

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH**

DeRidder, Louisiana

Financial Report
October 31, 2018 and 2017



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**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Management's Discussion and Analysis

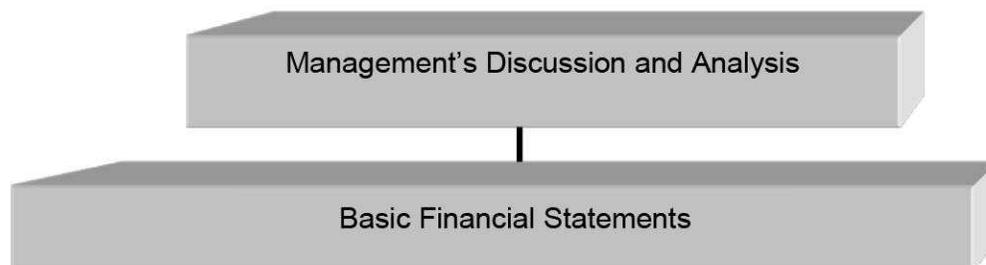
The Management's Discussion and Analysis of the Hospital Service District No. 2, of The Parish of Beauregard, State of Louisiana (the District) financial performance presents a narrative overview and analysis of the District's financial activities for the year ended October 31, 2018. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

FINANCIAL HIGHLIGHTS

- ★ The District's assets exceeded its liabilities at the close of fiscal year 2018 by \$34,941,931 which represents a 4.7% increase from last fiscal year. Of this amount, \$20,181,771 (unrestricted net position) may be used to meet the District's ongoing obligations to its users.
- ★ The District's net patient revenue decreased \$51,803 (or 0.1%); other revenues decreased \$475,123 (or 8.3%) and the total operating expenses decreased by \$1,155,899 (or 2.8%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.



These financial statements consist of two sections - Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana

Management's Discussion and Analysis

Basic Financial Statements

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statements of Net Position; the Statements of Revenue and Expenses and Changes in Net Position; and the Statements of Cash Flows.

The Statements of Net Position (pages 7 - 8) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenue and Expenses and Changes in Net Position (page 9) presents information showing how the District's assets changed as a result of current year operations and how the District's liabilities changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statements of Cash Flows (pages 10 - 11) presents information showing how the District's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided by (used in) operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

| | 2018 | 2017 | 2016 |
|--------------------------------------|----------------------|----------------------|----------------------|
| Current and Other Assets | \$ 21,994,749 | \$ 19,993,670 | \$ 19,164,672 |
| Capital Assets | 18,272,519 | 17,625,965 | 17,218,095 |
| Total Assets | 40,267,268 | 37,619,635 | 36,382,767 |
| Other Liabilities | 1,812,980 | 1,772,433 | 213,801 |
| Long-Term Debt Outstanding | 3,512,359 | 2,668,333 | 2,752,833 |
| Total Liabilities | 5,325,339 | 4,440,766 | 2,966,634 |
| Net Position | | | |
| Invested Capital Assets, Net of Debt | 14,760,160 | 14,957,632 | 14,465,262 |
| Unrestricted | 20,181,771 | 18,221,237 | 18,950,871 |
| Total Net Position | \$ 34,941,931 | \$ 33,178,869 | \$ 33,416,133 |

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Management's Discussion and Analysis

The change in net position of the District increased by \$1,644,446 from October 31, 2017 to October 31, 2018.

| | 2018 | 2017 | 2016 |
|--|---------------------|---------------------|-----------------------|
| Operating Revenues | \$ 47,709,518 | \$ 44,721,719 | \$ 41,781,378 |
| Operating Expenses | 45,002,075 | 43,036,583 | 39,635,986 |
| Operating Income | 2,707,443 | 1,685,136 | 2,145,392 |
| Donations | - | 12,808 | - |
| Non-Operating Expenses | (944,381) | (1,935,208) | (3,924,231) |
| Increase (Decrease) in Net Position | \$ 1,763,062 | \$ (237,264) | \$ (1,778,839) |

Additional detail can be found in the Statements of Revenues and Expenses included in this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of October 31, 2018, the District had \$18,272,519, net of accumulated depreciation, invested in a broad range of capital assets, including land, buildings, equipment, land improvements, and construction in progress. (See Table below). This amount represents a net increase (including additions and deductions) of \$646,554 or 3.5%, from the previous year.

| | 2018 | 2017 | 2016 |
|--------------------------------|----------------------|----------------------|----------------------|
| Land | \$ 1,694,145 | \$ 1,694,145 | \$ 1,694,145 |
| Buildings | 24,145,204 | 24,081,255 | 22,324,855 |
| Equipment | 20,706,766 | 18,616,913 | 17,039,489 |
| Construction in Progress | 75,097 | 396,436 | 1,818,868 |
| Land Improvements | 1,098,253 | 650,857 | 650,857 |
| | 47,719,465 | 45,439,606 | 43,528,214 |
| Less: Accumulated Depreciation | (29,446,946) | (27,813,641) | (26,310,119) |
| Total | \$ 18,272,519 | \$ 17,625,965 | \$ 17,218,095 |

This year's major capital additions include:

| | |
|------------------------------|------------|
| Digital Radiographic Machine | \$ 209,450 |
| MRI System | \$ 985,382 |
| Telephone System | \$ 225,847 |
| Radiology Renovations | \$ 314,967 |

Additional information on the District's capital assets can be found in Note 4 of this report.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Management's Discussion and Analysis

Debt

The District had \$2,942,450 in bonds outstanding at year-end, compared to \$2,210,000 last year, an increase of \$732,450. A summary of this debt is shown in the table below.

Outstanding Debt at Year-End

| | 2018 | 2017 | 2016 |
|--|---------------------|---------------------|---------------------|
| Certificates of Indebtedness Series 2012 | \$ 1,025,000 | \$ 1,260,000 | \$ 1,495,000 |
| Certificates of Indebtedness Series 2016 | 713,000 | 950,000 | 1,177,000 |
| Certificates of Indebtedness Series 2018 | 1,204,450 | - | - |
| Total | \$ 2,942,450 | \$ 2,210,000 | \$ 2,672,000 |

Additional information on the District's long-term debt can be found in Note 3 of this report.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darrell Kingham, CPA, VP Finance, Hospital Service District No. 2 of the Parish of Beauregard, State of Louisiana.

