

ST. BERNARD HOSPITAL FOUNDATION, INC.

FINANCIAL REPORT

December 31, 2018 and 2017



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Report



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
St. Bernard Hospital Foundation, Inc.
Chalmette, Louisiana

We have audited the accompanying financial statements of St. Bernard Hospital Foundation, Inc. (the Foundation), a component unit of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Bernard Hospital Foundation, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Joint Venture Cooperative Endeavor Agreement

As discussed in Note 4 to the financial statements, the Foundation has a Joint Venture Cooperative Endeavor Agreement (Agreement) with the District related to the construction and operation of a hospital facility and to provide related health care services to the citizens of St. Bernard Parish. This Agreement includes certain revenue and expense sharing provisions between the District and the Foundation that may not necessarily be indicative of the conditions that would have existed or the results of operations if the Foundation had been operated as an entity unaffiliated with the District.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019 on our consideration of the Foundation'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 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.

Carly Riggs & Ingram, L.L.C.

June 28, 2019



Financial Statements

ST. BERNARD HOSPITAL FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION

| <i>As of December 31,</i> | 2018 | 2017 |
|---|----------------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 299,150 | 36,890 |
| Restricted cash | - | 37,500 |
| Prepaid expenses | - | 101,260 |
| Other current assets | - | 538 |
| Total Current Assets | 299,150 | 176,188 |
| NONCURRENT ASSETS | | |
| Property and equipment, net | 40,783,382 | 43,830,777 |
| Total Noncurrent Assets | 40,783,382 | 43,830,777 |
| TOTAL ASSETS | \$ 41,082,532 | \$ 44,006,965 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 57,877 | 229,441 |
| Accrued payroll | 421,704 | 279,031 |
| Current portion of long-term debt | 594,367 | - |
| Capital lease obligation - short-term | 218,505 | 376,837 |
| Total Current Liabilities | 1,292,453 | 885,309 |
| LONG-TERM LIABILITIES | | |
| Due to the Hospital Service District of the Parish of St. Bernard | 56,057,211 | 57,866,179 |
| Capital lease obligation - long-term | 9,976 | 67,765 |
| Long-term debt | 41,549,444 | 42,064,050 |
| Total Long-term Liabilities | 97,616,631 | 99,997,994 |
| Total Liabilities | 98,909,084 | 100,883,303 |
| NET DEFICIT | | |
| Net Assets Without Donor Restrictions | (57,826,552) | (56,876,338) |
| TOTAL LIABILITIES AND NET DEFICIT | \$ 41,082,532 | \$ 44,006,965 |

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

ST. BERNARD HOSPITAL FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

| <i>For the Years Ended December 31,</i> | 2018 | 2017 |
|---|------------------------|-----------------|
| UNRESTRICTED REVENUE AND OTHER SUPPORT | | |
| Transfer of assets from the Hospital Service District of the Parish of St. Bernard | \$ 52,733,550 | \$ 18,461,165 |
| Other operating revenues | 172,954 | 77,428 |
| Total Unrestricted Revenue and Other Support | 52,906,504 | 18,538,593 |
| UNRESTRICTED EXPENSES | | |
| Supporting services | | |
| Salaries and wages | 6,652,027 | 11,218,431 |
| Employee benefits | 1,146,664 | 2,157,405 |
| Professional fees | 41,909,550 | 18,497,137 |
| Depreciation and amortization | 3,040,683 | 3,645,327 |
| Insurance | 207,423 | 279,886 |
| Interest expense | 515,659 | 534,082 |
| Other direct expenses | 384,712 | 1,246,900 |
| Total Unrestricted Expenses | 53,856,718 | 37,579,168 |
| CHANGES IN NET DEFICIT | (950,214) | (19,040,575) |
| NET DEFICIT - Beginning of year | (56,876,338) | (37,835,763) |
| NET DEFICIT - End of year | \$ (57,826,552) | \$ (56,876,338) |

