

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

Audits of Financial Statements

December 31, 2019 and 2018



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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Parish Hospital Service District for the Parish of Orleans - District A (the District), a component unit of the City of New Orleans, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 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 financial statements or to the 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 April 27, 2020 on our consideration of the District's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA  
April 27, 2020

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Net Position  
December 31, 2019 and 2018**

	2019	2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,620,371	\$ 1,151,597
Receivables		
Patient accounts receivable, less allowance for uncollectible accounts of \$4,357,178 in 2019 and \$1,859,265 in 2018	5,607,300	5,542,511
Grant receivable	322,935	88,312
Inventory	1,033,357	959,070
Prepaid expenses	888,553	863,172
Supplemental payments receivable	26,911,653	14,117,494
Other current assets	263,204	99,330
<b>Total current assets</b>	<b>38,647,373</b>	<b>22,821,486</b>
<b>Assets whose use is limited or restricted</b>		
Under mortgage agreement for insurance	1,031,172	1,075,484
Under mortgage agreement for mortgage reserve fund	4,346,448	3,270,895
<b>Total assets whose use is limited or restricted</b>	<b>5,377,620</b>	<b>4,346,379</b>
<b>Capital assets, net</b>	<b>108,201,871</b>	<b>112,790,669</b>
<b>Other assets</b>	<b>26,500</b>	<b>26,500</b>
<b>Total assets</b>	<b>\$ 152,253,364</b>	<b>\$ 139,985,034</b>

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

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Net Position (Continued)  
December 31, 2019 and 2018**

	2019	2018
<b>Liabilities and net position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,319,896	\$ 3,559,514
Accrued expenses	297,259	297,259
Other current liabilities	28,486,324	21,662,809
Intergovernmental transfer payable	15,907,122	13,310,651
Estimated third-party payor liability	9,576,069	9,001,585
<b>Total current liabilities</b>	<b>58,586,670</b>	47,831,818
Security deposits	74,000	74,000
Long-term debt	93,379,889	93,379,889
<b>Total long-term liabilities</b>	<b>93,453,889</b>	93,453,889
<b>Total liabilities</b>	<b>152,040,559</b>	141,285,707
<b>Net position</b>		
Net investment in capital assets	14,821,982	19,410,780
Restricted for debt service	5,377,620	4,346,379
Unrestricted	(19,986,796)	(25,057,832)
<b>Total net position</b>	<b>212,806</b>	(1,300,673)
<b>Total liabilities and net position</b>	<b>\$ 152,253,364</b>	\$ 139,985,034

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

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Operating revenues</b>		
Net patient service revenue	\$ 82,109,475	\$ 67,037,721
Operating grants	268,191	340,322
Other operating revenue	842,257	742,511
<b>Total operating revenues</b>	<b>83,219,923</b>	<b>68,120,554</b>
<b>Operating expenses</b>		
Salaries and benefits	22,564,109	19,485,834
Supplies and other	7,207,039	6,368,096
Other direct expenses	28,363,077	26,824,738
Professional fees	8,776,764	8,753,625
Purchased services	6,120,980	6,655,269
Depreciation and amortization	5,604,244	6,620,337
<b>Total operating expenses</b>	<b>78,636,213</b>	<b>74,707,899</b>
<b>Operating income (loss)</b>	<b>4,583,711</b>	<b>(6,587,345)</b>
<b>Non-operating revenues (expenses)</b>		
Interest expense	(3,567,112)	(3,567,112)
Interest income	11,728	16,961
<b>Total non-operating expenses, net</b>	<b>(3,555,384)</b>	<b>(3,550,151)</b>
<b>Grant specific to capital purchases</b>	<b>485,152</b>	<b>1,050,069</b>
<b>Change in net position</b>	<b>1,513,479</b>	<b>(9,087,427)</b>
<b>Net position, beginning of year</b>	<b>(1,300,673)</b>	<b>7,786,754</b>
<b>Net position, end of year</b>	<b>\$ 212,806</b>	<b>\$ (1,300,673)</b>

