FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1 OF THE PARISH OF ST. MARY
d/b/a FRANKLIN FOUNDATION HOSPITAL
FRANKLIN, LOUISIANA

SEPTEMBER 30, 2019 AND 2018

FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1 OF THE PARISH OF ST. MARY
d/b/a FRANKLIN FOUNDATION HOSPITAL
FRANKLIN, LOUISIANA

SEPTEMBER 30, 2019 AND 2018

TABLE OF CONTENTS

LANGLINAIS BROUSSARD & KOHLENBERG
CERTIFIED PUBLIC ACCOUNTANTS

Glen P. Langlinais, CPA
Gayla F. Russo, CPA

Michael P. Broussard, CPA
Patrick M. Guidry, CPA
Elizabeth L. Whitford, CPA
Johnathon P. Trahan, CPA
John W. O'Bryan, CPA
Barrett B. Perry, CPA
Elizabeth N. DeBaillon, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1 of the Parish of St. Mary
State of Louisiana
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Hospital Service District No. 1 of the Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, d/b/a Franklin Foundation Hospital ("the Hospital"), as of September 30, 2019 and 2018, 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.

AUDITOR'S RESPONSIBILITY

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

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

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

2419 Veterans Memorial Drive • PO Box 1123 • Abbeville, LA 70511-1123 • Office (337) 893-6232 • Fax (337) 893-6249 • www.LBKcpa.net

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of the Parish of St. Mary, State of Louisiana as of September 30, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

The Hospital has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules identified in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements.

Such 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2020 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Langlinais Broussard & Kohlenberg

LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 28, 2020

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

STATEMENT OF NET POSITION **FOR THE YEARS ENDED SEPTEMBER 30,**

ASSETS

	2019	2018
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 5,535,548	$ 4,004,330
Investments	4,307,526	4,129,211
Accounts Receivables, less Allowance For Doubtful		
accounts of $1,388,825 in 2019 and $1,207,683 in 2018	1,834,914	1,756,976
Due from Third Party Payors	738,765	579,632
Other Receivables	2,338,882	2,560,263
Inventories	655,409	662,057
Prepaid Expenses	437,973	356,476
Total Current Assets	15,849,017	14,048,945
ASSETS WHOSE USE IS LIMITED:		
By Board	9,285,021	8,868,512
By Bond Indenture		
Series 2005 Contingency Fund	162,471	148,113
Series 2005 Reserve Fund	162,473	148,116
Series 2010 Contingency Fund	241,045	215,113
Series 2010 Bond Reserve Fund	241,045	215,113
Total Assets Whose Use is Limited by Bond Indenture	807,034	726,455
Total Assets Whose Use is Limited	10,092,055	9,594,967
PROPERTY, PLANT AND EQUIPMENT:		
Property, Plant and Equipment Cost	38,511,034	36,507,344
Less: Accumulated Depreciation	(25,916,057)	(24,550,803)
Total Property, Plant and Equipment	12,594,977	11,956,541
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Financing Costs	24,526	27,462
Total Deferred Outflows of Resources	24,526	27,462
TOTAL ASSETS	$ 38,560,575	$ 35,627,915

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

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

STATEMENT OF NET POSITION **FOR THE YEARS ENDED SEPTEMBER 30,**

LIABILITIES AND NET POSITION

	2019	2018
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	$ 744,022	$ 557,208
Accounts Payable	620,163	685,340
Due to Third Party Payors	885,401	1,346,656
Credit Balances	55,604	60,133
Interest Payable	11,514	11,794
Accrued Salaries and Related Withholdings	836,758	876,704
Accrued Vacation and Holiday Expense	451,573	443,698
Total Current Liabilities	3,605,035	3,981,533
LONG-TERM LIABILITIES:		
Revenue Bonds Series 2005	3,802,278	3,901,136
Revenue Refunding Bonds Series 2010	347,775	880,809
Capital Lease Payable	512,125	91,523
Total Long-Term Liabilities	4,662,178	4,873,468
TOTAL LIABILITIES	8,267,213	8,855,001
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	7,188,777	6,525,865
Restricted Net Position (Expendable)	10,092,055	9,594,967
Unrestricted	13,012,530	10,652,082
TOTAL NET POSITION	30,293,362	26,772,914
TOTAL LIABILITIES AND NET POSITION	$ 38,560,575	$ 35,627,915

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

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEARS ENDED SEPTEMBER 30,

	2019	2018
OPERATING REVENUES:		
Net Patient Service Revenue before Provision for Doubtful Accounts	$ 23,619,095	$ 21,739,882
Provision for Doubtful Accounts	(1,993,396)	(1,662,341)
Net Patient Service Revenue less Provision for Doubtful Accounts	21,625,699	20,077,541
Ad Valorem Taxes	2,293,461	2,345,649
Intergovernmental Transfers - Operating Grant	4,004,525	2,618,411
Other Operating Revenue	435,710	379,218
TOTAL OPERATING REVENUE	28,359,395	25,420,819
OPERATING EXPENSES:		
Professional Services	15,270,514	14,454,349
General and Administrative	9,584,812	9,300,024
Depreciation and Amortization	1,365,253	1,254,929
TOTAL OPERATING EXPENSES	26,220,579	25,009,302
NET INCOME FROM OPERATIONS	2,138,816	411,517
NON-OPERATING REVENUES (EXPENSES)		
Full Medicaid Payment Program Funding	1,303,328	2,163,696
Grant Revenue	2,967	4,207
Net Increase (Decrease) in the Fair Value of Investments	88,449	(69,241)
Investment Income	97,818	98,600
Loss on the Sale of Fixed Assets	-	(198)
Interest Income	111,049	30,457
Interest Expense	(221,832)	(247,516)
Other Non-Operating Revenue	(147)	649
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,381,632	1,980,654
CHANGE IN NET POSITION	3,520,448	2,392,171
TOTAL NET POSITION, BEGINNING	26,772,914	24,380,743
TOTAL NET POSITION, ENDING	$ 30,293,362	$ 26,772,914

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

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

STATEMENTS OF CASH FLOWS **FOR THE YEARS ENDED SEPTEMBER 30,**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Patients	$ 21,384,856	$ 22,435,728
Ad Valorem Taxes	2,294,609	2,288,662
Intergovernmental Transfers-Operating Grant	4,004,525	2,164,793
Cash Received from Other Sources	193,931	152,689
Cash Payments to Suppliers for Goods and Services	(12,900,548)	(12,207,401)
Cash Payments to Employees for Services	(12,126,875)	(11,390,639)
Net Cash Provided By Operating Activities	2,850,498	3,443,832
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES:		
Acquisition of Property and Equipment	(2,003,691)	(861,618)
Proceeds from the Issuance of Long-Term Debt	577,376	-
Principal Payments on Long-term Debt	(601,853)	(536,493)
Interest Payments on Long-term Debt	(222,112)	(247,784)
Grant Income	1,306,295	2,167,903
Other Non-Operating Income	(147)	649
Net Cash (Used In) Provided By Capital and Related Financial Activities	(944,132)	522,657
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Deferred Financing Costs	2,936	2,937
Net Cash Provided By Non-Capital Financing Activities	2,936	2,937
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(3,557,496)	(3,855,408)
Proceeds from the Sale of Investments	3,379,184	3,689,463
Investment Income	186,267	29,359
Interest Income	111,049	30,457
Loss on Disposal of Assets	-	198
Net Cash Provided By (Used In) Investing Activities	119,004	(105,931)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,028,306	3,863,495
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, INCLUDING $9,594,967 AND $7,663,187 LIMITED AS TO USE FOR 2019, AND 2018, RESPECTIVELY	13,599,297	9,735,802
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING $10,092,055 and $9,594,967 LIMITED AS TO USE FOR 2019 AND 2018, RESPECTIVELY	$ 15,627,603	$ 13,599,297