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

ST. BERNARD HOSPITAL FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

| <i>For the Years Ended December 31,</i> | 2018 | 2017 |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net deficit | \$ (950,214) | \$ (19,040,575) |
| Adjustments to reconcile changes in net deficit to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,040,683 | 3,645,327 |
| Amortization of debt issuance costs | 79,761 | 79,765 |
| Loss on disposal of property and equipment | 2,802 | - |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | 101,260 | 39,233 |
| Other current assets | 538 | 162 |
| Accounts payable | (171,564) | (1,153,630) |
| Accrued payroll | 142,673 | (530,454) |
| Due to the District | (1,808,968) | 17,266,755 |
| Net Cash Provided by Operating Activities | 436,971 | 306,583 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (53,090) | (170,294) |
| Proceeds from sale of property and equipment | 57,000 | - |
| Changes in restricted cash | 37,500 | 12,500 |
| Net Cash Used in Investing Activities | 41,410 | (157,794) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on capital lease obligation | (216,121) | (174,215) |
| Net Cash Used in Financing Activities | (216,121) | (174,215) |
| NET INCREASE (DECREASE) IN CASH | 262,260 | (25,426) |
| CASH - Beginning of Year | 36,890 | 62,316 |
| CASH - End of Year | \$ 299,150 | \$ 36,890 |
| SUPPLEMENTAL CASH FLOWS INFORMATION | | |
| Cash paid for interest | \$ 435,895 | \$ 454,318 |

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



ST. BERNARD HOSPITAL FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The St. Bernard Hospital Foundation, Inc. (the Foundation) is a Louisiana not-for-profit entity that was organized on September 21, 2010, for the purpose of assisting and promoting the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) with the development of the hospital facility and raising of capital for the operation of health care related services to benefit the health and wellness of the residents of the District, particularly the indigent residents of the District. The Foundation is a voluntary, not-for-profit, non-stock membership organization, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The hospital became operational in August of 2012 and the medical office building was completed in January of 2013.

On August 23, 2011, the Foundation entered into a Joint Venture Cooperative Endeavor Agreement with the District to construct and operate a hospital facility and provide emergency and other essential hospital services to the citizens of St. Bernard Parish, State of Louisiana. During 2011, the District granted and donated to the Foundation the in-place construction in order for the Foundation to complete construction of the hospital building. See Note 4 for further details.

The Foundation is maintained by private loans, grants, operating revenues, and a joint venture with the District. The Foundation is governed by a Board of Commissioners made up of five members. Four of the Directors are appointed by the Board of the District and one member is appointed by Access Health Louisiana, a Louisiana not-for-profit corporation. Although the Foundation is a legally separate, not-for-profit organization, due to the significance of the relationship with the District pursuant to the Cooperative Endeavor Agreement (CEA), the Foundation is considered a component unit of the District for financial reporting purposes.

In October 2017, the Foundation and District entered into a management agreement with a wholly-owned subsidiary of Ochsner Health System, to provide management, staff, and other assistance to operate the Hospital. This expanded affiliation enables the Hospital to further enhance existing clinical services while simultaneously improving resources, including operational efficiencies (see Note 8).

Basis of Accounting

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America involving the application of accrual accounting, consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.



ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, *Financial Statements of Not-for-Profit Organizations*.

Classification of Net Assets

Net assets and revenues and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets (deficit) of the Foundation and changes therein are classified and reported as follows:

Net Assets (Deficit) Without Donor Restrictions – These net assets generally result from revenues generated by operations that have no donor restrictions less expenses incurred for operating and administrative functions.

Net Assets (Deficit) With Donor Restrictions – These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

There were no net assets (deficit) with donor restrictions as of December 31, 2018 or 2017.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all short-term cash deposits with maturities of three months or less at inception to be cash and cash equivalents. The Federal Deposit Insurance Corporation insures the accounts up to \$250,000 as of December 31, 2018 and 2017. There were no uninsured deposits as of December 31, 2018 and 2017.



ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

The Foundation's restricted cash includes cash received through a long-term arrangement whose use is restricted for certain related management fees as outlined in the respective loan agreement. There were no restricted cash balances in 2018.

Property and Equipment

Property and equipment are recorded at acquisition cost. It is the Foundation's policy to capitalize expenditures for these items in excess of \$1,000. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. One-half year depreciation is taken in the year of acquisition. Equipment under capital lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Foundation first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party appraisals, as considered necessary. No impairment losses were recorded in the years ended December 31, 2018 or 2017.

Unamortized Debt Issuance Costs

Costs related to the issuance of the New Markets Tax Credit Facility A and B Notes are deferred and amortized over the life of the debt using a method which approximates the interest method. Accumulated amortization totaled \$622,192 and \$542,428, as of December 31, 2018 and 2017, respectively. During 2016, the Foundation adopted Financial Accounting Standards Board (FASB) ASU 2015-03 *Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which required unamortized debt issuance costs be shown net of debt on the Statements of Financial Position and required the amortization of those costs be captured in interest income.

ST. BERNARD HOSPITAL FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional allocations of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of revenues, expenses, and other changes in membership equity and the statement of functional expenses. Accordingly, certain costs have been allocated among the program, supporting services, and membership development benefited based on actual or percentage of use.

Recently Adopted Accounting Standards

Effective January 1, 2018, the Corporation adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Corporation has adjusted the presentation of its financial statements accordingly. The new standard changes the following aspects of the Corporation's financial statements:

- The unrestricted net asset (deficit) class has been renamed net assets (deficit) without donor restrictions.
- The presentation of functional classification of expenses in a tabular format is supplemented with enhanced disclosures about the methods used to allocate cost among functions and the basis for which to allocate cost between program and supporting expenses (See Note 11). As permitted in the year of adoption under the standard, the functional expense disclosure is presented for a single year, not comparative.
- The financial statements include a new footnote disclosure about liquidity and availability of resources (See Note 2).

Future Accounting Pronouncements

In May 2014, the FASB created a new Topic 606, *Revenue from Contracts with Customers*. The new guidance is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for United States GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Existing industry guidance will be eliminated. In addition, interim and annual disclosures will be substantially revised. This guidance is effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently assessing the impact the adoption of this standard will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its amendments supersedes the leasing guidance in Topic 840, entitled *Leases*. Under the guidance,

ST. BERNARD HOSPITAL FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. For nonpublic entities, the standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this ASU on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which the Foundation serves as a resource recipient for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this ASU on its financial statements.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 28, 2019, and determined that there were no events that required disclosure in the notes to the financial statements except as disclosed in Note 7. No subsequent events occurring after that date have been evaluated for inclusion in these financial statements.

NOTE 2: LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

As discussed in Note 4 to the financial statements, the Foundation has a Joint Venture Cooperative Endeavor Agreement (“CEA”) with the District related to the construction and operation of a hospital facility and to provide related health care services to the citizens of St. Bernard Parish. The CEA includes certain revenue and expense sharing provisions between the District and the Foundation that may not necessarily be indicative of the conditions that would have existed or the results of operations if the Foundation had been operated as an entity unaffiliated with the District.

Since the commencement of operations in August of 2012, the District has experienced delays in billing and collections of net patient service revenue, primarily due to continued software implementation issues and billing/collection management issues within the revenue cycle. In prior periods, the operating performance of the District caused substantial doubt about the Foundation’s ability to continue as a going concern as the Foundation receives a significant portion of its support from the District.

ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2: LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES (CONTINUED)

On October 3, 2016, the District entered into an interim Cooperative Endeavor Agreement with Ochsner to provide administrative services and operational support to the District to assist the hospital in providing health services for the St. Bernard Parish Community; the interim CEA was extended through June 30, 2017. Effective July 12, 2017, the District entered into a special services agreement (“Agreement”) with Ochsner for the purposes of managing, operating and administering the Hospital. This agreement has enabled the Hospital to enhance clinical service delivery while simultaneously improving resources, including operational efficiencies, and obtaining additional cost reductions through vendor purchase discounts on supplies.