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

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Cash Flows  
For the Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Cash flows from operating activities</b>		
Receipts from patients and third-party payors	\$ 72,935,371	\$ 63,032,975
Receipts from grants	33,568	305,782
Payments for operating expenses	(43,046,723)	(44,879,413)
Payments to employees and for employee-related costs	(22,336,527)	(18,924,042)
<b>Net cash provided by operating activities</b>	<b>7,585,689</b>	5,585,371
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(1,015,446)	(2,159,844)
State grant towards capital assets	485,156	1,050,069
Escrow deposits	(1,031,241)	(909,901)
Interest payments	(3,567,112)	(3,567,112)
<b>Net cash used in capital and related financing activities</b>	<b>(5,128,643)</b>	(5,586,788)
<b>Cash flows from investing activities</b>		
Interest income	11,728	16,961
<b>Net cash provided by investing activities</b>	<b>11,728</b>	16,961
<b>Increase in cash and cash equivalents</b>	<b>2,468,774</b>	15,544
<b>Cash and cash equivalents, beginning of year</b>	<b>1,151,597</b>	1,136,053
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,620,371</b>	\$ 1,151,597

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



**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
(A Component Unit of the City of New Orleans)  
Statements of Cash Flows (Continued)  
For the Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	\$ 4,583,711	\$ (6,587,345)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	5,604,244	6,620,337
Provision for bad debts	2,497,913	689,676
Changes in:		
Patient accounts receivable	(2,562,706)	657,666
Grant receivable	(234,623)	(34,540)
Estimated third-party payor settlements, net	410,610	(4,395,961)
Inventory	(74,287)	(251,895)
Prepaid expenses and other assets	(25,381)	549,570
Supplemental payments receivable	(12,794,159)	(724,164)
Accounts payable	760,382	627,898
Intergovernmental transfer payable	2,596,471	3,758,152
Other current liabilities	6,823,515	4,675,977
<b>Net cash provided by operating activities</b>	<b>\$ 7,585,689</b>	<b>\$ 5,585,371</b>

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

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

**Notes to Financial Statements**

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**Note 1. Description of Reporting Entity**

**Organization**

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

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

**Reporting Entity**

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

**Cooperative Endeavor Agreement**

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

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

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

**Notes to Financial Statements**

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**Note 1. Description of Reporting Entity (Continued)**

**Cooperative Endeavor Agreement (Continued)**

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

See Note 9 for further details.

**Note 2. Summary of Significant Accounting Policies**

**Basis of Accounting**

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

**Use of Estimates**

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

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

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

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

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

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

**Assets Whose Use is Limited or Restricted**

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

**Inventories**

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

**Cost of Borrowing**

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District did not capitalize any interest costs allocated to building and construction in progress for the years ended December 31, 2019 and 2018, respectively.

**Reclassifications**

Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year's format.

**Grants and Contributions**

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

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

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Net Patient Service Revenue and Related Receivables**

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

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

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

**Medicare and Medicaid Reimbursement Programs**

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

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

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

The District qualifies as a disproportionate share provider under the Medicare regulations. As such, the District receives an additional payment for Medicare inpatients served. Through June 30, 2016, the District was paid as a disproportionate share provider for Medicaid inpatients. See Note 11 for further discussion on the Medicaid program.

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

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Medicare and Medicaid Reimbursement Programs (Continued)**

Through December 31, 2016, the District was considered a new hospital, as defined. As such, the District was paid upon filing its Medicare cost report for inpatient and outpatient capital costs, at an expected rate of eighty-five percent (85%). For the years ended December 31, 2019 and 2018, the District is paid prospectively for Medicare inpatient capital costs at the federal specific rate.

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

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

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

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

Net patient service revenue increased (decreased) by approximately \$523,000 and (\$1,842,500), in the years ended December 31, 2019 and 2018, respectively, due to changes in estimates resulting in the removal of allowances previously estimated that are no longer necessary as a result of final settlements; years that are no longer subject to audits, reviews, and investigations; revision of allowance estimates recorded in prior years relating to expected retroactive adjustments; and revisions based on updated information from the fiscal intermediary.

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

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Medicare and Medicaid Reimbursement Programs (Continued)**

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

**Financial Assistance**

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

During the years ended December 31, 2019 and 2018, estimated costs associated with providing financial assistance, throughout the System, were approximately \$1,980,000 and \$282,000, respectively.