Independent Auditor's Report

Board of Commissioners
Hospital Service District No. 2
of Beauregard Parish
DeRidder, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Hospital Service District No. 2 of Beauregard Parish, a component unit of Beauregard Parish Policy Jury, as of and for the year ended October 31, 2018, and the related notes to the financial statements, which collectively comprise Hospital Service District No. 2 of Beauregard Parish's basic financial statements as listed in the table of contents. The financial statements of Hospital Service District No. 2 of Beauregard Parish as of and for the year ended October 31, 2017, were audited by other auditors whose report dated April 13, 2018, expressed an unmodified opinion on those 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.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Hospital Service District No. 2 of Beauregard Parish as of October 31, 2018, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a basic part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 29, 2019, on our consideration of Hospital Service District No. 2 of Beauregard Parish's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital Service District No. 2 of Beauregard Parish'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 Hospital Service District No. 2 of Beauregard Parish's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA
April 29, 2019

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Net Position
October 31, 2018 and 2017**

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 5,406,232 | \$ 5,063,788 |
| Assets Whose Use is Limited | | |
| Cash Equivalents, by Bond Indenture for Sinking Fund | 404,127 | 337,475 |
| Patient Accounts Receivable, Net | 4,460,304 | 3,606,892 |
| Other Receivables | 839,157 | 1,081,272 |
| Inventories | 1,478,740 | 1,460,767 |
| Interest Receivable | 10,608 | 7,560 |
| Prepaid Expenses | 879,892 | 786,206 |
| Estimated Third Party Payor Settlements - Medicare/Medicaid | 3,282,291 | 1,958,185 |
| Notes Receivable - Current Portion | 221,534 | 349,776 |
| Total Current Assets | 16,982,885 | 14,651,921 |
| Noncurrent Assets | | |
| Assets Whose Use is Limited | | |
| Cash Equivalents, by Board for Funded Depreciation | 133,532 | 34,623 |
| Investments, by Board for Funded Depreciation | 3,921,865 | 3,989,449 |
| Property and Equipment, Net | 18,272,519 | 17,625,965 |
| Investments - LLC | 50,273 | 97,298 |
| Deposits | - | 248,291 |
| Notes Receivable - Net of Current Portion | 906,196 | 972,088 |
| Total Noncurrent Assets | 23,284,385 | 22,967,714 |
| Total Assets | \$ 40,267,270 | \$ 37,619,635 |

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

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Net Position (Continued)
October 31, 2018 and 2017**

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current Portion of Long-Term Debt - to be Paid from Assets Whose Use is Limited | \$ 707,450 | \$ 472,000 |
| Accrued Interest Payable | 5,840 | 3,915 |
| Unearned Rent/Services | 110,223 | 110,223 |
| Due to West Louisiana Health Services and Affiliate | 1,696,917 | 1,658,295 |
| Current Portion of Capital Lease Payable | 201,626 | 114,053 |
| Total Current Liabilities | 2,722,056 | 2,358,486 |
| Long-Term Liabilities | | |
| Capital Lease Obligation Payable, Net of Current Portion | 368,283 | 344,280 |
| Long-Term Debt, Net of Current Portion | 2,235,000 | 1,738,000 |
| Total Long-Term Liabilities | 2,603,283 | 2,082,280 |
| Total Liabilities | 5,325,339 | 4,440,766 |
| Net Position | | |
| Invested in Capital Assets, Net of Related Debt | 14,760,160 | 14,957,632 |
| Unrestricted | 20,181,771 | 18,221,237 |
| Total Net Position | 34,941,931 | 33,178,869 |
| Total Liabilities and Net Assets | \$ 40,267,270 | \$ 37,619,635 |

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

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Revenue and Expenses and
Changes in Net Position
For the Years Ended October 31, 2018 and 2017**

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Operating Revenue | | |
| Gross Patient Service Revenue | \$ 181,662,889 | \$ 168,758,343 |
| Less: Contractual Allowances and Discounts | (129,745,534) | (122,339,854) |
| | <u>51,917,355</u> | 46,418,489 |
| Less: Provision for Uncollectible Accounts | (10,228,618) | (7,873,145) |
| Net Patient Service Revenue | <u>41,688,737</u> | 38,545,344 |
| Other Revenue | 6,020,781 | 6,176,375 |
| Total Operating Revenue | <u>47,709,518</u> | <u>44,721,719</u> |
| Operating Expenses | | |
| Salaries, and Benefits | 24,149,112 | 24,001,005 |
| Supplies and Other | 10,972,581 | 10,466,272 |
| Professional and Contractual Services | 7,656,319 | 6,626,799 |
| Depreciation | 2,151,318 | 1,888,359 |
| Interest Expense | 72,745 | 54,148 |
| Total Operating Expenses | <u>45,002,075</u> | <u>43,036,583</u> |
| Income from Operations | 2,707,443 | 1,685,136 |
| Non-Operating Revenue and (Expense) | | |
| Beauregard Physician Group Expenses | (1,237,111) | (2,100,552) |
| Interest Income | 98,260 | 81,229 |
| Grants and Donations | 87,175 | 36,644 |
| Gain (Loss) on Disposal of Plant and Equipment | 7,336 | (30,233) |
| Gain on BV & HHA LLC Investments | 130,525 | 134,676 |
| Realized (Losses) on Investments | (1,169) | (2,078) |
| Unrealized (Losses) on Investments | (29,397) | (42,086) |
| Total Non-Operating Revenue and (Expenses) | <u>(944,381)</u> | <u>(1,922,400)</u> |
| Increase (Decrease) in Net Position | 1,763,062 | (237,264) |
| Net Position, Beginning of Year | <u>33,178,869</u> | 33,416,133 |
| Net Position, End of Year | <u>\$ 34,941,931</u> | <u>\$ 33,178,869</u> |

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

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Cash Flows
For the Years Ended October 31, 2018 and 2017**

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Receipts from Patients and Users | \$ 39,511,219 | \$ 37,709,140 |
| Payments to Vendors for Goods, Services and Other | (23,805,008) | (20,800,001) |
| Payments to Employees for Wages | (18,716,106) | (19,407,185) |
| Other Operating Receipts, Net | 6,262,896 | 6,396,044 |
| Net Cash Provided by Operating Activities | 3,253,001 | 3,897,998 |
| Cash Flows from Noncapital Financing Activities | | |
| Unrestricted Gifts Received | 87,175 | - |
| Net Cash Provided by Noncapital Financing Activities | 87,175 | - |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from Sale of Fixed Assets | - | 1,450 |
| Purchase of Capital Assets | (2,527,449) | (2,335,432) |
| Proceeds from Capital Debt | 1,204,450 | 477,015 |
| Payments on Capital Leases | (151,511) | - |
| Principal Paid on Capital Debt | (472,000) | (561,515) |
| Net Cash Used in Capital and Related Financing Activities | (1,946,510) | (2,418,482) |
| Cash Flows from Investing Activities | | |
| Purchase of Investments | (696,015) | (676,429) |
| Proceeds from Sale and Maturity of Investments | 789,844 | 700,127 |
| Interest Received | 41,449 | 81,171 |
| Distributions Received from LLC Investments | 177,550 | 128,385 |
| Beauregard Physicians Group Reimbursements and Other | (1,198,489) | (836,163) |
| Net Cash Used in Investing Activities | (885,661) | (602,909) |
| Net Increase in Cash and Cash Equivalents | 508,005 | 876,607 |
| Cash and Cash Equivalents, Beginning of Year | 5,435,886 | 4,559,279 |
| Cash and Cash Equivalents, End of Year | \$ 5,943,891 | \$ 5,435,886 |