Based on the support provided pursuant to the current and prior Agreements with Ochsner, the District has implemented new processes and procedures around the revenue cycle to improve collections. In addition, the District has settled large outstanding payables with vendors and freed up operating cash to continue paying vendors and contractors in a timely manner. These actions have improved the District’s operations and resulted in a positive ending net position beginning in 2017.

The District has committed to the Foundation to provide or maintain the necessary financial support to the Foundation to enable the Foundation to meet and discharge its liabilities in the normal course of business through the December 31, 2019 audit report date. We have no reason to believe that these results will not be achieved.

The Foundation has \$299,150 of financial assets available within one year of the balance sheet dated December 31, 2018 consisting of cash and cash equivalents. As noted above, under the CEA the District and Foundation share revenues and expenses and the District transfers assets to the Foundation to cover its capital needs, debt service and operating expenses. Management believes it has appropriate available financial resources.

NOTE 3: PROPERTY AND EQUIPMENT

As of December 31, 2018 and 2017, property and equipment consisted of the following:

| December 31, | 2018 | 2017 |
|-----------------------------------|---------------|---------------|
| Hospital building | \$ 43,798,270 | \$ 43,798,270 |
| Fixed equipment | 545,424 | 545,424 |
| Machinery and Equipment | 15,853,911 | 18,941,516 |
| Land improvements | 1,466 | 1,466 |
| Less: accumulated depreciation | (19,415,689) | (19,455,899) |
| Total property and equipment, net | \$ 40,783,382 | \$ 43,830,777 |

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was \$3,040,683 and \$3,645,327, respectively.



ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4: JOINT VENTURE

As mentioned in Note 1, on August 23, 2011, the District and the Foundation entered into a Joint Venture Cooperative Endeavor Agreement (Agreement) to engage in a joint venture to construct and operate a hospital facility and provide emergency and other essential and specialized hospital services to the citizens of St. Bernard Parish, State of Louisiana. This agreement was to facilitate the New Markets Tax Credit (NMTC) transaction, described further in Note 6. On this date, the District transferred all construction in progress associated with the hospital to the Foundation. During 2012, the Foundation used the proceeds of the NMTC Notes (Facility A and B) to complete the construction of the hospital building, acquire essential equipment, materials and supplies necessary for the operation of the hospital, and employed health professionals, administrative staff and other needed personnel and contracted with physicians and other health professionals required for the operation of the hospital. Under the terms of the Agreement, the District is obligated to make the land that the District owns, including all of the District's rights, privileges, appurtenances, and amenities, available to itself and the Foundation for the operation of the hospital building which was constructed on this land. This agreement will terminate on June 30, 2051, unless sooner terminated as permitted.

Pursuant to the Agreement, there are certain revenue and expense sharing provisions between the District and the Foundation. Amounts due to the District totaled \$56,057,211 and \$57,866,179 as of December 31, 2018 and 2017, respectively, and represent the net balance of transactions with the District. The following is a summary of the significant transactions that occurred in 2018: 1) cash transfers to fund operations in excess of the revenue sharing agreement totaling \$45,076,573, 2) Foundation expenses per the Agreement paid by the District totaling \$43,253,874 relating to professional fees, insurance, and maintenance and repairs.

The following is a summary of the significant transactions that occurred in 2017: 1) cash transfers to fund operations in excess of the revenue sharing agreement totaling \$1,903,716, 2) Foundation expenses per the Agreement paid by the District totaling \$18,337,567 relating to professional fees, insurance, and maintenance and repairs, and 3) \$22,904 relating to capital expenditures paid by the District. Amounts due at December 31, 2018 and 2017 were classified as long-term based on the commitment from the District not to demand repayment within one year. Amounts due to the District are non-interest bearing, unsecured and have no scheduled repayment terms.