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

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a/ Franklin Foundation Hospital
Franklin, Louisiana

STATEMENTS OF CASH FLOWS **FOR THE YEARS ENDED SEPTEMBER 30,**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 2,138,816	$ 411,517
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,365,253	1,254,929
Provision for Doubtful Accounts	1,993,396	1,662,341
Increase in Receivables and Due from/to Third Parties	(2,474,870)	(32,762)
Decrease (Increase) in Inventories and Prepaid Expenses	(74,849)	282,945
Increase (Decrease) in Accounts Payable and Accrued Expenses	(97,248)	23,025
(Decrease) in Deferred Revenue	-	(158,163)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 2,850,498	$ 3,443,832
Non-Cash Financing Activity:		
Acquisition of Assets by Capital Lease	$ 577,376	$ 57,400
Non-Cash Investing Activity:		
Decrease (Increase) in fair value of investments	$ 88,449	$ (69,241)

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

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

Reporting Entity. Hospital Service District No. 1 of the Parish of St. Mary, d/b/a Franklin Foundation Hospital (the Hospital) was created by Ordinance No. 559 of the Police Jury of St. Mary Parish on September 20, 1950, to operate, control, and manage matters concerning the health care of citizens west and northwest of the Wax Lake Outlet. The Hospital is governed by a board of seven commissioners who are appointed by the St. Mary Parish Council. For this reason, the Hospital is considered to be a component unit of the St. Mary Parish Government, St. Mary Parish, Louisiana.

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

Proprietary fund accounting. The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized using the economic resources measurement focus and the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Inventories. Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment. Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds, if any, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Uses of restricted funds are determined by board resolution only.

Compensated Absences. Employees of the Hospital are entitled to paid time off depending on their length of service and other factors. Accrued compensated absences on the Hospital's Statement of Net Position were $451,573 and $443,698 for 2019 and 2018, respectively.

Ad valorem Taxes. The Hospital received approximately eight percent (8%) in 2019 and eight percent (8%) in 2018 of its financial support from ad valorem taxes. Current taxes are received beginning in December of each year and become delinquent after January 31 of the following year.

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

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; and employee health, dental, and accident 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.

Investments in debt and equity securities. Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at approximated fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Net Position. GASB 63 and GASB Codification Section P80, states that net position is equal to assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net position classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds.

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets may be restricted when there are limitations imposed on their use either through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of net position that does not meet the definition of the two preceding categories.

Net patient service revenue. The Hospital has agreements with third-party payors that provide payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating and Non-operating Revenue. Operating revenue includes net patient revenue, ad valorem taxes, intergovernmental transfer grants, cafeteria and vendor sales, rental income, and other revenues determined by management to be derived from operations of the hospital. Non-operating revenues include grant revenue, interest income and gains or losses not considered to be derived from operations of the hospital.

Restricted Resources. Restricted funds may be designated by the board in order to comply with bond covenants, contracts, or other specific purposes. The Hospital first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Income Taxes. The Hospital is a political subdivision and exempt from taxes.

Advertising. The Hospital expenses advertising costs as incurred.

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

Environmental Matters. Due to the nature of the Hospital's operations, materials handled could lead to environmental concerns. However, at this time, management is not aware of any environmental matters which need to be considered.

Reclassifications. To be consistent with current year classifications, some items from the previous year have been reclassified with no effect on net assets.

NOTE 2: MAJOR SOURCE OF REVENUE

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Hospital derived approximately 66% and 72% of its gross patient service revenue in 2019 and 2018, respectively, from patients covered by the Medicare and Medicaid programs. The Hospital received total grant revenue, including operating and non-operating, of $5,310,820 and $4,786,314 for 2019 and 2018, respectively.

NOTE 3: NET 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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in a future period as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Hospital's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex, and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

A summary of the payment arrangements with major third-party payors follows.

Medicare Inpatient services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been settled by the MAC through September 30, 2017.

Medicaid Inpatient services are reimbursed at a fixed rate per day for medical/surgical patients. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, with certain limitations and exceptions. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports filed by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through September 30,2013.

The Louisiana Legislature, through the Healthcare Reform Act of 2007 and Act 1 of 2010, tasked the Department of Health and Hospitals (DHH) to create a new system of care. In response, the DHH reformed its reimbursement methodology for Medicaid patients from a fee-for-service system to the use of a Coordinated Care Network (CCN). During 2011, the DHH enabled certain third-party payor companies to contract with providers under the CCN methodology. The Hospital is currently contracted and enrolled with payors participating in the Coordinated Care Network. Cost reports are filed with these CCNs and are subject to audit.

NOTE 3: NET PATIENT SERVICE REVENUE, CONTINUED

Commercial The Hospital has entered into payment agreements with certain commercial insurance carriers and preferred-provider organizations. The basis for payment to the Hospital under some of these agreements includes prospectively determined daily rates.

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant estimated provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts, recognized in the period from these major payor sources, is as follows.

Net Patient Service Revenue by Payor before Provision for Doubtful Accounts:

	2019	2018
Medicare	$ 7,831,489	$ 7,853,261
Medicaid	14,358,873	12,803,999
All other payors	1,428,733	1,082,622
Total Net Patient Service Revenue Before Provision for Doubtful Accounts	$ 23,619,095	$ 21,739,882

The following schedule represents total Net Patient Service Revenue:

	2019	2018
Gross Patient Service Revenue	$ 42,021,074	$ 39,428,424
Less: Contractual Adjustments	(20,819,759)	(19,993,355)
Add: Physician Full Medicaid Payment	2,417,780	2,304,813
Net Patient Service Revenue Before Provision for Doubtful Accounts	23,619,095	21,739,882
Provision for Doubtful Accounts	(1,993,396)	(1,662,341)
Net Patient Service Revenue after Provision For Doubtful Accounts	$ 21,625,699	$ 20,077,541

During the fiscal years ended September 30, 2019 and 2018, the Hospital received funding based on provider services provided to the Managed Care Organizations (MCOs) through the Louisiana Department of Health and Hospital's Bayou Health Program referred to as "Physician Full Medicaid Payment" above. Under this program, the Hospital was required to make intergovernmental transfers ("IGT") totaling $1,380,694 and $1,242,925 to the Louisiana DHH for the years ended September 30, 2019 and 2018, respectively. The hospital later received matching dollars for the transfer in addition to the FMP payment. Before administrative fees paid to the MCOs and a third-party representative organization, the Hospital recognized a gross benefit of approximately $2,417,780 and $2,304,813 for the years ended September 30, 2019 and 2018, respectively. The Hospital has included this amount in the "Physician Full Medicaid Payment" shown above as a part of Net Patient Service Revenue.