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

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Cash Flows (Continued)
For the Years Ended October 31, 2018 and 2017**

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities | | |
| Operating Income | \$ 2,707,443 | \$ 1,685,136 |
| Adjustments to Reconcile Operating Income to Net | | |
| Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 2,151,318 | 1,888,359 |
| Provision for Uncollectible Accounts | 10,228,618 | 7,873,145 |
| (Increase) Decrease in Account Receivables | (11,082,030) | (8,143,586) |
| (Increase) Decrease in Other Receivables | 433,201 | 398,449 |
| (Increase) Decrease in Estimated Third Party Payor Settlements | (1,324,106) | (565,763) |
| (Increase) Decrease in Prepaid Expenses | (93,686) | 622,906 |
| (Increase) Decrease in Deposits | 248,291 | (248,291) |
| (Increase) Decrease in Inventory | (17,973) | 93,342 |
| Increase (Decrease) in Payables and Other Operating Liabilities | 1,925 | 294,301 |
| Net Cash Provided by Operating Activities | \$ 3,253,001 | \$ 3,897,998 |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest Paid | \$ 70,820 | \$ 54,843 |

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

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Beauregard Memorial Hospital (Hospital) facilities are owned by the Hospital Service District No. 2 of Beauregard Parish (District). It is owned as a nonprofit corporation organized by the Beauregard Parish Police Jury under the provisions of Chapter 10 of Title 46 of the Louisiana revised statutes of 1950 and Act No. 506 of the Louisiana Legislature for the year 1976. The governing authority of the Hospital Service District is a Board of Commissioners appointed to office by the Beauregard Parish Police Jury. Also, included in the financials are two limited liability companies, Beauregard Urgent Care Center, LLC and South Beauregard Health Center, LLC. The two LLCs are reported as departments in the accompanying financial statements.

On June 6, 1979, the Board of Commissioners of the Hospital Service District entered into an agreement with the Board of Trustees of Beauregard Memorial Hospital to manage and operate the hospital facilities. Under the terms of this agreement, which will expire in 99 years from the date executed if all the renewal period options are exercised, the Board of Trustees of Beauregard Memorial Hospital would collect all revenues and deposit to the account of the Hospital Service District and pay all necessary expenses incurred during the normal operations of the hospital. The Hospital Service District would then reimburse Beauregard Memorial Hospital for these expenses.

During the year ended October 31, 1984, the Board of Trustees of Beauregard Memorial Hospital elected to change their name to the Board of Trustees of West Louisiana Health Services, Inc. The nonprofit corporation's name was changed to West Louisiana Health Services, Inc.

During the year ended October 31, 2010, the Board of Commissioners of Hospital Service District No. 2 of Beauregard Parish approved the reimbursement of expenses of the Beauregard Physician Group, an affiliate of West Louisiana Health Services, Inc., as necessary costs related to the operation of the Hospital.

Reporting Entity - As more fully described, the Hospital Service District No. 2 of Beauregard Parish is governed by a board appointed by the Beauregard Parish Police Jury. Therefore, the Hospital Service District is a component unit of the Beauregard Parish Police Jury. The District does not have any component units, agencies, or organizations for which it is financially accountable for under the criteria set forth by the GASB.

HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Accounting Standards: The Hospital follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*. GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: *FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure*.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in estimates and assumptions in the near term would be material to the financial statements. Estimates that are particularly susceptible to significant changes in the near term and which require significant judgments by management include the allowances for doubtful accounts and contractual adjustments, third-party payor settlements, liabilities for self-insurance, and the depreciable lives of property and equipment.

Net Position: In accordance with 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 borrowing 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.

HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Operating Revenues and Expenses: The District's Statements of Revenues, Expenses, and Changes in Net Position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, together with financing costs.

Net Patient Service Revenue and Related Receivables: 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. 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 risk. The District manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances.

Patient Receivables: Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payors, less an estimated allowance for doubtful accounts.

Patient receivables due directly from the patients, net of any third-party payor responsibility, are carried at the original charge for the service provided less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Hospital does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. Provision for bad debts was approximately \$10,229,000 and \$7,873,000 for the years ended October 31, 2018 and 2017, respectively.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Third-Party Payor Arrangements

The District participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the Department of Health and Hospitals of the State of Louisiana before those settlement amounts become final. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through October 31, 2015. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through October 31, 2013.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per patient day. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Retroactive cost settlements based upon annual 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in a future period as final settlements are determined or determinable. Adjustments to estimated settlements resulted in an increase to net patient service revenue of approximately \$650,000 in 2018.

HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Inventories - Inventories, excluding pharmaceuticals, are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Pharmaceutical inventories are stated at current cost.

Property, Plant, and Equipment - The property, plant, and equipment of the Hospital is recorded at cost. Depreciation amounted to approximately \$2,150,000 and \$1,888,000 for the years ended October 31, 2018 and 2017, respectively, and was calculated using the straight-line method over the estimated useful lives of the various assets shown below:

| <u>Asset</u> | <u>Method</u> | <u>Estimated Useful Life in Years</u> |
|-------------------|---------------|---------------------------------------|
| Buildings | Straight-Line | 5 - 40 Years |
| Equipment | Straight-Line | 3 - 20 Years |
| Land Improvements | Straight-Line | 5 - 15 Years |

The costs of maintenance and repairs of property and equipment are charged to expense as incurred. Expenditures of \$5,000 or more for additions, improvements, and replacements are capitalized. The cost and related accumulated depreciation of property and equipment retired are removed from the accounts and any resulting gain or loss is recognized.

Capitalization of Interest - ASC 835-20 (Capitalization of Interest) requires that interest expenditures incurred during construction of assets be capitalized. ASC 835-30-11 (Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants) concludes that constructed assets financed with the proceeds of tax-exempt debt should include capitalized interest only to the extent that interest cost exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing. The Hospital incurred \$72,745 and \$54,148 in interest expense for the fiscal years ended October 31, 2018 and 2017, respectively. There was no interest capitalized in connection with the construction of assets.

HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less. Certificates of deposit with original maturities of more than three months are presented within Noncurrent assets as a component of Investments, by Board for Funded Depreciation. The demand deposits and certificates of deposits are stated at cost, which approximates market. Other investments securities are reported at fair value, except as disclosed in Note 10.