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

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

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

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

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Net Position**

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

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

*Restricted* - This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* - All other net position is reported in this category.

**Restricted Resources**

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

**Capital Assets**

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

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

**Impairment of Long-Lived Assets**

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



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

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Impairment of Long-Lived Assets (Continued)**

The District determines recoverability of the assets by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate or estimated fair values in the case of nonrevenue generating assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. There was no such charge in 2019 nor in 2018.

**Board of Commissioners**

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

**Compensated Absences**

As mentioned in Note 1, the District entered into a CEA with Louisiana Children's Medical Center and Touro Infirmary. Through the CEA the personnel of the District are employees of Touro Infirmary. Compensated absences and payroll liabilities associated with employees are included in the amount owed to Touro Infirmary as detailed further in Note 9.

**Risk Management**

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. See Note 8 for further details.

**Recently Issued Accounting Principles**

In June 2017, the GASB issued Statement No. 87 (GASB 87). The objective of GASB Statement No. 87, *Leases*, is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Management is still evaluating the potential impact of adoption on the District's financial statements. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

**Adopted Accounting Principles**

In April 2018, the GASB issued Statement No. 88 (GASB 88). The objective of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*, is to improve consistency in information that is disclosed in notes to government financial statements related to debt and to provide financial statement users with additional essential information about debt. Management determined that its current disclosures related to debt is in compliance with the requirements of GASB 88.

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

**Notes to Financial Statements**

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**Note 3. Cash and Cash Equivalents**

**Custodial Credit Risk - Deposits**

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

The District's cash deposits and money market accounts included in cash and cash equivalents on its statements of net position, as of December 31, 2019 and 2018, were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

**Concentration of Credit Risk**

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2019 and 2018, the District had no investments requiring concentration of credit risk disclosure.

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

**Notes to Financial Statements**

**Note 4. Capital Assets**

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

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

Capital assets activity as of and for the year ended December 31, 2018, is as follows:

	December 31, 2017	Additions	Disposals	December 31, 2018
<b>Capital assets, not being depreciated</b>				
Land	\$ 3,400,000	\$ -	\$ -	\$ 3,400,000
<b>Capital assets, being depreciated</b>				
Buildings	112,674,783	1,141,587	-	113,816,370
Furniture and equipment	24,045,448	1,018,255	-	25,063,703
Total capital assets being depreciated	<u>136,720,231</u>	<u>2,159,842</u>	<u>-</u>	<u>138,880,073</u>
Total capital assets	140,120,231	2,159,842	-	142,280,073
Less: accumulated depreciation	<u>(22,869,067)</u>	<u>(6,620,337)</u>	<u>-</u>	<u>(29,489,404)</u>
Capital assets, net	<u>\$ 117,251,164</u>	<u>\$ (4,460,495)</u>	<u>\$ -</u>	<u>\$ 112,790,669</u>

Depreciation expense totaled \$5,604,244 and \$6,620,337 for the years ended December 31, 2019 and 2018, respectively.

**Note 5. Net Patient Service Revenue**

Net patient service revenue for the years ended December 31, 2019 and 2018 is earned under agreements with third-party payors and self-paying patients. These agreements with third-party payors provide for payments to the District at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, health maintenance organizations, and various commercial insurance and preferred provider organizations.

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

**Notes to Financial Statements**

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**Note 5. Net Patient Service Revenue (Continued)**

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

A summary of the District's net patient revenue for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Gross patient service revenue	\$ 227,645,631	\$ 186,918,365
Contractual adjustments	(138,780,256)	(114,769,944)
Financial assistance and bad debts	(6,755,900)	(5,111,000)
<b>Total</b>	<b>\$ 82,109,475</b>	<b>\$ 67,037,421</b>

**Note 6. Mortgage Loan Advances**

On December 21, 2012, the District entered into a Federal Housing Administration (FHA) 242-insured mortgage loan not to exceed \$97,604,300, which was a significant source of funding the construction, demolition, and remediation costs; design, project management, legal and organizational fees; equipment and furnishings; and financing charges of the Methodist Hospital Acquisition and Development Project (the Project). The District has undergone a cost certification audit that has certified \$97,604,300 as project costs. The interest rate from the date of the mortgage loan is 3.82% per annum on the unpaid balance until paid. The principal and interest are payable in monthly installments as follows:

Beginning January 1, 2013 and continuing through March 31, 2016, the District had multiple intervals of payment models including interest only payments as well as installments of principal and interest.