NOTE 4: ACCOUNTS RECEIVABLE - PATIENTS

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with Medicaid, Commercial, and Self-Pay patients, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience and on the age of the receivable balance. The aged balance indicates that third-party claims have reached an age where the probability of payment is low and that self-pay patients are unable or unlikely to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patients Accounts Receivable consists of the following:

	2019	2018
Total Patient Accounts Receivable	$ 5,428,412	$ 4,853,669
Less: Allowances for Doubtful Accounts and Contractual Allowances	(3,593,498)	(3,096,693)
Net Patient Accounts Receivable	$ 1,834,914	$ 1,756,976

NOTE 5: ACCOUNTS RECEIVABLE - OTHER

Other Accounts Receivable consists of the following:

	2019	2018
Accrued Ad Valorem Tax Revenue	$ 1,741,857	$ 1,743,006
Accrued Investment Income	23,910	26,607
Medicaid Physician Rate Enhancement Program	530,603	540,708
All Other	42,512	249,942
Total Accounts Receivable - Other	$ 2,338,882	$ 2,560,263

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, by major category, are as follows:

September 30, 2019

	Asset life in years	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not depreciated:					
Land		$ 730,876	$ 187,883	$ -	$ 918,759
Construction in Progress		79,569	35,482		115,051
Total assets not being depreciated		810,445	223,365		1,033,810
Other Capital Assets:					
Buildings	10 - 40	18,607,021	143,614	-	18,750,635
Fixed Equipment	5 - 25	571,164	-	-	571,164
Movable Equipment	5 - 25	15,506,235	1,636,711		17,142,946
Land Improvements	5 - 25	1,012,479	-	-	1,012,479
Total other assets		35,696,899	1,780,325		37,477,224
Less accumulated depreciation for:					
Buildings		10,099,820	738,856	-	10,838,676
Equipment and furniture		13,743,993	578,869		14,322,862
Improvements		706,990	47,529	-	754,519
Total Accumulated Depreciation		24,550,803	1,365,254		25,916,057
Net Property, Plant and Equipment		$11,956,541	$ 638,436	$	$12,594,977

September 30, 2018

	Asset life in years	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not depreciated:					
Land		$ 701,739	$ 29,137	$ -	$ 730,876
Construction in Progress		8,729	71,740	900	79,569
Total assets not being depreciated		710,468	100,877	900	810,445
Other Capital Assets:					
Buildings	10 - 40	18,377,508	229,513	-	18,607,021
Fixed Equipment	5 - 25	571,164	-	-	571,164
Movable Equipment	5 - 25	14,916,707	661,686	72,158	15,506,235
Land Improvements	5 - 25	1,012,479	-	-	1,012,479
Total other assets		34,877,858	891,199	72,158	35,696,899
Less accumulated depreciation for:					
Buildings		9,363,964	735,856	-	10,099,820
Equipment and furniture		13,347,139	469,012	72,158	13,743,993
Improvements		656,929	50,061	-	706,990
Total Accumulated Depreciation		23,368,032	1,254,929	72,158	24,550,803
Net Property, Plant and Equipment		$12,220,294	$ (262,853)	$ (900)	$11,956,541

Total depreciation expense for the years ended September 30, 2019 and 2018 is $1,365,253 and $1,254,929, respectively.

Equipment in the amount of $754,745 and $177,369 is under capital lease for the periods ended September 30, 2019 and 2018. The related amortization/depreciation expense recognized for the years ended September 30, 2019 and 2018 is $29,734 and $23,994.

NOTE 7: OPERATING LEASES

The Hospital leases equipment, storage space, and office space through operating leases. Total lease expense for September 30, 2019 and 2018, respectively, for all operating leases was $158,431 and $168,451.

The Hospital entered into a non-cancellable operating lease agreement for lab equipment during the year ended September 30, 2016. Future minimum rental payments under this lease are as follows:

September 30, 2019

2020	$ 3,720
Total	$ 3,720

September 30, 2018

2019	$ 5,580
2020	3,720
Total	$ 9,300

NOTE 8: LONG TERM DEBT

Long-term debt at September 30, 2019 and 2018, consists of the following:

	2019	2018
Revenue Bonds - face value $5,000,000, dated September 5, 2007, bearing interest at 4.25%, collateralized by hospital revenue, maturing monthly with the final maturity October 5, 2047.	$ 3,901,192	$ 3,995,941
Revenue Refunding Bonds - face value $6,295,462 April 30, 2010, bearing interest at 4.45%, collateralized by Hospital operating revenue, maturing monthly with the final maturity December 1, 2027.	838,262	1,312,262
Capital Lease Payable, dated October 1, 2016, bearing interest of 1.14%, maturing September 1, 2021, with principal due monthly collateralized by lab equipment	45,863	68,788
Capital Lease Payable, dated July 19, 2018, bearing interest of 2.63%, maturing July 19, 2023, with principal due monthly collateralized by lab equipment	43,507	53,685

NOTE 8: LONG TERM DEBT, CONTINUED

Capital Lease Payable, dated February 1, 2019, bearing interest of 2.44%, maturing May 1, 2024, with principal due monthly	577,376	-0-
	5,406,200	5,430,676
Less: Current Portion	744,022	557,208
Long-Term Portion	$ 4,662,178	$ 4,873,468

A summary of long-term debt activity for the year ended is as follows:

September 30, 2019

	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds 2005	$ 3,995,941	$ -	$ 94,749	$ 3,901,192
Revenue Bonds 2010	1,312,262	-	474,000	838,262
Capital Lease Payable	122,473	577,376	33,103	666,746
Total	$ 5,430,676	$ 577,376	$ 601,852	$ 5,406,200

September 30, 2018

	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds 2005	$ 4,086,808	$ -	$ 90,867	$ 3,995,941
Revenue Bonds 2010	1,786,262	-	474,000	1,312,262
Capital Lease Payable	94,100	57,400	29,027	122,473
Total	$ 5,967,170	$ 57,400	$ 593,894	$ 5,430,676

Balance due within one year:

	2019	2018
Revenue Bonds 2005	$ 98,913	$ 94,805
Revenue Bonds 2010	490,487	431,453
Capital Lease Payable	154,622	30,950
Total	$ 744,022	$ 557,208

Scheduled repayments on long-term debt are as follows:

September 30, 2019

	Principal	Interest	Total
2020	$ 744,022	$ 204,909	$ 948,931
2021	599,460	175,996	775,456
2022	235,105	161,289	396,394
2023	239,014	153,989	393,003
2024	226,741	146,682	373,423
2025-2029	666,780	647,220	1,314,000
2030-2034	824,341	489,659	1,314,000

NOTE 8: LONG TERM DEBT, CONTINUED

2035-2039	1,019,135	294,865	1,314,000
2040-2043	851,602	66,267	917,869
Total	$ 5,406,200	$ 2,340,876	$ 7,747,076

September 30, 2018

	Principal	Interest	Total
2019	$ 557,208	$ 215,466	$ 772,674
2020	622,186	194,661	816,847
2021	532,365	167,958	700,323
2022	119,551	155,513	275,064
2023	120,356	150,540	270,896
2024-2028	639,084	674,916	1,314,000
2029-2033	790,100	523,900	1,314,000
2034-2038	976,803	337,197	1,314,000
2039-2043	1,073,023	107,589	1,180,612
Total	$ 5,430,676	$ 2,527,740	$ 7,958,416

NOTE 9: BOND DEFEASANCE

On April 30, 2010, the Hospital issued $6,295,462 in Revenue Bonds (Refunding Bonds, Series 2010) with interest rate of 4.45% and annual debt service payments from $515,052 to $519,545. These bonds were issued through a current refunding totaling $6,295,457 of outstanding 2005A Revenue Bonds (R-1 and R-2) bearing interest rates of 7.83% and 6.50%, respectively. The net proceeds were used to immediately refund the Series 2005A Revenue Bonds.