Investment Income - Interest, dividends, and gains and losses, both realized and unrealized, on investments in securities are included in nonoperating income when earned, except as disclosed in Note 16.

Risk Management - The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters. There have been no significant reductions in the insurance coverage during the year, nor have settlements exceeded coverage for the past three years. The Hospital is self-insured for employee health benefits as discussed in Note 17.

Recently Issued Accounting Principles: As of October 31, 2018, GASB has issued several statements not yet implemented by the Hospital. The statements, which might impact the Hospital, are as follows:

Government Accounting Standards Board 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 Hospital's financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Reclassifications - Certain changes may have been made to the presentation of the October 31, 2017 financial statements to conform to the current period presentation.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 2. Assets Whose Use is Limited

The amounts reported as assets whose use is limited by bond indenture for sinking fund are comprised of cash held by the District for debt service related to their required long-term debt described in Note 3.

Funded depreciation is so designated by the Board to replace and repair buildings and equipment.

Note 3. Long-term Debt

On October 16, 2012, Certificates of Indebtedness, Series 2012 of Hospital Service District No. 2 of the Parish of Beauregard, State of Louisiana in the amount of \$2,000,000 were issued for the purpose of constructing, acquiring, and equipping a new intensive care unit addition. These Certificates of Indebtedness bear interest at a rate of 2.11% and are to be retired over a period of 9 years and 7 months by making annual principal payments on April 1 of each year and semi-annual interest payments on April 1 and October 1 of each year. Annual principal and interest payments range from \$49,342 to \$267,796. The Certificates of Indebtedness mature on April 1, 2022. The outstanding principal balance was \$1,025,000 at October 31, 2018 and \$1,260,000 at October 31, 2017. The Certificates of Indebtedness are to be retired from the income and revenues derived from the operation of the Hospital.

On January 14, 2016, Certificates of Indebtedness, Series 2016 of Hospital Service District No. 2 of the Parish of Beauregard, State of Louisiana in the amount of \$1,177,000 were issued for the purpose of renovating the surgical department. These Certificates of Indebtedness bear interest at a rate that ranges from 0.875% to 2.90% and are to be retired over a period of 5 years and 3 months by making annual principal payments on April 1 of each year and semi-annual interest payments on April 1 and October 1 of each year. Annual principal and interest payments range from \$244,067 to \$255,741. The Certificates of Indebtedness mature on April 1, 2021. The outstanding principal balance was \$713,000 at October 31, 2018 and \$950,000 at October 31, 2017. The Certificates of Indebtedness are to be retired from the income and revenues derived from the operation of the Hospital.

On August 17, 2018, Certificated of Indebtedness, Series 2018 of Hospital Service District No. 2 of the Parish of Beauregard, State of Louisiana, in the amount of \$1,204,450 were issued for the purpose of providing funds for acquiring, constructing, and installing improvements and replacements to the hospital facilities, including acquiring equipment and fixtures therefor. Certificate R-1 shall be in the denomination of \$903,338 and Certificate R-2 shall be in the denomination of \$301,112. Both certificates are payable in five annual installments on April 1st. They will bear interest on April 1st and October 1st of each year, beginning October 1, 2018. Certificate R-1 will bear interest at an annual rate of 3.1% while Certificate R-2 will bear interest at an annual rate of 1.55%. These certificates are secured by excess annual revenues of the District in parity with the 2012 and 2016 Certificates of Indebtedness. The principal balance outstanding on these certificates at October 31, 2018 was \$1,204,450.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 3. Long-term Debt (Continued)

Scheduled principal and interest payments of all the Certificates of Indebtedness payable are as follows:

| Year Ending October 31, | Principal | Interest | Total |
|--------------------------------|---------------------|-------------------|---------------------|
| 2019 | \$ 707,450 | \$ 55,933 | \$ 763,383 |
| 2020 | 724,000 | 52,028 | 776,028 |
| 2021 | 742,000 | 34,711 | 776,711 |
| 2022 | 513,000 | 16,498 | 529,498 |
| 2023 | 256,000 | 6,975 | 262,975 |
| Total | \$ 2,942,450 | \$ 166,145 | \$ 3,108,595 |

The following is a summary of debt transactions of the District for the years ended October 31, 2018 and 2017:

| | Certificates of Indebtedness, Series 2012 | Certificates of Indebtedness, Series 2016 | Certificates of Indebtedness, Series 2018 | Total |
|---------------------------------|--|--|--|---------------------|
| Outstanding at November 1, 2016 | \$ 1,495,000 | \$ 1,177,000 | \$ - | \$ 2,672,000 |
| Bond Proceeds | - | - | - | - |
| Bonds Retired | 235,000 | 227,000 | - | 462,000 |
| Outstanding at November 1, 2017 | 1,260,000 | 950,000 | - | 2,210,000 |
| Bond Proceeds | - | - | 1,204,450 | 1,204,450 |
| Bonds Retired | 235,000 | 237,000 | - | 472,000 |
| Outstanding at October 31, 2018 | \$ 1,025,000 | \$ 713,000 | \$ 1,204,450 | \$ 2,942,450 |

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity for the year ended October 31, 2018, was as follows:

| Business-Type Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|--------------------------|---------------------|---------------------|-----------------------|
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 1,694,145 | \$ - | \$ - | \$ 1,694,145 |
| Construction in Progress | 396,436 | 471,873 | (793,212) | 75,097 |
| Total Capital Assets Not Being Depreciated | 2,090,581 | 471,873 | (793,212) | 1,769,242 |
| Capital Assets, Being Depreciated | | | | |
| Buildings | 24,081,255 | 63,949 | - | 24,145,204 |
| Land Improvements | 650,857 | 528,477 | (81,081) | 1,098,253 |
| Equipment | 18,616,913 | 2,527,955 | (438,102) | 20,706,766 |
| Total Capital Assets Being Depreciated | 43,349,025 | 3,120,381 | (519,183) | 45,950,223 |
| Less Accumulated Depreciation | (27,813,641) | (2,151,318) | 518,013 | (29,446,946) |
| Total Capital Assets Being Depreciated, Net of Depreciation | 15,535,384 | 969,063 | (1,170) | 16,503,277 |
| Total Capital Assets, Net of Depreciation | \$ 17,625,965 | \$ 1,440,936 | \$ (794,382) | \$ 18,272,519 |