Effective April 1, 2016, the District reverted back to installments of "interest only" payments due monthly in the amount of \$297,259. The interest payment is set to continue monthly through March 1, 2021.

Effective April 1, 2021, installments of principal and interest shall be due and payable in the amount of \$592,805 each. Such payments are to continue monthly thereafter on the first day of each succeeding month through June 1, 2039 until the entire indebtedness has been paid in full. In any event, the balance of principal (if any) remaining unpaid, plus accrued interest shall be due and payable on June 1, 2039.

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

**Notes to Financial Statements**

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**Note 6. Mortgage Loan Advances (Continued)**

The note is secured by a mortgage upon real estate and guaranteed by the U.S. Department of Housing and Urban Development (HUD). At December 31, 2019 and 2018, the District had an outstanding principal balance of \$93,379,889, respectively, on this mortgage loan. At December 31, 2019 and 2018, the District had interest of \$297,259 accrued on the outstanding mortgage, which is included within accrued expenses on the statements of net position. The District incurred interest expense of \$3,567,112 for each of the years ended December 31, 2019 and 2018.

As presented on the statements of net position, the District has assets limited as to their use under the mortgage agreement, including a mortgage reserve fund. In 2018, the District amended its Mortgage Reserve fund agreement. The amendment provides for a modification to its funding requirements and the timing of those payments. In 2018, the District funded this reserve with payments totaling \$689,546. In 2019, the total payments increased to \$1,067,050. For the years ended 2020 through 2023, the total payments increase to \$2,199,293. The funding concludes in 2024 with total payments of \$1,099,655.

**Note 7. Long-Term Debt**

The following is a summary of long-term debt for the year ended December 31, 2019:

	<b>Mortgage Loan Advances</b>
<b>Long-term debt at January 1, 2019</b>	<b>\$ 93,379,889</b>
<b>Additional borrowings</b>	<b>-</b>
<b>Principal payments</b>	<b>-</b>
	<hr/>
<b>Long-term debt at December 31, 2019</b>	<b><u>\$ 93,379,889</u></b>

The following is a summary of long-term debt for the year ended December 31, 2018:

	<b>Mortgage Loan Advances</b>
Long-term debt at January 1, 2018	\$ 93,379,889
Additional borrowings	-
Principal payments	-
	<hr/>
Long-term debt at December 31, 2018	<b><u>\$ 93,379,889</u></b>

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

**Notes to Financial Statements**

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**Note 7. Long-Term Debt (Continued)**

Principal and interest payments due on mortgage loan advances as of December 31, 2019, are as follows:

Years Ending December 31,	Principal	Interest
2020	\$ -	\$ 3,567,111
2021	2,694,030	3,532,989
2022	3,714,034	3,399,621
2023-2027	20,851,560	14,716,717
2028-2032	25,232,312	10,335,965
2033-2037	30,533,427	5,034,851
2038-2039	10,354,526	315,958
<b>Total</b>	<b>\$ 93,379,889</b>	<b>\$ 40,903,212</b>

**Note 8. Risk Management and Regulatory Matters**

**Professional and General Liability Insurance**

Professional and general liability claims have been asserted against the District and are in various stages of developing. Events occurring through December 31, 2019 may result in the filing of additional claims. The District has a risk management program that provides professional and general liability coverage up to \$28,000,000 in the aggregate.

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

**Estimated Employee Health and Workers' Compensation Claims**

As mentioned in Notes 1 and 10, the personnel servicing the District are employed by Touro Infirmary. Touro Infirmary's medical plan is self-insured up to \$750,000 for non-domestic claims and fully self-insured for domestic claims. For workers' compensation, Touro Infirmary is self-insured for claims up to \$800,000. Touro Infirmary has a risk management program that provides excess coverage for non-domestic employee health claims and both domestic and non-domestic workers' compensation claims on an occurrence basis.