As a result, the 2005A Revenue Bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by $51,687. This amount has been amortized and has a net carrying value of $24,526 and $27,462 for September 30, 2019 and 2018, respectively, and is reflected on the Statement of Net Position as Deferred Outflows of Resources. It is being amortized over the remaining life of the refunded debt, which has a shorter life than the original bonds. At the time of the refunding, aggregate debt service payments were reduced by $1,048,787, and the Hospital obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,313,547. The effective interest rate on the new issue is 4.49%.

NOTE 10: CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	2019	2018
Medicare	16%	20%
Medicaid	23	23
Commercial and other third-party payors, and patients	61	57
Total	100%	100%

NOTE 11: ASSETS WHOSE USE IS LIMITED

Pursuant to a resolution by the Board of Commissioners of the hospital made in February of 2008, a board-designated plant fund was established to be utilized for replacement of existing capital assets and the purchase of new capital assets.

In relation to the revenue bonds issued on September 7, 2005 with a face value of $5,000,000, the hospital entered into an agreement with the United States Department of Agriculture to reserve cash funds as follows:

"Borrowers issuing bonds or other evidences of debt pledging facility revenues as a security will plan their reserve to provide for at least an annual reserve payment equal to one-tenth of an average annual loan installment, with payments made monthly and evenly divided between a reserve fund and a depreciation and contingency fund, until an amount equal to the highest annual debt service in any future year is accumulated in the reserve fund..."

In relation to the revenue bonds issued April 30, 2010 with a face value of $6,295,462, the hospital entered into an agreement with Capital One, N. A., to reserve cash funds as follows:

Debt Service (Sinking) Fund:

"The maintenance of the 'Hospital Revenue Bond Sinking Fund' sufficient in amount to pay promptly and fully the principal of and the interest on the Outstanding Parity Bonds and Bonds, including any pari passu bonds issued hereafter in accordance with Outstanding Parity Bond resolution, as said bonds severally become due and payable by transferring from the Operating fund to the paying agent, monthly in advance … a monthly amount of moneys sufficient to provide payment of principal and/or interest and premium, if any, on the Outstanding Parity Bonds and Bonds at the time such payment is due….It is not expected that any amounts will remain in the Debt Service Fund after all payments in a Bond Year have been made therefrom."

Reserve Fund:

"The maintenance of the 'Hospital Service District No. 1 of the Parish of St. Mary Reserve Fund', by transferring…monthly in advance…a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund…"

Contingency Fund:

"The maintenance of the 'St. Mary Parish Hospital District Depreciation and Contingency Fund'…by transferring…monthly in advance…a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund…When a sum equal to the Debt Service Reserve Requirement has been accumulated in the Reserve Fund, the monthly payments into the Contingency Fund shall be increased to an amount equal to 10% of the amount being paid monthly into the Sinking Fund said payments to continue over the life of the bonds."

On April 22, 2015 the board restricted use of grant funds received from the Full Medicaid Capacity Program to be used for purposes connected to establishing Franklin Foundation Hospital as a Center of Excellence. These funds will be used for non-operating expenses.

In August of 2014, the hospital settled a litigation for interior repairs and remediation work resulting from deficiencies in the initial construction of the Hospital. The Hospital received a lump sum of $250,000 in October of 2014 of which the board has reserved in order to fund the necessary remediation.

NOTE 11: ASSETS WHOSE USE IS LIMITED, CONTINUED

The composition of assets limited as to use at September 30, 2019 and 2018 are set forth in the following table:

	2019	2018
Internally designated for capital acquisitions	$ 590,641	$ 585,976
By Bond Indenture - Series 2005 Contingency Fund	162,471	148,113
By Bond Indenture - Series 2010 Contingency Fund	241,045	215,113
By Bond Indenture - Series 2005 Reserve Fund	162,473	148,116
By Bond Indenture - Series 2010 Reserve Fund	241,045	215,113
Building Litigation Settlement	250,000	250,000
Full Medicaid Capacity Funding Grant	8,444,380	8,032,536
Total Assets Whose Use is Limited	$ 10,092,055	$ 9,594,967

NOTE 12: BANK DEPOSITS AND INVESTMENTS

Louisiana state statutes require that all of the deposits of the hospital must 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 had bank balances as follows:

	2019	2018
Insured (FDIC)	$ 250,000	$ 250,000
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	16,027,854	13,544,752
Total	$ 16,277,854	$ 13,794,752
Carrying Value	$ 16,277,854	$ 13,794,752

The Hospital's investment policy states that it must at all times conform to Louisiana R.S. 33:2955, as amended from time to time, which is the main statute that governs investments that local political subdivisions are allowed to make in Louisiana. In addition, Act 264 of the 2012 Regular Session enacted R.S. 46:1073 which allows hospital service districts (as defined in R.S. 46:1072) to invest its funds in the same manner as provided by law for investment of funds of the Louisiana Employees Retirement System (LASERS) including but not limited to R.S. 11:263 (the "prudent man rule"). However, any such investment may be made only in compliance with rules and regulations established by the Hospital's Board of Commissioners and in compliance with the provisions of R.S. 11:263 and any other law which provides for the investment of funds in which the funds of LASERS may be invested.

The Hospital's investment policy also states that all investment decisions shall be the responsibility of the Board and that all investment decisions are to be made using reasonable efforts to control risk.

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

Investments are reported at their fair values in the statement of net position. Unrealized gains and losses are included in the change in net position in the statement of revenues, expenses, and changes in net position. Investments consisted of the following as of September 30, 2019 and 2018:

	2019	
	Cost	Market Value
Alabama St. Port Auth Docks FACS (AA/Standard & Poor)	$ 202,294	$ 201,874
Apple Inc 1.55% (AA+/S&P)(Aa1/Moody's Rating)	144,971	149,262
Boulder Cops Txbl 3% Maturity 11/01/2020 (AA+/S&P)(Aa1/Moody's Rating)	234,452	227,954[1]
Chevron Corporation 2.355% (AA/S&P)(Aa2/Moody's Rating)	149,489	152,040
Connecticut St Txbl-B 2.5% (A /S&P)(A1/Moody's Rating)	100,778	100,355
Fannie Mae Note, 1.5% (AA+/Standard & Poor) (Aaa/Moody's Rating)	50,968	49,861
Fannie Mae Series 2012, 2.0%	11,951	12,098
Fannie Mae Series 2013, 3.0%	191,649	190,342
Federal Home Loan Banks Note, 1.375% (AA+/Standard & Poor) (Aaa/Moody's Rating)	349,385	349,762[1]
Federal Home Loan Banks Note, 1.5% (AA+/Standard & Poor) (Aaa/Moody's Rating)	148,862	149,972
Federal Home Loan Mortgage Corp Series 3919 3%	54,576	54,553
Federal Home Loan Mortgage Corp Series 3941 3%	138,013	137,989
Federal Home Loan Mortgage Corp Series 4120 1.5%	184,743	196,110
Federated Gov't Oblig FD #117 (GOFXX)	329,845	329,845[1]
Government National Mortgage Association, Series 2011-85, 4%	138,004	139,743
Government National Mortgage Association, Series 2013-169, 2.5%	66,470	68,139
Government National Mortgage Association, Series 2018-79, 3%	212,056	215,284
Government National Mortgage Association, Series 18-138 3.5%	89,094	88,898