Capital asset activity for the year ended October 31, 2017, was as follows:

| Business-Type Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|--------------------------|---------------------|-----------------------|-----------------------|
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 1,694,145 | \$ - | \$ - | \$ 1,694,145 |
| Construction in Progress | 1,818,868 | 378,773 | (1,801,205) | 396,436 |
| Total Capital Assets Not Being Depreciated | 3,513,013 | 378,773 | (1,801,205) | 2,090,581 |
| Capital Assets, Being Depreciated | | | | |
| Buildings | 22,324,855 | 1,785,568 | (29,168) | 24,081,255 |
| Land Improvements | 650,857 | - | - | 650,857 |
| Equipment | 17,039,489 | 1,974,678 | (397,254) | 18,616,913 |
| Total Capital Assets Being Depreciated | 40,015,201 | 3,760,246 | (426,422) | 43,349,025 |
| Less Accumulated Depreciation | (26,310,119) | (1,888,359) | 384,837 | (27,813,641) |
| Total Capital Assets Being Depreciated, Net of Depreciation | 13,705,082 | 1,871,887 | (41,585) | 15,535,384 |
| Total Capital Assets, Net of Depreciation | \$ 17,218,095 | \$ 2,250,660 | \$ (1,842,790) | \$ 17,625,965 |

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 5. Leases

The Hospital has entered into lease agreements as lessee for financing the acquisition of medical equipment. These leases qualify as a capital lease for accounting purposes and, therefore, have been recorded at the lower of the present value of the future minimum lease payments or the fair value of the assets. The capitalized cost of these assets is \$4,746,440. The Hospital is depreciating these capital assets over their estimated productive life. The accumulated depreciation on the equipment under these capital leases was \$130,567 at October 31, 2018.

The following is a schedule of the future minimum lease payments under this capital lease, and the present value of the net minimum lease payments at October 31, 2018:

| Year Ending October 31, | Amount |
|--|-------------------|
| 2019 | \$ 211,957 |
| 2020 | 211,957 |
| 2021 | 154,104 |
| 2022 | 10,400 |
| Net Minimum Lease Payments | 588,418 |
| Less: Amount Representing Interest | (18,509) |
| Present Value of Minimum Lease Payments | \$ 569,909 |

Note 6. Due to /from West Louisiana Health Services, Inc.

At October 31, 2018 and 2017, the Hospital Service District had a net payable and receivable of \$1,696,914 and \$1,658,295 between itself and West Louisiana Health Services, Inc. and Affiliates, respectively. These balances arise principally from the timing difference of recording accounts payable and accrued liabilities on the books of West Louisiana Health Services, Inc. and Affiliates and the actual payment by the Hospital Service District.

Note 7. Compensated Absences

Employees of the Hospital are entitled to compensated absences. Compensated absences totaling \$887,444 and \$926,576 for the years ended October 31, 2018 and 2017, respectively, are a vested benefit, and are accrued in the financial statements of the operator West Louisiana Health Services, Inc. and Affiliates.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 8. Defined Contribution Plan

The Hospital sponsors the Beauregard Memorial Hospital 401(k) Retirement Plan, established under ERISA guidelines, to provide retirement benefits for all of its full-time and part-time employees who meet certain age and service requirements through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The Hospital makes dollar-for-dollar matching contributions up to 5% of eligible participants' compensation. The Hospital's contributions for each employee (and plan earnings allocated to the employee's account) are fully vested after six years of service. Hospital contributions for, and plan earnings forfeited by, employees who leave employment before six years of service are used to reduce the Hospital's current period contribution requirement. This plan is administered by the Massachusetts Mutual Life Insurance Company.

The Hospital's total payroll in fiscal year 2018 was \$21,504,307. The Hospital's contributions were calculated using the base salary amount of \$14,286,366. The Hospital's contribution of covered employees amounted to \$663,445. There were no forfeitures used to reduce hospital contributions. Eligible employees' contributions amounted to \$815,531.

The Hospital's total payroll in fiscal year 2017 was \$21,920,692. The Hospital's contributions were calculated using the base salary amount of \$13,386,869. The Hospital's contribution of covered employees amounted to \$608,118. There were no forfeitures used to reduce hospital contributions. Eligible employees' contributions amounted to \$760,514.

Note 9. Cash and Investments

Under Louisiana Revised Statute 39:2955, the Hospital may deposit funds in demand deposit accounts, interest bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks, organized under Louisiana Law and National Banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies, and mutual or trust funds register with the Securities and Exchange Commission which have underlying investments consisting solely of and limited to the United States government or its agencies.

At October 31, 2018, the Hospital had cash and cash equivalents (book balances) totaling \$5,943,891 of which \$5,810,359 is in interest-bearing demand deposits and \$133,532 is in money market funds (unrated). At October 31, 2017, the Hospital had cash and cash equivalents (book balances) totaling \$5,435,886 of which \$5,401,263 is in interest-bearing demand deposits and \$34,623 is in money market funds (unrated).

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 9. Cash and Investments (Continued)

At October 31, 2018, the Hospital had investments totaling \$3,921,865 of which \$2,463,023 is in certificates of deposit (CD) and \$1,458,842 is in obligations of the Federal Home Loan Mortgage Corporation. The certificates of deposit balance consist of five CD's issued by Barksdale Federal Credit Union, City Savings Bank and three certificates of deposit held in a City Savings Financial Services investment account in the amounts of \$245,662, \$1,528,005 and \$689,356, respectively. At October 31, 2017, the Hospital had investments totaling \$3,989,449 of which \$2,444,590 is in certificates of deposit (CD) and \$1,544,859 is in obligations of the Federal Home Loan Mortgage Corporation. The certificates of deposit balance consist of five CD's issued by Barksdale Federal Credit Union, City Savings Bank and three certificates of deposit held in a City Savings Financial Services investment account in the amounts of \$248,197, \$1,520,390 and \$676,003, respectively.

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held by the pledging financial institution's trust department or agent, in the Hospital's name.

Custodial Credit Risk is the risk that in the event of bank failure, the Hospital's deposits may not be returned. At October 31, 2018, the Hospital had \$8,274,881 in demand deposits and certificates of deposit (bank balances before outstanding checks or deposits in transit). These deposits are secured from risk by \$1,825,208 of federal and securities deposit insurance and \$8,712,772 of pledged securities held in a custodial bank in the Hospital's name.

Interest Rate Risk is the risk that changes in the interest rate will adversely affect the fair value of the investment. At October 31, 2018, the Hospital had investments in obligations of the Federal Home Loan Mortgage Corporation totaling \$1,458,842. These investments have maturity dates that range from 1 - 20 years in the future.