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

**Notes to Financial Statements**

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**Note 8. Risk Management and Regulatory Matters (Continued)**

**Regulatory Matters**

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

**Note 9. Commitments and Contingencies**

**Federal and Private Grants**

The District receives grants from federal and private sources. The District is subject to discretionary audits by the funding sources. There have been no audits by funding sources during the years ended December 31, 2019 and 2018, and management does not anticipate any adjustments as a result of future audits. Any adjustments from an audit performed by the funding source would flow through the financial statements during the year of the audit as a change in accounting estimate.

**Cooperative Endeavor Agreement**

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

As detailed in Notes 6 and 7, the District is obligated on a mortgage that is insured by HUD. So long as a mortgage on the District's property is insured or held by the Secretary of HUD, the Secretary may make a written request to the District and the Joint Parties to terminate the CEA with or without cause. The terms of the CEA provide that the District shall pay to the Joint Parties a fee that is comprised of management fees, revenue cycle billing and collection services, and direct and indirect operating components. The District and the Joint Parties have agreed that Operating Revenues of NOEH, as defined, shall be the only source of funds for paying the management fee.

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

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

**Notes to Financial Statements**

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**Note 9. Commitments and Contingencies (Continued)**

**Cooperative Endeavor Agreement (Continued)**

Through the CEA, the District has recognized expense of approximately \$3,071,000 and \$2,832,000 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the District owes the Joint Parties approximately \$27,696,000 and \$19,441,600 for both the costs incurred by LCMC and Touro Infirmary on behalf of the District as well as expenses recognized by the District and the annual management fee. These amounts are included within other current liabilities on the District's financial statements.

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

**Construction Commitments**

In 2018, the District received grant funds for construction in the amount of \$1,050,070. In accordance with the policy described in Note 2, this revenue has been classified as non-operating.

**Note 10. Concentrations of Third-Party Payor Credit Risk**

The District grants credit without collateral to its patients, most of who are local residents and are often insured under third-party payor agreements. The mix of receivables from patients and third-party payors, net of contractual allowances and discounts, at December 31, 2019 and 2018, was as follows:

	2019	2018
Medicare/Medicaid	81.2%	79.7%
Managed Care/Commercial	13.0%	17.5%
Self Pay	5.9%	2.8%
	<b>100.0%</b>	<b>100.0%</b>

**Note 11. Upper Payment Limit (UPL)**

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



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

**Notes to Financial Statements**

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**Note 11. Upper Payment Limit (UPL) (Continued)**

The provision of this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal UPL. Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. For the years ended December 31, 2019 and 2018, the District has recognized approximately \$45,646,137 and \$36,064,271, respectively, under UPL programs specific to hospital and physician operations, classifying these within net patient service revenue on the statements of revenues, expenses, and changes in net position.

**Note 12. Subsequent Events**

The District has evaluated subsequent events through April 27, 2020, the date which the financial statements were available to be issued.

Subsequent to the balance sheet date of December 31, 2019, the COVID19 pandemic rapidly escalated in the State of Louisiana, and particularly New Orleans and the surrounding areas, at the beginning of March 2020, significantly impacting operations. As of the date of this report, the full impact on operations and related financial results is unknown.

In response to this pandemic, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020 in an effort to provide relief to the American people and businesses resulting from the public health and economic impacts of COVID19.

Several initial provisions of the CARES Act were specifically related to the healthcare industry. The CARES Act provided for an initial \$100 billion of funding for the healthcare industry in the form of stimulus money, treated as grants, to be released in tranches. In addition, the CARES Act provided for accelerated payments to hospitals and healthcare systems under the Medicare Accelerated Advanced Payment Program. The payments under the Medicare Accelerated Advance Payment Program will be recouped over time from hospitals and healthcare systems and, ultimately, are treated as loans.

Immediately following the enactment of the CARES Act, the government began releasing funds both in the form of stimulus monies and Medicare Advanced Payments. To date, the District has received approximately \$560,000 in stimulus monies and approximately \$4.3 million Medicare Advanced Payments.