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

Jefferson La Sales Tax Dist SPL Sales Tax Rec Ser A 5% (AA/Standard & Poor) (A1/Moody's Rating)	60,531	60,239
Microsoft Corp 1.55% (AAA/S&P)(Aaa/Moody's Rating)	145,422	149,372
New York State Build America Bonds 5.049% Maturity 12/01/2021 (AA/S&P)(Aa1/Moody's Rating)	83,783	79,570
Proctor & Gamble Co/the 2.15% (AA-/Standard & Poor) (Aa3/Moody's Rating)	148,814	151,667
US Bank Na Cincinnati 3.15% (AA-/Standard & Poor) (A1/Moody's Rating)	101,553	101,633
US Treasury 1.875% (Aaa/Moody's Rating)	199,289	200,180
US Treasury 2.5% (Aaa/Moody's Rating)	159,881	160,643
US Treasury 2.625% (Aaa/Moody's Rating)	149,801	152,297
US Treasury 2.625%	199,836	204,406
VISA Inc 2.8% (AA-/Standard & Poor) (Aa3/Moody's Rating)	103,214	102,819
Walmart Inc 3.3% (AA/Standard & Poor) (Aa2/Moody's Rating)	106,022	105,622
Wichita KS Txbl-Ser 815 2% Maturity 12/01/2019 (AA+/S&P)(Aa1/Moody's Rating)	25,248	25,007
	$ 4,280,994	$ 4,307,536

	2018	
	Cost	Market Value
Alabama St. Port Auth Docks FACS (AA/Standard & Poor)	$ 202,294	$ 195,492
Bossier City LA Pub Impt Sales & Use Tax Revenue Txbl-Ref 2% (Aa3/Moody's Rating)	121,129	119,910

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

Boulder Cops Txbl 3% Maturity 11/01/2020 (Aa1/Moody's Rating)	234,452	224,557[1]
Colorado Springs CO Utilities Revenue Build America Bonds 3.446% (Aa2/Moody's Rating)	105,209	100,109
Connecticut St Txbl-B 2.5% (A1/Moody's Rating)	100,778	98,268
Federated Prime Obligation Fund, .01% (AAAm/Standard & Poor)	115,676	115,676
Federal Home Loan Banks Note, 1.375% (AA+/Standard & Poor)	349,385	344,978[1]
Federal Home Loan Banks Note, 1.5% (AA+/Standard & Poor)	148,862	148,193
Fannie Mae Note, 1.25% (AA+/Standard & Poor)	200,861	197,814
Fannie Mae Note, Series 3919, 3%	86,228	84,633
Fannie Mae Note, Series 3941, 3%	207,809	203,954
Fannie Mae Note, 1.5% (AA+/Standard & Poor)	50,968	48,933
Fannie Mae Note, 1.75% (AA+/Standard & Poor)	255,554	247,940[1]
Fannie Mae Note, Series 2012-100, 2%	15,228	14,928
Fannie Mae Note, Series 2019-98, 3%	233,915	225,905[1]
Government National Mortgage Association, Series 2013-169, 2.5%	78,280	76,020
Government National Mortgage Association, Series 2011-85, 4%	178,209	175,601
Government National Mortgage Association, Series 2018-79, 3%	241,766	239,894[1]
Hollywood Beach Cmnty Dev Dist (A1/Moody's Rating)	107,820	100,000
Mississippi ST Taxable-Ser D 4.34% (AA/Standard & Poor)	104,190	100,000
Monmouth OR Taxable Ref Obligs Ser B 1.84% (A+/Standard & Poor)	205,697	204,582

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

New York State Build America Bonds 5.049% (Aa2/Standard & Poor)	83,783	79,004
Tampa Bay FL Wtr Regl Wtr Sply Auth Utility Sys Revenue Ref-Txbl-Ser B 1.362% (AA+/Standard & Poor)	149,100	150,000
Tennessee Hsg Dev Agy RSDL FING Program Revenue 1.561% (AA+Standard & Poor)	105,000	103,906
U.S. Treasury Bond, 1.875% Maturity 12/15/2020 (Aaa, Moody's Rating)	199,289	195,876
U.S. Treasury Bond, 2.625% Maturity 6/15/2021 (Aaa, Moody's Rating)	149,801	149,004
U.S. Treasury Industry (Aaa, Moody's Rating)	159,881	159,237
Wichita KS Txbl-Ser 815 2% (AA+, Standard & Poor)	25,248	24,797
	$ 4,216,412	$ 4,129,211

[1] denotes a concentration of credit risk due to the individual investment value representing a percentage greater than or equal to five percent of the total investment value.

The net change in the fair value of investments was an increase of $88,449 and a decrease of $69,241 for the years ended September 30, 2019 and 2018, respectively.

Fair Value of Financial Instruments

FASB Accounting Standards Codification Topic 820, "Fair Value Measurements (Topic 820)." Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements.

These levels are:

Level 1 - inputs are based upon adjusted quoted prices for identical instruments traded in active markets.

Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.

Level 3 - inputs are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

NOTE 12: BANK DEPOSITS AND INVESTMENTS, CONTINUED

All investments are based on Level 1 inputs. The hospital relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities.

NOTE 13: NET POSITION

Net position for the years ended September 30, are as follows:

	2019	2018
Invested in Capital Assets, net of related debt	$ 7,188,777	$ 6,525,865
Restricted for:		
Capital Projects (Expendable)	590,641	585,976
Bond Indenture (Expendable)	807,034	726,455
Building Mediation Settlement (Expendable)	250,000	250,000
Center of Excellence Endeavors (Expendable)	8,444,380	8,032,536
Unrestricted	13,012,530	10,652,082
Total Net Position	$ 30,293,362	$ 26,772,914

NOTE 14: CASH FLOW SUPPLEMENTAL INFORMATION

Cash and cash equivalents reported in the cash flow statement are as follows:

	2019	2018
Cash and Cash Equivalents	$ 5,535,548	$ 4,004,330
Cash Whose Use is Limited	10,092,055	9,594,967
Cash and Cash Equivalents at End of Year	$ 15,627,603	$ 13,599,297

NOTE 15: GOVERNING BOARD EXPENSES

The board of commissioners of Hospital Service District No. 1, Parish of St. Mary received no compensation for the years ended September 30, 2019 and 2018.

NOTE 16: PENSION PLAN

The Hospital has two defined contribution retirement plans, a 457(b) plan and a 401(a) plan, which are administered by Retirement Strategies Group, LLC. Qualified Employees may elect to make contributions to the plans through salary reduction agreements. The employees are 100% vested in the 457(b) plan when the first contribution is made. The 401(a)plan's vesting percentage varies in relation to the employee's period of service. The amount of the employer contribution is currently 2% of the eligible participants' annual compensation. Benefit terms and amendments require approval by management and the board. Total expense for the years ended September 30, 2019 and 2018 was $215,297 and $174,160 respectively. Forfeitures may first be used to pay administrative expenses. Forfeitures of matching contributions that relate to excess amounts may be used to reduce employer contributions. Forfeitures reflected in pension expense as a reduction of employer contributions were approximately $ 12,249 and $21,216 for the years ended September 30, 2019 and 2018, respectively. The accrued pension plan liability was $167,160 and $174,533 for the years ended September 30, 2019 and 2018, respectively.