Fair Value of Investments

The Hospital measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

US Government Obligations - Valued using matrix pricing based on securities' relationship to benchmark quoted prices.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 9. Cash and Investments (Continued)

Fair Value of Investments (Continued)

At October 31, 2018 and 2017, the Hospital had the following recurring fair value measurements:

| October 31, 2018 | Level 1 | Level 2 | Level 3 | Fair Value |
|---------------------------|------------|--------------|---------|--------------|
| Certificates of Deposit | \$ - | \$ 2,463,023 | \$ - | \$ 2,463,023 |
| US Government Obligations | 874,603 | 584,239 | - | 1,458,842 |
| Investments at Fair Value | \$ 874,603 | \$ 3,047,262 | \$ - | \$ 3,921,865 |
| October 31, 2017 | Level 1 | Level 2 | Level 3 | Fair Value |
| Certificates of Deposit | \$ - | \$ 2,444,590 | \$ - | \$ 2,444,590 |
| US Government Obligations | - | 1,544,859 | - | 1,544,859 |
| Investments at Fair Value | \$ - | \$ 3,989,449 | \$ - | \$ 3,989,449 |

Note 10. Investment - LLC

The Hospital owns 33% of Beauregard Memorial Hospital HomeCare, LLC. The LLC was formed to provide home health services to the residents of the community. The total assets of the LLC were \$2,264,633 and \$2,267,532, total liabilities were \$37,424 and \$31,556, and results of operations were \$263,494 and \$405,702 as of October 31, 2018 and 2017, respectively. The investment is accounted for using the equity method. Financial statements are available upon request.

Note 11. Board of Commissioners

The Board of Commissioners received no compensation for the fiscal years ended October 31, 2018 and 2017.

Note 12. Hospital Insurance

The Hospital is a member of the Louisiana Patient's Compensation Fund for the purpose of malpractice insurance. Under current Louisiana law, its liability is limited to the statutory maximum of \$500,000 which is covered by a primary \$100,000 with the Louisiana Hospital Association Malpractice and General Liability Trust, and an additional \$400,000 through the State of Louisiana Patients' Compensation Fund. All participating hospitals share proportionately in the expense of the fund.

**HOSPITAL SERVICE DISTRICT NO. 2
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Notes to Financial Statements

Note 13. Allowance for Doubtful Accounts

Accounts and notes receivable are stated at cost less an allowance for doubtful accounts. The allowance account consists of an estimate of uncollectible specifically identified accounts and a general reserve. Management's evaluation of the adequacy of the allowance is based on a continuing review of all accounts and includes a consideration of past user history, any adverse situation that might affect the user's ability to repay, and current economic conditions. Amounts charged-off that are subsequently recovered are recorded as income.

Note 14. Charity Care

The Hospital provides care to patients who qualify under federal guidelines and other policies of the Hospital at fees less than its established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for disclosure purposes should be measured by costs, including direct and indirect costs. Management has calculated the costs associated with providing charity care utilizing the cost to charge ratio obtained from the Medicare cost report data. The amount of costs associated with charity care for the fiscal years ended October 31, 2018 and 2017 were \$3,312,223 and \$2,542,198, respectively.

Note 15. Patient Accounts Receivable

Patient accounts receivable are comprised of the following for the years ended October 31, 2018 and 2017:

| | 2018 | 2017 |
|---------------------------------------|----------------------------|----------------------------|
| Medicare | \$ 1,369,349 | \$ 1,056,469 |
| Medicaid | 951,328 | 749,071 |
| Other | 10,402,602 | 8,349,934 |
| | <u>12,723,279</u> | <u>10,155,474</u> |
| Less: Allowance for Doubtful Accounts | (8,262,975) | (6,548,582) |
| Total | <u><u>\$ 4,460,304</u></u> | <u><u>\$ 3,606,892</u></u> |

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

Notes to Financial Statements

Note 16. Concentrations of Credit Risk

The Hospital is located in DeRidder, Louisiana. The Hospital grants credits without collateral to its patients; most of them are local residents and are insured under third party payor agreements. The mix of receivables from patients and third-party payors was as follows:

| | 2018 | 2017 |
|--------------|--------------|-------|
| Medicare | 34 % | 29 % |
| Medicaid | 23 | 21 |
| Other | 43 | 50 |
| Total | 100 % | 100 % |

The mix of net patient revenues was as follows:

| | 2018 | 2017 |
|--------------|--------------|-------|
| Medicare | 40 % | 31 % |
| Medicaid | 20 | 23 |
| Other | 40 | 46 |
| Total | 100 % | 100 % |

Note 17. Contingencies

Certain claims, suits, and complaints arising in the ordinary course of operations are pending against the hospital. In the opinion of management, all such matters are of such kind or involve such amounts, as would not have a significant effect on the financial position or results of operations of the hospital if disposed of unfavorably.

Self-Insured Medical Benefits

The Hospital is self-insured for employee medical benefits. Under this arrangement, the employees contribute a portion of the cost with the hospital paying the difference to a third-party administrator. A portion of the monthly contribution is used to purchase a re-insurance contract that covers individual claims exceeding \$125,000. The Hospital is also insured for when aggregate claims exceed approximately \$2.7 million. The obligation for claims incurred before the financial statement date, but not reported is estimated on an overall basis based on prior loss experience. The obligation is determined based on the present value of the ultimate cost to settle the claims. The accrued liability for incurred, but not reported health insurance benefit claims at October 31, 2018 and 2017 was \$384,000 and \$405,000, respectively, and is reported in the financial statements of the operator West Louisiana Health Services, Inc. and Affiliates.

**HOSPITAL SERVICE DISTRICT NO. 2
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Notes to Financial Statements

Note 17. Contingencies (Continued)

Self-Insured Medical Benefits (Continued)

The following is a summary of changes in aggregate liabilities for claims incurred by the District for the years ended October 31, 2018 and 2017:

| | |
|--|--------------------|
| Claims Outstanding at November 1, 2016 | \$ 320,000 |
| Incurred Claims | 2,132,940 |
| Payment of Claims | <u>(2,047,940)</u> |
| Claims Outstanding at November 1, 2017 | 405,000 |
| Incurred Claims | 2,851,743 |
| Payment of Claims | <u>(2,872,743)</u> |
| Claims Outstanding at October 31, 2018 | <u>\$ 384,000</u> |

Low Income Needy Care Collaborative Agreements

The District has entered into Low Income and Needy Care Collaboration Agreements (LINCCA) with certain participating private healthcare providers primarily to improve access and provide low income and needy care services in the community it serves by the participating providers. Payments to the Department of Health and Hospitals in conjunction with LINCCA totaled \$1,325,000 and \$225,000 during the fiscal years ended October 31, 2018 and 2017, respectively. These payments are being amortized over the effective term of the agreement. A total of \$1,486,864 and \$828,704 was recognized and included in fiscal and administrative service operating expenses during the fiscal years ended October 31, 2018 and 2017, respectively. The remainder of \$64,136 and \$225,000 was included in prepaid expenses on the Hospital's statement of net position as of October 31, 2018 and 2017, respectively.