The remaining cash flow impact and impact on operations from the COVID19 pandemic and any Federal or State funding sources remains unknown at this time.

The District determined that no additional events occurred that require disclosure.

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Parish Hospital Service District for the Parish of Orleans - District A (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 27, 2020.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA  
April 27, 2020

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

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

**Report on Compliance for Each Major Federal Program**

We have audited the Parish Hospital Service District for the Parish of Orleans - District A's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



A Professional Accounting Corporation

Metairie, LA  
April 27, 2020

**PARISH HOSPITAL SERVICE DISTRICT  
 FOR THE PARISH OF ORLEANS - DISTRICT A  
 (A Component Unit of the City of New Orleans)  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity No.	Federal Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b><u>Direct Awards</u></b>			
Section 242 - Mortgage Insurance for Hospitals	14.128		<u>\$ 93,379,889</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 93,379,889</u>

See independent auditor's report.  
 See accompanying notes to schedule of expenditures of federal awards.

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

**Notes to Schedule of Expenditures of Federal Awards**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Parish Hospital Service District for the Parish of Orleans - District A (the District) under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting and the cost accounting principles contained in the Uniform Guidance. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for loan disbursements are recognized when paid.

**Note 3. Sub-Recipients**

There were no payments to sub-recipients for the fiscal year ended December 31, 2019.

**Note 4. Loan Balance**

In accordance with 2 CFR 200.502, the loan balance reported on the schedule of expenditures of federal awards represents the loan balance at the beginning of the year. As of December 31, 2019, the outstanding balance of this loan program is \$93,379,889.

**Note 5. Indirect Cost Rate**

The District did not apply indirect costs to this program.

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

**Schedule of Findings and Responses  
For the Year Ended December 31, 2019**

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**Schedule of Findings and Responses  
For the Year Ended December 31, 2019**

**I. Summary of Independent Auditor's Results  
*Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No
- Significant deficiency identified that is not considered to be a material weakness? \_\_\_\_\_ Yes \_\_\_\_\_ X None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ X No

***Federal Awards***

Internal control over major programs:

- Material weakness identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No
- Significant deficiency identified that is not considered to be a material weakness? \_\_\_\_\_ Yes \_\_\_\_\_ X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? \_\_\_\_\_ Yes \_\_\_\_\_ X No

Identification of major programs

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
14.128 (Major HUD program)	Section 242 - Mortgage Insurance for Hospitals

Dollar threshold used to distinguish between Type A and Type B programs \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes \_\_\_\_\_ X No



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

**Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2019**

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**II. Financial Statement Findings**

None.

**III. Findings and Questioned Costs for Federal Awards**

None.

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

**Summary Schedule of Prior Year Findings  
For the Year Ended December 31, 2019**

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**Financial Statement Findings**

Finding 2018-01: Financial Statement Preparation and Account Reconciliations

Condition: The financial statements and their supporting reconciliations have errors in measurement, resulting in a restatement of the current and prior year financial statements.

Criteria: An effective internal control over financial reporting ensures timely and accurate financial statements, allowing management to evaluate operations and form organizational strategies.

Cause: It appears that there are certain operational activities, specifically with significant estimates, where the financial management team lacked sufficient accounting knowledge to properly measure and value account balances.

Effect: Because of the condition, the audit process was delayed as certain significant measures had to be more carefully evaluated which resulted in numerous adjustments to the year-end preliminary financial statements including a restatement of the 2017 financial statements.

Management's Corrective Plan of Action:

- To improve internal controls and Systemwide compliance with acceptable accounting practice, the Joint Parties have added the role of New Orleans Market President to provide additional oversight for the adult hospitals, including NOEH.
- A new Chief Financial Officer (CFO) is being recruited for NOEH and the Joint Parties will assist in the recruitment of the dedicated CFO.

**Findings and Questioned Costs for Federal Awards**

None.

## Independent Auditor's Report on the Supplementary Information

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

We have audited the financial statements of the Parish Hospital Service District for the Parish of Orleans - District A (the District), a component unit of the City of New Orleans, as of and for the years ended December 31, 2019 and 2018, and our report thereon dated April 27, 2020, which expressed an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to April 27, 2020.