NOTE 17: CHARITY CARE

The Hospital provides services without charge or at amounts less than its rates to patients who meet the criteria of its charity care policy. The criteria for charity care consider items such as family income, net worth, extent of financial obligations for healthcare services, etc. Because the Hospital

NOTE 17: CHARITY CARE, CONTINUED

does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported in revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges forgone, based on established rates, were approximately $66,335 and $65,736 for the years ended September 30, 2019 and 2018, respectively.

Management estimates that approximately $41,392 and $41,696 of costs were related to charity care for the years ended September 30, 2019 and 2018, respectively. This estimate is based on a ratio of total cost to gross patient charges applied to gross uncompensated charges associated with providing care to charity patients.

NOTE 18: CONTINGENCIES AND COMMITMENTS

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:

Third-party-based Revenues - Cost reimbursements and claims are subject to examination by agencies administering the programs. 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.

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 privacy, 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.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Hospital. Federal healthcare reform legislation proposals debated in Congress in recent years have included significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of the Hospital's principal payors. It is not possible at this time to determine the impact on the Hospital of government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results, cash flows and estimated debt service coverage of the Hospital in future years.

NOTE 18: CONTINGENCIES AND COMMITMENTS, CONTINUED

Professional Liability Risk - The Hospital is contingently liable for losses outside of its professional liability insurance coverage.

NOTE 19: UNCOMPENSATED CARE REVENUE AND OTHER FUNDING

Intergovernmental Transfers-Operating Grant. The Hospital received Uncompensated Care ("UCC") for the years ended September 30, 2014 and prior years (formerly called Disproportionate Share payments or "DSH"). In fiscal year 2015 the Hospital entered into a cooperative endeavor agreement ("CEA") with a regional public rural hospital (the "Grantor") whereby the Grantor distributes the funds as an intergovernmental transfer ("IGT"). The aggregate IGT grant revenue is $4,004,525 and $2,618,411 for the years ended September 30, 2019 and 2018, respectively, and is reflected on the Statement of Revenues, Expenses and Changes in Fund Net Position in Intergovernmental Transfers-Operating Grant.

The UCC reimbursements are based upon estimated uncompensated care costs and are subject to audit by the Louisiana Department of Health and Hospitals ("DHH"). The Hospital has elected to aggregate these related balances and reflect the net liability on the Statement of Net Position in Due to Third Party Payors. The UCC balances per year are reflected as follows:

	2019	2018
2013 Uncompensated Care Payable	(234,825)	(234,825)
2014 Uncompensated Care Payable	(66,105)	(66,105)
2015 Uncompensated Care Payable	(338,355)	(338,355)
2016 Uncompensated Care Payable	-0-	(243,362)
Total Net Liability	$ (639,285)	$ (882,647)

Full Medicaid Payment Program Funding. The Hospital received Full Medicaid Payment Program ("FMPP") funding from the Louisiana Department of Health & Hospitals ("DHH") during the fiscal years ended September 30, 2019 and 2018. As part of the agreement with the DHH, the Hospital was required to provide an IGT of 41% and 45%, respectively, of the gross funds to the DHH in order to secure the federal Medicaid matching funds. In addition, the Hospital has a Cooperative Endeavor Agreement ("CEA") with Teche Action Board, Inc., a Louisiana non-profit corporation, under the terms of which the Hospital granted a portion of the FMPP funding to Teche Action Board, Inc. for the purpose of promoting and providing for the general health of the community. Under the terms of the CEA, in the event that the Hospital does not receive funding for these efforts, there is no obligation on the Hospital to provide funds to Teche Action Board, Inc.

The following is a breakdown of the Full Medicaid Payment Program funding received by the Hospital during the year ended September 30, 2019 and 2018:

	2019	2018
Gross Full Medicaid Payment Program Funding	$ 3,000,000	$ 6,000,000
Intergovernmental Transfer (IGT)	(1,232,228)	(2,694,510)
Rural Coalition Fee	(30,000)	(59,944)
Net Full Medicaid Payment Program Funding	$ 1,737,772	$ 3,245,546
Funds Granted to Teche Action Board, Inc.	(434,444)	(1,081,850)
Grant Revenue - Franklin Foundation Hospital	$ 1,303,328	$ 2,163,696

NOTE 19: UNCOMPENSATED CARE REVENUE AND OTHER FUNDING, CONTINUED

The FMPP grant revenue is reflected on the Statement of Revenues, Expenses and Changes in Fund Net Position as Non-operating Revenue - Full Medicaid Payment Program Funding. On April 22, 2015 the Board restricted use of the FMPP grant funds to purposes connected to establishing the Hospital as a Center of Excellence. These funds will be used for non-operating activities.

NOTE 20: RECENTLY ISSUED ACCOUTNING PRONOUNCEMENTS

GASB's new lease accounting standard, GASB Statement No. 87, was issued in June 2017. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

NOTE 21: SUBSEQUENT EVENTS

In November of 2019, the Board approved the purchase of a number of properties surrounding the hospital for a total of $323,000.

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through February 28, 2020, the date the financial statements were available to be issued.

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PATIENT SERVICE REVENUE **FOR THE YEARS ENDED SEPTEMBER 30,**

INPATIENT SERVICE REVENUES

	2019	2018
Daily Patient Services:		
Room and Board	$ 1,759,987	$ 1,741,192
Total Daily Patient Services	1,759,987	1,741,192
Other Nursing Services:		
Central Supplies	2,021,045	2,147,149
Emergency Service	99,561	76,099
Labor and Delivery	187,505	192,693
Observation	2,267	4,065
Operating Room	514,800	676,402
Total Other Nursing Services	2,825,178	3,096,408
Other Professional Services:		
Anesthesiology	46,142	62,111
Blood	109,436	134,515
Cardiac Rehab	1,641	547
EKG & EEG	97,587	110,744
Family Medicine	-	380
Inhalation Therapy	572,718	573,909
Laboratory	805,037	777,439
Pharmacy	1,896,766	1,880,133
Physical Therapy	348,764	293,755
Radiology	253,255	231,838
Total Other Professional Services	4,131,346	4,065,371
TOTAL INPATIENT SERVICE REVENUE	8,716,511	8,902,971

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PATIENT SERVICE REVENUE **FOR THE YEARS ENDED SEPTEMBER 30,**

OUTPATIENT SERVICE REVENUE

	2019	2018
Other Nursing Services:		
Central Supplies	1,487,382	1,411,945
Emergency Services	7,325,891	6,299,562
Labor and Delivery	18,919	17,755
Observation	166,184	93,631
Operating Room	2,356,938	2,339,286
Total	11,355,314	10,162,179
Other Professional Services:		
Anesthesiology	155,564	205,895
Blood	67,492	50,138
Cardiac Rehab	74,215	57,509
Clinics	4,062,871	3,777,535
EKG and EEG	654,863	624,274
Inhalation Therapy	164,336	152,635
Laboratory	7,222,101	6,772,730
Pharmacy	2,587,131	2,502,756
Physical Therapy	1,110,509	847,311
Radiology	5,543,394	5,028,938
Wound Care	306,773	343,553
Total	21,949,249	20,363,274
TOTAL OUPATIENT SERVICE REVENUE	33,304,563	30,525,453
GROSS PATIENT SERVICE REVENUE	42,021,074	39,428,424
Less: Contractual Adjustments	18,401,979	17,688,542
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR DOUBTFUL ACCOUNTS	$ 23,619,095	$ 21,739,882