Note 18. Related Party Transactions

During the fiscal-year ended October 31, 2017, the Hospital rented equipment and billing software to the Beauregard Physician Group, an affiliate of West Louisiana Health Services, Inc. These arrangements have no formal rental agreements and are considered month-to-month with a fixed monthly payment. During the fiscal-year ended October 31, 2016, the Hospital rented multiple clinical buildings and equipment to the Beauregard Physician Group. The rental arrangements, except one building which has no formal rental agreement, had a one-year term and a fixed monthly payment on the building usage. For 2018 and 2017, the rent received is equal to depreciation expense on such equipment and software. Payments from the Beauregard Physician Group totaled approximately \$27,000 for each of the fiscal years ended October 31, 2018 and 2017, respectively. The cost, accumulated depreciation and carrying amount of the rented property totaled \$126,932, \$68,630 and \$58,302 at October 31, 2018, respectively.

**HOSPITAL SERVICE DISTRICT NO. 2
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Notes to Financial Statements

Note 19. Physicians' Upper Payment Limit/ Full Medicaid Pricing Program

In 2013, the Hospital entered in to an agreement with the Department of Health and Hospitals (DHH), which was approved by The Centers for Medicare and Medicaid Services. Under the program, DHH began making payments under the Physician's Supplemental Payment Program for non-state-owned public hospitals (HSD's). The purpose of this program is to enhance payments to physicians employed or contracted by the public hospitals. The Hospital agreed to transfer funds to DHH to be used as Medicaid matching funds for the purpose of making physician supplemental payments and providing the State with additional resources to assist in the medical costs to the State. The Hospital recognizes all funds received under the UPL program as operating revenues in the period applicable to the receipt of the funds. Any amounts related to that year that are not received as of fiscal year-end are recorded as a component of estimated third-party payor settlements in the accompanying statements of net position. These receivables can be subject to adjustments that are reflected in the period they become known.

Note 20. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, April 29, 2019, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Independent Auditor's Report on the Supplementary Information

To the Board of Commissioners
Hospital Service District No. 2 of Beauregard Parish
DeRidder, Louisiana

We have audited the financial statements of the business-type activities of Hospital Service District No. 2 of Beauregard Parish as of and for the year ended October 31, 2018, and have issued our opinion on those financial statements. Our audit was 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 29, 2019.

The accompanying schedules of gross patient revenue and other revenues are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 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 for the year ended October 31, 2018 is fairly stated in all material respects in relation to the financial statements as a whole. The schedules of gross revenues and other revenues for the year ended October 31, 2017 was audited by other auditors whose report dated April 13, 2018, issued an unmodified opinion on those schedules.

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, 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 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 29, 2019

LOUISIANA • TEXAS

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SUPPLEMENTAL INFORMATION

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Gross Patient Revenues
For the Years Ended October 31, 2018 and 2017**

| | 2018 | 2017 |
|--|-----------------------|-----------------------|
| Inpatient | | |
| Nursing Revenue from Daily Patient Services | \$ 11,129,025 | \$ 10,236,550 |
| Nursing Revenue from Labor, Delivery And Nursery | 1,249,943 | 1,210,482 |
| Nursing Revenue from Surgery | 10,589,121 | 8,773,074 |
| Nursing Revenue from Recovery | 1,941,393 | 1,703,880 |
| Anesthesia | 441,772 | 1,795,122 |
| Central Supply | 3,263,713 | 3,032,900 |
| Laboratory | 6,922,453 | 6,352,487 |
| Blood Bank | 321,864 | 299,391 |
| Electrodiagnosis | 1,758,239 | 1,466,187 |
| EEG | 13,952.00 | 13,020 |
| Radiology | 5,625,173 | 4,889,750 |
| Nuclear Medicine | 1,130,333 | 970,869 |
| Pharmacy | 8,476,328 | 8,548,529 |
| IV | 3,095,812 | 3,058,685 |
| Physical Therapy | 218,425 | 214,676 |
| Respiratory Therapy | 4,988,130 | 2,953,712 |
| Ultrasound | 291,757.00 | 265,431 |
| Cath Lab | 1,480,657 | 1,320,737 |
| Total Inpatient | 62,938,090 | 57,105,482 |
| Outpatient | | |
| Nursing Revenue | 4,030,920 | 4,121,523 |
| Emergency Rooms | 20,765,964 | 20,795,404 |
| Anesthesia | 1,110,265 | 2,853,744 |
| Central Supply | 7,499,183 | 6,365,911 |
| Laboratory | 20,590,178 | 20,430,691 |
| Blood Bank | 165,042 | 185,242 |
| Electrodiagnosis | 2,349,888 | 2,154,999 |
| EEG | 33,916 | 44,680 |
| Radiology | 22,578,643 | 21,891,035 |
| Nuclear Medicine | 4,487,803 | 2,987,448 |
| Pharmacy | 9,696,169 | 10,319,760 |
| IV | 2,170,594 | 1,847,665 |
| Physical Therapy | 5,147,428 | 4,997,394 |
| Respiratory Therapy | 1,050,484 | 798,591 |
| Occupational Therapy | - | 535,568 |
| Ultrasound | 1,567,011 | 1,695,477 |
| Cardiac Rehab | 187,762 | 148,414 |
| Sleep Center | 858,196 | 973,870 |
| South Beauregard Health Center | - | 30 |
| Urgent Care | 15 | 997,154 |
| Cath Lab | 2,490,362 | 1,694,781 |
| Rural Health Clinics | 11,944,976 | 5,813,480 |
| Total Outpatient | 118,724,799 | 111,652,861 |
| Total Gross Patient Service Revenue | \$ 181,662,889 | \$ 168,758,343 |

See independent auditor's report on supplementary information.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Other Revenues
For the Years Ended October 31, 2018 and 2017**

| | 2018 | 2017 |
|-----------------------------|---------------------|---------------------|
| Other Revenues | | |
| Cafeteria | \$ 313,025 | \$ 297,440 |
| EHR Incentive Payment | 25,500 | 73,904 |
| UPL/FMP Grant Revenues | 4,891,506 | 4,849,365 |
| Medical Records Fees | 924 | 15,767 |
| Scrap Sales | 1,299 | 5 |
| Vending Machine | 22,434 | 22,119 |
| Rental Income | 476,382 | 581,086 |
| Pharmacy Sales to Employees | 182,556 | 221,996 |
| Miscellaneous | 21,925 | 22,840 |
| Wellness Income | 85,230 | 91,853 |
| Total Other Revenues | \$ 6,020,781 | \$ 6,176,375 |

See independent auditor's report on supplementary information.

