, (2) not responsible for depositing cash in the bank, recording the related transactions, or reconciling the related bank account, and (3) not required to share the same cash register or drawer.

The Hospital provided receipts, payment logs, system reports and reconciliation worksheets that demonstrated a formal process is used to reconcile cash collections to the general ledger. Daily cash reconciliations are prepared by an employee who is not responsible for cash collections.

For the highest week of collections at each location, the deposits were made within one business day of collection. All cash collections tested were completely supported by documentation.

Management's Response: See management's response in procedure #1.

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

Findings: The Hospital did not provide written documentation describing a process to determine completeness of all collections.

Management's Response: See management's response in procedure #1.

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

- 8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.



Findings: We obtained a list of disbursements, and management provided representation that the list was complete.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
- Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
 - Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
 - Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Findings: Of the twenty-five disbursements selected for testing, four of the transactions were initiated using a purchase order. Sixteen of the transactions were items other than materials and supplies, such as lease payments. Purchase orders did not have evidence of approval by a person who did not initiate the purchase.

Management's Response: Management will review current processes and determine how to segregate the initiating, recording and approval functions.

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

Findings: The person responsible for processing payments is not prohibited from adding vendors to the system.

Management's Response: See management's response in procedure #9.

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

Findings: Of the five authorized signers, two signers can initiate a purchase. None of the signers record purchases.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

Findings: Unused checks are maintained in a locked office with restricted access restricted to one person who does not have signatory authority. Persons with signatory authority do not have system access to print checks.



13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Findings: Signature stamps are not used. Once a check is signed, the check and supporting documents are returned to the person who records the transaction.

Management's Response: See management's response in procedure #9.

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

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), 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.

Findings: We obtained a list of all active credit cards, and management provided representation that the list was complete.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation 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) Report whether finance charges and/or late fees were assessed on the selected statements.

Findings: The monthly statement selected for each card lacked evidence that the statement and supporting documentation was reviewed and approved, in writing, by someone independent of the authorized card holder. No finance charges or late fees were assessed on the selected statements.

Management's Response: Management will review credit card statements and supporting documentation monthly. Signature of the CEO or CFO will serve as evidence of review. For the CEO's credit card, the board will review the monthly statements and supporting documentation. Credit card statements will be reviewed starting February 2018.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
- a) For each transaction, report whether the transaction is supported by:
 - An original itemized receipt (i.e., identifies precisely what was purchased)



- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)
- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless of whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Findings: For the two credit cards selected for testing, there were sixty-two (62) transactions. Twenty (20) of the sixty-two (62) transactions did not have an original receipt. Of those twenty (20) without a receipt, thirteen (13) included purchase orders as support. Eleven (11) transactions did not contain documentation of the business purpose. Fifty-one (51) were determined to be appropriate business transactions and not for personal use. We were unable to determine the appropriateness of the other eleven (11) items due to lack of documentation. None of the transactions tested were made to circumvent the Louisiana Public Bid Law. The Hospital did not provide a written policy for credit card transactions. None of the transactions were loans, pledges, or donations of funds, credit, property, or things of value.

Management's Response: See management's response in procedure #1.

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

Findings: We obtained a list of all travel and related expense reimbursements, and management provided representation that the listing is complete.

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

Findings: Management provided a written policy for continuing professional education expenses. The policy only contains thresholds for meal reimbursement, which are below the rates established by the U.S. General Services Administration. The policy does not state reimbursements for lodging or mileage.

Management's Response: See management's response in procedure #1.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense



- documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.
 - b) Report whether each expense is supported by:
 - An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
 - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
 - Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)
 - c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
 - d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Findings: For the three expense reimbursements tested, all meals were reimbursed in accordance with the Hospital's policy. One reimbursement for lodging exceeded the rate established by the GSA by \$24.

All expenses were supported by an original receipt; however, one expense report did not include itemized receipts for meals purchased at a hotel. Each expense report had documentation of the business purpose, and the expense was not prohibited by Article 7, Section 14 of the Louisiana Constitution.

Each expense had both the education request form and the expense form with written approval from the administrator as required by the Hospital's policy.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

Findings: We obtained a list of contract vendors for the period, and management provided representation that the list was complete.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:
- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.
 - b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:



- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
 - If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.
- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Findings: For the five vendors selected for testing, the Hospital had a formal, written agreement that supported the services being provided and the amounts paid.

None of the contracts were subject to the Louisiana Public Bid Law or the Procurement Code. One contract is with a group purchase organization, and the remaining contracts are for professional services. The Hospital did not solicit quotes as a best practice.

Two of the five contracts were amended. One of the contracts was amended to add additional services at a cost of the greater of \$3,000 per month or 15% of cash collections. The second contract was amended to reduce the monthly fee from \$23,500 to \$22,500 and extended the original term from three to five years. Each original contract provided for such amendments.

Each of the five invoices tested and related payments complied with the terms and conditions of the contract.

Three of the five contracts had documentation of board approval. The Hospital did not provide a written policy for contracts.

Management's Response: In addition to management's response in procedure #1, management will bring contracts to the board for approval and record approval in board minutes beginning February 2018.

Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:
- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
 - b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

Findings: We obtained a listing of employees and their related salaries, and management provided representation that the list was complete. The five employees were paid in strict accordance with the terms and conditions of their pay rate structure. One employee experienced changes to hourly pay during the



period, and the changes were approved in writing. The Hospital did not provide a written policy for payroll changes.

Management's Response: See management's response in procedure #1.

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:
- Report whether 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 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.)
 - Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
 - Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

Findings: All 25 employees selected documented their daily attendance and leave. There was one instance where an employee's attendance and leave did not have written documentation of supervisor's approval. The hospital provided a report displaying hours earned, hours used and the available balance.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

Findings: We obtained a list of employees terminated during the period, and management provided representation that the list was complete. The two largest termination payments were made in accordance with the policy. The payments were approved by management.

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

Findings: Employee and employer portions of payroll taxes and the required reporting forms were submitted to the applicable agencies by the required deadlines. While the Hospital is not subject to ERISA guidelines, the employee's retirement contributions should be submitted within ten days. From January to mid-April, the employee retirement contributions were submitted timely. During the remainder of the year under examination, the average time to remit retirement contributions was 34 days.

Management's Response: Management will implement cash management controls that will allow the Hospital to remit retirement withholdings timely beginning February 2018.



Ethics (excluding nonprofits)

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

Findings: Because the five employees randomly selected for procedure #22 were nonsalaried employees of the hospital service district and do not supervise other employees or contract on behalf of the Hospital, these employees were not required to complete the ethics training mandated by the state.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Findings: Per inquiry of management, no alleged ethics violations were reported to the entity during the fiscal period.

Debt Service (excluding nonprofits)

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

Findings: No new debt was issued during the fiscal period under examination.

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

Findings: The hospital made payments in accordance with the debt service schedule. The entity was not required to maintain debt reserves.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Findings: The Hospital did not have tax millages related to debt service.

Other

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

Findings: Per inquiry of management, the Hospital had no misappropriations of public funds or assets.



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

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

Findings: The notice required by R.S. 24:523.1 concerning the reporting of misappropriations, fraud, waste, or abuse is posted on the premises of the Hospital. The Hospital's website contains the "Fight Fraud" button, which redirects visitors to the LLA website where an online fraud report form can be completed.

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

Findings: We did not note any exceptions regarding management's representations in the procedures above.

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 26, 2017