The accompanying schedule of compensation, benefits, and other payments to agency head is presented for purposes of additional analysis, as required by Louisiana Revised Statute 24:513 A(3), and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



A Professional Accounting Corporation

Metairie, LA  
April 27, 2020

**PARISH HOSPITAL SERVICE DISTRICT  
FOR THE PARISH OF ORLEANS - DISTRICT A  
Schedule of Compensation, Benefits, and Other Payments to  
Agency Head  
For the Year Ended December 31, 2019**

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**Agency Head**

Mr. Ronnie Burns, Board Chairman

<b>Purpose</b>	<b>Amount</b>
Salary	\$0
Benefits - Insurance	\$0
Benefits - Retirement	\$0
Benefits - Other	\$0
Car Allowance	\$0
Vehicle Provided by Government	\$0
Per Diem	\$0
Reimbursements	\$0
Travel	\$0
Registration Fees	\$0
Conference Travel	\$0
Continuing Professional Education Fees	\$0
Housing	\$0
Unvouchered Expenses	\$0
Special Meals	\$0

Note: For the fiscal year ended December 31, 2019, the chief executive officer of the Parish Hospital Service District for the Parish of Orleans - District A (the District) was employed by Louisiana Children's Medical Center and Touro Infirmary, collectively referred to as the Joint Parties under the terms of the Cooperative Endeavor Agreement (CEA), which includes the authority and responsibility for oversight of the day-to-day administration, management, and direction of the operations of the District. Accordingly, the agency head of the District is reflected as its board of commissioners' chairman.

**AGREED-UPON PROCEDURES REPORT**  
Parish Hospital Service District for the Parish of Orleans – District A  
(A Component Unit of the City of New Orleans)

Independent Accountant’s Report  
On Applying Agreed-Upon Procedures  
**For the Period January 1, 2019 - December 31, 2019**

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

We have performed the procedures enumerated below, which were agreed to by the Parish Hospital Service District for the Parish of Orleans - District A (A Component Unit of the City of New Orleans) (the District) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA’s Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2019 through December 31, 2019. The District’s management is responsible for those C/C 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 as follows:

***Written Policies and Procedures***

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1. Obtain and inspect the entity’s written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity’s operations):
  - a. **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
  - b. **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

- c. **Disbursements**, including processing, reviewing, and approving.
- d. **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
- e. **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
- f. **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g. **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).
- h. **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i. **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statutes 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j. **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- 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.

**Results:** LaPorte noted that the District maintained formal written policies that addressed Budgeting, Receipts/Collections, Contracting, Travel and Expense Reimbursement, Ethics, Debt Service, and Disaster Recover/Business Continuity. No exceptions were identified as a result of performing these procedures.

### **Credit Cards/Debit Cards/Fuel Cards/P-Cards**

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

**Results:** LaPorte obtained a listing of active credit cards and management's representation that the listing is complete. The District does not have bank debit cards, fuel cards, or P-cards. No exceptions were identified as a result of performing these procedures.

3. Using the listing prepared by management, randomly select five cards (or all cards if less than five) 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) were reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]
  - b. Observe that finance charges and late fees were not assessed on the selected statements.

**Results:** LaPorte randomly selected the month of September, obtained the statements for all credit cards and performed procedures 3.a. and 3.b. listed above, as there were less than 10 cards in total. We noted the statements were properly reviewed and approved, in writing, by someone other than the authorized card holder. No exceptions were identified as a result of performing these procedures.

4. Using the monthly statements or combined statements selected under #3 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:

- a) An original itemized receipt that identifies precisely what was purchased;
- b) Written documentation of the business/public purpose;
- c) 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.

**Results:** LaPorte obtained supporting documentation for all credit cards for the month of June, selected all transactions from each statement and performed the procedures 4.a through 4.c. All transactions had an original itemized receipt and for the District's business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution. No exceptions were identified as a result of performing these procedures.

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

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

The logo for Laforte is a stylized, cursive script of the word "Laforte". The letter 'L' is particularly large and loops around the 'a', and the 'f' has a long, sweeping tail that extends downwards.

A Professional Accounting Corporation

New Orleans, LA  
April 27, 2020