**HOSPITAL SERVICE DISTRICT NO. 2
 OF BEAUREGARD PARISH
 DeRidder, Louisiana
 Schedule of Compensation, Benefits, and
 Other Payments to Agency Head or Chief Executive Officer
 For the Year Ended October 31, 2018**

Agency Head: William F. Barrow II, CEO

| Purpose | Amount |
|--|---------------|
| Salary | \$356,791 |
| Benefits - Insurance | \$11,641 |
| Benefits - Retirement | \$43,138 |
| Benefits | \$0 |
| Car Allowance | \$8,400 |
| Vehicle Provided by Government | \$0 |
| Per Diem | \$0 |
| Reimbursements | \$192 |
| Travel | \$1,048 |
| Registration Fees | \$0 |
| Conference Travel | \$4,973 |
| Continuing Professional Education Fees | \$0 |
| Housing | \$0 |
| Unvouchered Expenses* | \$0 |
| Special Meals | \$0 |

See independent auditor's report on supplementary information.

**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
Hospital Service District No. 2 of Beauregard Parish
DeRidder, 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hospital Service District No. 2 of Beauregard Parish (the Organization) as of and for the year ended October 31, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated April 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. These findings are presented as 2018-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Organization'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 as a public document.



A Professional Accounting Corporation

Metairie, LA
April 29, 2019

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Findings and Responses
For the Year Ended October 31, 2018**

Summary of Auditor's Results

Section 1. Financial Statements

Type of Auditor's Report Issued: Unmodified

Section 2. Internal Control over Financial Reporting and Compliance

| | |
|--|-----|
| Material weakness(es) identified? | No |
| Significant Deficiency(ies) Identified not Considered to be Material Weakness? | Yes |
| Noncompliance Material to Financial Statements Noted? | No |

Section 3. Significant Deficiencies Identified

Finding 2018-01: Segregation of Duties

Condition - Lack of Segregation of Duties over Accounts Payable

Criteria - In general practice it is prudent to separate incompatible functions within a main transaction cycle. Accounts payable is one such main transaction cycle.

Cause - There is one individual with responsibility for processing accounts payable that has access to the master vendor file enabling this individual to create and/or modify vendors. This individual also inputs invoices for payment, has access to check stock, prints the checks out of the payable system, received checks after signature, controls the mailing of the signed checks, and files the source documents that provide backup to the paid invoice.

Effect - Because of the condition, there is the possibility of unauthorized vendors being input into the payable system, checks being disbursed to unauthorized vendors, invoice amounts being altered, checks being issued without proper approvals, and the modification of a vendor's payment subsequent to a check being signed.

Managements' Corrective Plan of Action -

Subsequent to meeting with the auditor on January 9, 2019, regarding the segregation of duties for Accounts Payable, a new vendor report was put in place for validation of vendors. On January 10, 2019 our AP software support created a report that listed the date, vendor code, vendor name, and the user name that added the new vendor. This report is reviewed every month by the Accounting and Material Management Directors to determine if the new vendors are authorized.

Prior to and subsequent to the implementation of the new vendor report, the Chief Financial Officer reviews all account payable checks, invoices and attachments which would mitigate the risk of paying an unauthorized vendor.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Findings and Responses (Continued)
For the Year Ended October 31, 2018**

Section 3. Significant Deficiencies Identified (Continued)

Finding 2018-01: (Continued)

Managements' Corrective Plan of Action - (Continued)

Another mitigating factor regarding a fictitious vendor is that Department Directors receive a monthly accounts payable distribution report that lists the vendors and amounts coded to their department. They would question the CFO or Accounting Director if they saw a vendor listed in their expense that was unfamiliar. We will continue to caution the Directors to look for these.

**HOSPITAL SERVICE DISTRICT NO. 2
OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Prior Year Findings
For the Year Ended October 31, 2018**

Section II. Findings

None reported.

AGREED-UPON PROCEDURES REPORT
Beauregard Health System

Independent Accountant's Report
On Applying Agreed-Upon Procedures

For the Period of November 1, 2017 - October 31, 2018

To the Members of the Beauregard Health System
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Beauregard Parish Hospital Service District No. 2 of Beauregard Parish, Louisiana d/b/a Beauregard Health System (the System) 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 November 1, 2017 through October 31, 2018. The System's management is responsible for those C/C areas identified in the SAUPs. The sufficiency of these procedures is solely the responsibility of the System and the LLA. Consequently, we make no representations 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 results are as follows:

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
 - b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) ***Disbursements***, including processing, reviewing, and approving.
 - d) ***Receipts***, including receiving, recording, and preparing deposits. 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, and (5) monitoring card usage.
- 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 Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Results: No exceptions noted.

Bank Reconciliations

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

Results: We obtained a listing of bank accounts from management and management's representation that the listing is complete.

4. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select four additional accounts (or all accounts if less than five). Randomly select one month from the fiscal period, obtain, and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

- a) Bank reconciliations include evidence that they were prepared within two months of the related statement closing date (e.g., initialed and dated, electronically logged);
- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Results: We selected five bank accounts and obtained bank statements and reconciliations. During testing #4(b), we found that all reconciliations did not have evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed the bank reconciliation.

Management's Response: While the Director of Finance reviews the monthly bank reconciliations, a member of management with no involvement in the transactions will begin reviewing and initialing the bank reconciliations.

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

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

Results: We obtained a listing of locations that process payments and management's representation that the listing is complete.

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

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
- b) At least two employees are involved in processing and approving payments to vendors.
- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

Results: Job duties are not properly segregated as directed above. In evaluating criteria #9(b), we noted one employee is involved in processing and approving payments to vendors. In evaluating criteria #9(c), the employee responsible for processing payments is not prohibited from adding/modifying vendor files. Lastly, in evaluating criteria #9(d), the employee responsible for signing checks gives the signed checks to the employee to mail that is responsible for processing payments.

Management's Response: Subsequent to meeting with the auditor on January 9, 2019, regarding the segregation of duties for Accounts Payable, a new vendor report was put in place for validation of vendors. On January 10, 2019, our AP software support created a report that listed the date, vendor code, vendor name, and the user name that added the new vendor. This report is reviewed every month by the Accounting and Material Management Directors to determine if the new vendors are authorized.

Prior to and subsequent to the implementation of the new vendor report, the Chief Financial Officer reviews all account payable checks, invoices, and attachments which would mitigate the risk of paying an unauthorized vendor.

Another mitigating factor regarding a fictitious vendor is that Department Directors receive a monthly accounts payable distribution report that lists the vendors and amounts coded to their department. They would question the CFO or Accounting Director if they saw a vendor listed in their expense that was unfamiliar. We will continue to caution the Directors to look for these.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select five disbursements for each location, obtain supporting documentation for each transaction and:
- a) Observe that the disbursement matched the related original invoice/billing statement.
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Results: We obtained a listing from management and management's representation that the listing is complete. We performed #10(a) without any exceptions. After observing disbursement documentation we noted there was no evidence of proper segregations of duties as described in the results for # 9 above.

Management's Response: See response provided for #9 above.

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. 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.

This report is intended solely for the use of the management of the System and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. 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 29, 2019