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF OTHER OPERATING REVENUES **FOR THE YEARS ENDED SEPTEMBER 30,**

	2019	2018
Cafeteria and Vendor Sales	$ 241,779	$ 226,529
Rental Income	141,699	138,748
Other	52,232	13,941
TOTAL OTHER OPERATING REVENUES	$ 435,710	$ 379,218

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PROFESSIONAL SERVICES **FOR THE YEARS ENDED SEPTEMBER 30,**

	2019	2018
Salaries and Fees:		
Anesthesiology	$ 302,491	$ 269,119
Central Supply	104,770	112,492
Clinics	2,200,937	2,642,955
EKG and EEG	3,291	3,764
Emergency Room	2,308,495	2,067,676
Hospitalist	240,000	230,000
Intensive Care Unit	527,552	544,913
Inhalation Therapy	351,547	348,024
Labor and Delivery	968,008	804,986
Laboratory	715,536	578,161
Nursing	1,305,820	1,090,785
Occupational Therapy	70,251	94,481
Operating Room	1,250,814	735,252
Pharmacy	283,962	290,019
Physical Therapy	486,540	303,907
Radiology	845,108	826,343
Social Services	133,117	128,891
Speech Therapy	75,221	79,049
Wound Care	128,825	154,725
Other	165,076	94,685
Total Professional Salaries and Fees	12,467,361	11,400,227
Supplies and Other Expenses:		
Anesthesiology	3,412	5,782
Central Supply	85,764	89,581
Clinics	354,792	357,625
Emergency Room	156,938	126,800
Intensive Care Unit	8,807	11,759
Inhalation Therapy	29,927	36,647
Labor and Delivery	24,051	22,376
Laboratory	479,925	814,836
Nursing	87,681	76,239
Operating Room	593,319	577,241
Pharmacy	771,430	779,853
Physical Therapy	19,693	14,930
Radiology	186,492	138,861
Social Services	922	1,592
Total Professional Supplies and Other Expenses	2,803,153	3,054,122
TOTAL PROFESSIONAL SERVICES	$ 15,270,514	$ 14,454,349

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED SEPTEMBER 30,

	2019	2018
Salaries and Fees:		
Administrative	$ 3,465,866	$ 3,379,631
Dietary	220,533	208,325
Housekeeping	208,101	248,038
Maintenance	369,035	339,877
Medical Records	173,362	188,994
Total General and Administrative Salaries and Fees	4,436,897	4,364,865
Supplies and Other Expenses:		
Administrative	1,463,443	1,326,037
Employee Benefits	2,756,939	2,692,445
Dietary	292,870	256,928
Housekeeping	61,604	60,665
Maintenance	545,130	566,888
Medical Records	27,929	32,196
Total General and Administrative Supplies and Other Expenses	5,147,915	4,935,159
TOTAL GENERAL AND ADMINISTRATIVE SERVICES	$ 9,584,812	$ 9,300,024

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO CEO FOR THE YEAR ENDED SEPTEMBER 30,

	2019	2018
STEPHANIE GUIDRY, CEO		
Salary	$ 220,757	$ 199,992
Benefits-Insurance	14,875	32,229
Benefits-Retirement	4,415	4,680
Incentive Compensation	-	34,000
Car Allowance	7,800	7,800
Reimbursements	348	1,225
Travel	-	542
Conference Travel	1,152	1,622
Special meals	45	-
	$ 249,392	$ 282,090

LANGLINAIS
BROUSSARD
& KOHLENBERG
CERTIFIED PUBLIC ACCOUNTANTS

Glen P. Langlinais, CPA
Gayla F. Russo, CPA

Michael P. Broussard, CPA
Patrick M. Guidry, CPA
Elizabeth L. Whitford, CPA
Johnathon P. Trahan, CPA
John W. O'Bryan, CPA
Barrett B. Perry, CPA
Elizabeth N. DeBaillon, CPA

INDEPENDENT AUDITOR'S 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

Board of Commissioners
Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hospital Service District No. 1 of the Parish of St. Mary, State of Louisiana, d/b/a Franklin Foundation Hospital, a component unit of the St. Mary Parish Council ("the Hospital"), as of September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 28, 2020.

INTERNAL CONTROL OVER FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 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 have not been identified. However, as described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan", we identified certain deficiencies in internal control that we consider to be material weaknesses - Findings 2019-1 and 2019-2.

2419 Veterans Memorial Drive • PO Box 1123 • Abbeville, LA 70511-1123 • Office (337) 893-6232 • Fax (337) 893-6249 • www.LBKcpa.net

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not identify findings of noncompliance.

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 responses. The Hospital's response was not subjected 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This communication is intended for the information and use of the Board of Commissioners and management of the Hospital, others within the Hospital, federal awarding agencies, and the Legislative Auditor of the State of Louisiana and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Langlinais Broussard & Kohlenberg

LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 28, 2020

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN
For the years ended September 30, 2019 and 2018

We have audited the financial statements of Hospital Service District No. 1 of the Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, d/b/a Franklin Foundation Hospital (the Hospital), as of and for the years ended September 30, 2019 and 2018, and have issued our report thereon dated February 28, 2020.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audits of the financial statements as of September 30, 2019 and 2018 resulted in unmodified opinions.

Section 1: Summary of Auditor's Results

A - Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses:	Yes
Significant Deficiencies:	No

Compliance:

Compliance Material to Financial Statements	No

Section II: Financial Statement Findings

B - Significant Deficiencies and Material Weaknesses

Finding 2019-1 Segregation of Duties

Condition and Criteria: The authorization, recording, and reconciling of transactions as well as the custody of assets related to those transactions are not adequately segregated.

Cause: The amount of the hospital staff dedicated to the accounting function is limited, and therefore, segregation of duties in all areas is difficult to achieve.

Effect: Failure to adequately segregate accounting and financial functions increases the risk that errors and irregularities including fraud may occur and not be prevented or detected.

Recommendation: The authorization, recording, and reconciliation of transactions and decisions as well as custody of assets related to those transactions and decisions should be segregated functions. Management should increase oversight in areas where this does not occur.

Management Response Complete segregation of duties is not possible due to both the small size of the Hospital and the limited staff size. We will continue to review our processes and procedures and will make changes, up to and including reassignment of responsibilities to the extent that it is practical to try to minimize the impact of segregation of duties.

Finding 2019-2 Proposed Audit Adjustments

Condition and Criteria: The proposed audit adjustments for the fiscal years ended September 30, 2019 and 2018 had material effects on the financial statements. The proposed audit adjustments primarily consisted of adjustments to record the effects of Medicaid and Medicare cost reports, filed subsequent to the year-end.

Cause: The filing of annual Medicare and Medicaid cost reports result in settlements either due to or from the Hospital. These settlements result from complex calculations, many variables, several payors, and the use of third-party data that is often not complete until several months after year end. These factors make it difficult to properly estimate and record cost report settlements. The Hospital is conservative in its cost report estimates.

Effect: The Hospital's financial statements have been adjusted to reflect all proposed audit journal entries approved by management.

Recommendation: Management should perform a comprehensive review of financial statements, estimates, and journal entries before closing the fiscal year.