In accordance with the revenue sharing provisions of the Agreement with the District, amounts transferred from the District to the Foundation are recognized as unrestricted revenue and other support. These amounts totaled \$52,733,550 and \$18,461,165 for the years ended December 31, 2018 and 2017, respectively.

ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5: CAPITAL LEASES

The Foundation entered into a lease for equipment during 2013. The economic substance of the lease is that the Foundation is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities. The lease agreement contains a fair value purchase option at the end of the lease term. The capital lease obligation was to expire in November 2018. The Foundation extended the lease agreement and intends to return leased equipment in 2019.

The Foundation entered into a lease for equipment during 2015. The economic substance of the lease is that the Foundation is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities. The capital lease obligation expires February 2020. The Foundation will obtain possession of the asset after final payment of the lease.

Amortization of assets held under the capital leases totaling \$213,003 and \$211,230 for the years ended December 31, 2018 and 2017, respectively, and is included in depreciation and amortization expense.

The net book value of assets recorded under capital leases as of December 31, 2018 and 2017 consists of the following:

| December 31, | 2018 | | 2017 | |
|--------------------------------|-------------|--------------------|------|-----------|
| Equipment | \$ | 1,101,982 | \$ | 1,101,982 |
| Less: accumulated amortization | | (1,030,658) | | (817,655) |
| Capital lease equipment, net | \$ | 71,324 | \$ | 284,327 |

The following is a schedule by years of future minimum payments required under the leases together with their present value as of December 31, 2018:

| | | |
|--|----|---------|
| 2019 | \$ | 221,028 |
| 2020 | | 10,052 |
| Total minimum lease payments | | 231,080 |
| Less: amount representing imputed interest | | (2,599) |
| Present value of minimum lease payments | \$ | 228,481 |

ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT

The following table summarizes the Foundation's outstanding debt as of December 31, 2018 and 2017:

| December 31, | 2018 | 2017 |
|--|---------------|---------------|
| New Markets Tax Credit Facility A. Interest payable semi-annually at a rate of 1.00%. Principal is payable annually 2019 through 2051. | \$ 33,028,779 | \$ 33,028,779 |
| New Markets Tax Credit Facility B. Interest payable semi-annually at a rate of 1.00%. Principal is payable annually 2019 through 2051. | 11,671,221 | 11,671,221 |
| Total long-term debt | \$ 44,700,000 | \$ 44,700,000 |
| Less: Current portion of long-term debt | (594,367) | - |
| Less: Unamortized bond issuance costs | (2,556,189) | (2,635,950) |
| Total long-term debt-noncurrent portion | \$ 41,549,444 | \$ 42,064,050 |

Future minimum payments on long-term debt obligations at December 31, 2018 are as follows:

| December 31, | Principal |
|--|---------------|
| 2019 | \$ 594,367 |
| 2020 | 1,197,665 |
| 2021 | 1,209,672 |
| 2022 | 1,211,798 |
| 2023 | 1,234,047 |
| 2024-2028 | 6,358,303 |
| 2029-2033 | 6,683,468 |
| 2034-2038 | 7,025,261 |
| 2039-2043 | 7,384,534 |
| 2044-2048 | 7,762,181 |
| 2049-2053 | 4,028,704 |
| Total debt | 44,700,000 |
| Less current portion of long term debt | (594,367) |
| Less unamortized debt issuance costs | (2,556,189) |
| Total long-term debt | \$ 41,549,444 |

The Facility A and B notes are intended to qualify as a "qualified low-income community investment" for the purposes of generating certain tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, the Foundation must comply with certain representations, warranties, and covenants. These include, but are not limited to, a covenant that the "portion of the business" (as defined) will operate to

ST. BERNARD HOSPITAL FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT (CONTINUED)

qualify as a qualified low-income community business. If, as a result of the breach of the agreement or loan documents by the Foundation, the Lender is required to recapture all or any part of the New Markets Tax Credits previously claimed by the Lender, the Foundation agrees to pay to the Lender an amount equal to the sum of the credits recaptured. Additionally, the QLICI Lender has a security interest in the assets of the Foundation other than real property.

On August 23, 2011, the Foundation issued a note payable (Facility A) to SBP Redevelopment II, LLC. The note is subject to credit and loan agreements executed by the Foundation (as borrower), St. Bernard Parish Redevelopment, LLC as the community development entity (CDE) under the New Markets Tax Credit Program, and SBP Redevelopment II, LLC (Lender).

The Facility A Note, issued for \$33,028,779, is secured under the aforementioned credit and loan agreements. The Facility A Note matures on June 30, 2051. There are, however, mandatory payments under a loan participation agreement which are due serially from June 30, 2019 to June 30, 2051. The Note will bear interest at a rate per annum equal to 1.00%. The Foundation will pay interest only on this Note semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2011, and continuing until December 31, 2018. Commencing on June 30, 2019, the principal and interest on this Note shall be due and payable in consecutive semi-annual installments on June 30 and December 31 of each year. The Foundation may not prepay this Note in full or in part any time prior to the expiration of the NMTC compliance period.

When all of the Facility A Note funds had been expended and the Certificate of Occupancy for the hospital facility was issued in July 2012, the Facility B Note (subordinate note) was issued for \$11,671,221 in September 2012 to SBP Redevelopment II, LLC. The note is secured under the same aforementioned credit and loan agreements executed by the Foundation for the Facility A Note.

The Facility B Note matures August 22, 2051. The terms of the Facility B Note are similar to those of the Facility A Note. Mandatory payments under a loan participation agreement are due serially from June 30, 2019 to August 22, 2051. The Note bears interest at a rate per annum equal to 1% and the Foundation will pay interest only on this Note semi-annually in arrears on June 30 and December 31 of each year commencing December 31, 2012, and continuing until December 31, 2018. Principal and interest on this Note shall be due and payable in consecutive semi-annual installments on June 30 and December 31 of each year commencing June 30, 2019. The Foundation may not prepay this Note in full or in part any time prior to the expiration of the NMTC compliance period.

The Foundation paid the CDE a total of \$52,500 for the years ended December 31, 2018 and 2017, for ongoing management services related to the NMTCs as required per the agreement. The Foundation is required to pay a total of \$250,000 in asset management fees to the CDE from 2015 through 2019.



**ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: LONG-TERM DEBT (CONTINUED)

In association with Facility Notes A and B, the District, for the benefit of the Foundation, unconditionally and irrevocably guarantees the full, complete, and timely payment and, to the extent legally permissible, performance of all obligations owed to the Lender under all of the loan documents.

Debt Covenant Compliance

The Organization was not in compliance with certain debt covenants under the above debt agreements. The non-compliance is related to the completion and filing of the Organization's audited financial statements within 120 days of year end and the filing of the NMTC compliance report at least annually. The Organization obtained a debt covenant waiver on these covenants from the issuer.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Low Income and Needy Care Collaboration Agreement

In April of 2012, the District entered into a Low Income and Needy Care Collaboration Agreement with certain participating private hospitals primarily to improve access and provide low income and needy care services in the community it serves by the participating hospitals. The agreement was effective when the District became operational with an initial term through December 31, 2013 and may be renewed annually unless other party provides notice to terminate. Expenses incurred under this agreement totaled \$14,665,002 and \$11,319,592 for the years ended December 31, 2018 and 2017, respectively. These expenses are included as professional fees in the accompanying financial statements.

Full Medicaid Payment Program

As part of the District's continuing support of the State of Louisiana's Medicaid Program, the Hospital has, throughout the period, made intergovernmental transfers (IGT's) amounts to the State of Louisiana (State) restricted for use in support of the Medicaid Program to provide additional payments to Managed Medicaid providers to approximate Medicaid reimbursement (Full Medicaid Payment). For the years ended December 31, 2018 and 2017 the Foundation expensed IGT's of \$27,241,248 and \$5,862,000 respectively, to the State for Full Medicaid Payment. These expenses are included as professional fees in the accompanying financial statements.