Management Response: The Hospital's CFO continues to perform a comprehensive review of the Hospital's financial statements and estimates, particularly those involving Medicare and Medicaid cost report settlement accounts prior to closing the fiscal year. In addition, the CFO reviews journal entries and reconciliations. The Hospital maintains a conservative position as it relates to recording estimated cost report settlements. As in prior years, some Medicaid cost reports from earlier years, particularly those from the former "Coordinated Care Network" entities were settled for amounts different from estimates that the Hospital recorded when those cost reports were submitted. The Hospital will change the timing of reviews, where feasible, to quarterly or semi-annually to try to minimize the number of proposed audit adjustments.

Section III: Management Letter Items

There are no management letter items at September 30, 2019.

Hospital Service District No. 1 of the Parish of St. Mary
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2019

Section I-Internal Control and Compliance Material to the Financial Statements

Finding 2018-1 Segregation of Duties

Condition and Criteria: The authorization, recording, and reconciling of transactions as well as the custody of assets related to those transactions are not adequately segregated.

Status: Unresolved. See Finding 2019-1.

Finding 2018-2 Proposed Audit Adjustments

Condition and Criteria: The proposed audit adjustments for the fiscal years ended September 30, 2018 and 2017 had material effects on the financial statements. The proposed audit adjustments primarily consisted of adjustments to record the effects of Medicaid and Medicare cost reports, filed subsequent to the year-end.

Status: Unresolved. See Finding 2019-2.

LANGLINAIS
BROUSSARD
& KOHLENBERG
CERTIFIED PUBLIC ACCOUNTANTS

Glen P. Langlinais, CPA
Gayla F. Russo, CPA

Michael P. Broussard, CPA
Patrick M. Guidry, CPA
Elizabeth L. Whitford, CPA
Johnathon P. Trahan, CPA
John W. O'Bryan, CPA
Barrett B. Perry, CPA
Elizabeth N. DeBaillon, CPA

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Commissioners
Hospital Service District No. 1 of the Parish of St. Mary
State of Louisiana
d/b/a Franklin Foundation Hospital
Franklin, Louisiana

We have performed the procedures described in Schedule A – Procedures and Results, which were agreed to by Hospital Service District No. 1 of the Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, ("the Hospital"), and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period October 1, 2018 through September 30, 2019. The Hospital's management is responsible for those control and compliance areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are described in Schedule A – Procedures and Results.

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

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

Langlinais Broussard & Kohlenberg

LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 28, 2020

2419 Veterans Memorial Drive • PO Box 1123 • Abbeville, LA 70511-1123 • Office (337) 893-6232 • Fax (337) 893-6249 • www.LBKcpa.net

Schedule A – Procedures and Results

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

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

   Result: Policy included all of the required elements with no exceptions noted.

   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.

   Result: Policy included all of the required elements with no exceptions noted.

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

   Result: Policy included all of the required elements with no exceptions noted.

   d) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

   Result: Policy included all of the required elements with no exceptions noted.

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

   Result: Policy included all of the required elements with no exceptions noted.

   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

   Result: Policy included all of the required elements with no exceptions noted.

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

   Result: Policy included all of the required elements with no exceptions noted.

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

   Result: Policy included all of the required elements with no exceptions noted.

   i) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

   Result: Policy included all of the required elements with no exceptions noted.

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

Result: Policy included all of the required elements with no exceptions noted.

k) ***Disaster Recovery/Business Continuity***, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

Result: Policy included all of the required elements with the exceptions of no mention of periodic testing/verification of backups, use of antivirus software on all systems or timely application of all available system and software patches/updates.

Management Response: The hospital will revise its processes and policies to address this finding.

Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

Result: Procedure Not Applicable - No exceptions noted in prior year.

b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds.

Result: Procedure Not Applicable - No exceptions noted in prior year.

c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

Result: Procedure Not Applicable - No exceptions noted in prior year.

Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

Result: Procedure Not Applicable - No exceptions noted in prior year.

b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

Result: Procedure Not Applicable - No exceptions noted in prior year.

c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Result: Procedure Not Applicable - No exceptions noted in prior year.

Collections (excluding EFTs)

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

   Result: Procedure Not Applicable - No exceptions noted in prior year.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

   a) Employees that are responsible for cash collections do not share cash drawers/registers.

   Result: Procedure Not Applicable - No exceptions noted in prior year.

   b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

   Result: Procedure Not Applicable - No exceptions noted in prior year.

   c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

   Result: Procedure Not Applicable - No exceptions noted in prior year.

   d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

   Result: Procedure Not Applicable - No exceptions noted in prior year.

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

   Result: Procedure Not Applicable - No exceptions noted in prior year.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Obtain supporting documentation for each of the 10 deposits and:

a) Observe that receipts are sequentially pre-numbered.

Result: Procedure Not Applicable - No exceptions noted in prior year.

b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

Result: Procedure Not Applicable - No exceptions noted in prior year.

c) Trace the deposit slip total to the actual deposit per the bank statement.

Result: Procedure Not Applicable - No exceptions noted in prior year.

d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than $100).

Result: Procedure Not Applicable - No exceptions noted in prior year.

e) Trace the actual deposit per the bank statement to the general ledger.

Result: Procedure Not Applicable - No exceptions noted in prior year.

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

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

   Result: Procedure Performed; no exceptions noted.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

   a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

   Result: Procedure Performed; no exceptions noted.

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

   Result: Procedure Performed; no exceptions noted.

   c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

   Result: Procedure Performed; no exceptions noted.

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

   Result: Procedure Performed; no exceptions noted.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

a) Observe that the disbursement matched the related original invoice/billing statement.

Result: Procedure Performed; no exceptions noted.

b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Result: Procedure Performed; no exceptions noted.

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

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Result: Procedure Not Applicable - No exceptions noted in prior year.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing (or electronically approved), by someone other than the authorized card holder.

Result: Procedure Not Applicable - No exceptions noted in prior year.

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

Result: Procedure Not Applicable - No exceptions noted in prior year.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

Result: Procedure Not Applicable - No exceptions noted in prior year.

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

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

a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

Result: Procedure Not Applicable - No exceptions noted in prior year.

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

Result: Procedure Not Applicable - No exceptions noted in prior year.

c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

Result: Procedure Not Applicable - No exceptions noted in prior year.

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

Result: Procedure Not Applicable - No exceptions noted in prior year.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

Result: Procedure Not Applicable - No exceptions noted in prior year.

b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

Result: Procedure Not Applicable - No exceptions noted in prior year.

c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

Result: Procedure Not Applicable - No exceptions noted in prior year.

d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Result: Procedure Not Applicable - No exceptions noted in prior year.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Result: Procedure Not Applicable - No exceptions noted in prior year.

Schedule A – Procedures and Results

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

    a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and 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.)

       Result: Procedure Not Applicable - No exceptions noted in prior year.

    b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

       Result: Procedure Not Applicable - No exceptions noted in prior year.

    c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

       Result: Procedure Not Applicable - No exceptions noted in prior year.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulate leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

    Result: Procedure Not Applicable - No exceptions noted in prior year.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

    Result: Procedure Not Applicable - No exceptions noted in prior year.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:

    a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

       Result: Procedure Not Applicable - No exceptions noted in prior year.

    b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

       Result: Procedure Not Applicable - No exceptions noted in prior year.

Debt Service

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

    Result: Procedure Not Applicable - No exceptions noted in prior year.

Schedule A – Procedures and Results

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

    Result: Procedure Not Applicable - No exceptions noted in prior year.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

    Result: Procedure Not Applicable - No exceptions noted in prior year.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

    Result: Procedure Not Applicable - No exceptions noted in prior year.