ST. BERNARD HOSPITAL FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

NOTE 8: FOUNDATION MANAGEMENT CONTRACT

As mentioned in Note 1, effective October 2017 the Foundation along with the District are managed by St. Bernard Operational Management Company, LLC (SBOMC), a wholly owned subsidiary of Ochsner Health System. The District pays a monthly management fee to SBOMC in exchange for management, staff, and other assistance to operate.

In addition to the management fee referred to above, the District provides other payments to SBOMC for supplies purchased, professional services provided outside of the management agreement, and other miscellaneous items received or services provided throughout the year.

During years ended December 31, 2018 and 2017, there were no transactions between SBOMC and the Foundation, all occurred at the District level.

NOTE 9: UNCERTAIN TAX POSITIONS

The Foundation accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*, prescribes recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Management evaluated the Foundation's tax positions for the year ended December 31, 2018, and concluded that the organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Foundation's tax filings are subjected to audit by various taxing authorities.

NOTE 10: DEFINED CONTRIBUTION 403(B) PLAN

All new full-time employees are immediately eligible to join the defined contribution 403(b) plan, St. Bernard Parish Hospital Retirement Savings Plan (Plan) established on November 1, 2012. Participants make pre-tax contributions to the Plan and receive employer matching contributions equal to 50% of each participant's contribution up to 1% of the participant's annual compensation. Employer contributions to the 403(b) plan totaled \$23,898 and \$48,106 for the years ended December 31, 2018 and 2017, respectively. To vest in the employer annual non-discretionary contribution, employees must complete at least 3 years of service.

NOTE 11: FUNCTIONAL CLASSIFICATION OF EXPENSES

Any costs related to program administration are functionally classified as supporting services expenses. Any costs related to activities that constitute direct conduct or direct supervision of program activities are program expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function of the Foundation. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11: FUNCTIONAL CLASSIFICATION OF EXPENSES (CONTINUED)

Interest expense and depreciation expense have been allocated based on time and effort. Salaries and wages, employee benefits, professional fees, insurance and other direct expenses have been allocated based on the actual direct expenditures. There are no fundraising expenses for the year ended December 31, 2018.

The table below presents expenses by both their nature and function for the year ended December 31, 2018:

| <i>For the Year Ended December 31, 2018</i> | Program Activities | Support Activities | Total |
|---|-------------------------------|-------------------------------|----------------------|
| Expenses | | | |
| Salaries and wages | \$ 6,652,027 | \$ - | \$ 6,652,027 |
| Employee benefits | 1,146,664 | - | 1,146,664 |
| Professional fees | 41,906,250 | 3,300 | 41,090,550 |
| Depreciation and amortization | 3,039,756 | 927 | 3,040,683 |
| Insurance | 207,423 | - | 207,423 |
| Interest expense | 435,895 | 79,764 | 515,659 |
| Other direct expenses | 73,056 | 311,656 | 384,712 |
| Total Expenses | \$ 53,461,071 | \$ 395,647 | \$ 53,856,718 |



Supplementary Information



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

To the Board of Directors of
St. Bernard Hospital Foundation, Inc.
Chalmette, 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 the St. Bernard Hospital Foundation, Inc. (the Foundation), a component unit of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 consolidated 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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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 consolidated 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 Foundation'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 Louisiana Legislative Auditor as a public document.

Car, Riggs & Ingram, L.L.C.

June 28, 2019



St. Bernard Hospital Foundation, Inc.
Schedule of Current Year Findings and Responses
December 31, 2018

Section I – There were no findings noted related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and Louisiana Revised Statute 24:513.



St. Bernard Hospital Foundation, Inc.
Schedule of Prior Year Findings and Responses
December 31, 2018

Section I – There were no findings noted related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and Louisiana Revised Statute 24:513.