

**CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a/ CLAIBORNE MEMORIAL MEDICAL CENTER
AND AFFILIATE**

HOMER, LOUISIANA

JUNE 30, 2019, 2018, AND 2017

**CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER
AND AFFILIATE
TOWN OF HOMER, STATE OF LOUISIANA
YEARS ENDED JUNE 30, 2019, 2018 AND 2017**

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center and Affiliate

Management's Discussion and Analysis (Continued)

This section of Claiborne Parish Hospital Service District #3 d/b/a/ Claiborne Memorial Medical Center and Affiliate's (Hospital's) annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal years that ended on June 30, 2019, 2018, and 2017. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets decreased by \$32,000 or approximately .2% during fiscal year (FY) 2019. Significant changes include a decrease of \$1,952,000 in the receivable from acting as grantor of UPL payments for eight hospitals as well as \$624,000 depreciation of capital assets, offset by a \$1,870,000 increase in cash from operations and a \$401,000 increase in net patient receivables. There is also a decrease in the liability for payment to the other hospitals of \$1,121,000 included in accounts payable at year-end. These funds are received to provide adequate and essential medically necessary healthcare services to low income or indigent patients. The Hospital's net payable from these payments at June 30, 2019 was \$584,000 as compared to a net receivable of \$247,000 at June 30, 2018. The Hospital's total assets decreased by \$1,940,000 or approximately 11% during fiscal year 2018. Significant changes include a decrease of \$2,532,000 in cash due to payment of \$1,222,000 in prior UPL grant funds payable and a \$1,310,000 decrease from operations, partially offset by a \$651,000 increase in the receivable from acting as grantor of the UPL payments discussed above. There was also a decrease in the liability for payment to the other hospitals of \$681,000 included in accounts payable at year-end 2018.
- Net patient revenues (exclusive of \$17,900,000 total UPL payments received as discussed above) increased by \$1,216,000 or approximately 9% in FY 2019 compared to a decrease of \$356,000 or 3% in fiscal year 2018. The most significant change was a \$1,400,000 decrease in Medicare inpatient contractual allowances.
- Total 2019 operating expenses (exclusive of UPL grant payments made) decreased \$649,000 or 4%, compared to a 9% increase in net patient revenues of \$1,216,000. Total operating expenses increased \$820,000 (5%) in fiscal year 2018. Primary 2019 decreases were in salaries and benefits due to vacant administrative positions for a portion of the year.

Required Financial Statements

The Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities.

Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. The Statements of Revenues, Expenses, and Changes in Net Position report all of the revenues and expenses during the time periods indicated. These statements measure changes in the Hospital's operations during the years provided and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center and Affiliate

Management's Discussion and Analysis (Continued)

Statements of Cash Flows

The final required financial statements are the Statements of Cash Flows. The statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provide information as to sources and uses of cash as well as the change in the cash balance during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets on page 4. Total net position increased during fiscal year 2019 by \$1,091,000 (12.9%) as reflected on the statements of revenues, expenses and changes in net position. The Hospital's net position decreased in FY 2018 by \$1,079,000 (11.3%).

Financial Analysis of the Hospital

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's activities. These two statements report the net position of the Hospital and changes in it. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Governance of the hospital has been transferred to Claiborne Parish Hospital Service District Number 3 based on a resolution which requires the parish to seek local tax support for the hospital. The hospital is now operating as Claiborne Memorial Medical Center. The vote on the ½ cent sales tax took place in March, 2015, and passed with a 93% approval. The hospital received approximately \$625,000 and \$643,000 in sales tax collections for FY 2019 and 2018, respectively, which are included in other operating revenue. In addition, the hospital received a \$500,000 revenue bond to fund the relocation of the senior care unit during the year ended June 30, 2015. The senior care unit was relocated to the hospital and IOP services were added during FY 2016.

TABLE 1
Condensed Balance Sheets (In thousands)

	June 30,			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total current assets	\$ 8,504	\$ 8,012	\$ 9,703	\$ 5,921
Limited use assets (non current)	1,107	1,081	1,138	1,043
Property, plant and equipment	5,362	5,912	6,104	6,345
Unamortized bond issue cost	-0-	-0-	-0-	-0-
Total assets	\$ 14,973	\$ 15,005	\$ 16,945	\$ 13,309
Total current liabilities	\$ 5,182	\$ 6,257	\$ 7,072	\$ 3,245
Long-term debt, net of current	280	328	374	490
Total liabilities	5,462	6,585	7,446	3,735
Net position:				
Invested in capital assets, net of related debt	5,034	5,538	5,623	5,688
Restricted expendable	213	209	287	275
Unrestricted	4,264	2,673	3,589	3,611
Total net position	9,511	8,420	9,499	9,574
Total liabilities and net position	\$ 14,973	\$ 15,005	\$ 16,945	\$ 13,309

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center and Affiliate

Management's Discussion and Analysis (Continued)

Financial Analysis of the Hospital (Continued)

As can be seen in Table 1, total assets decreased by \$32,000 to \$14,973,000 in fiscal year 2019 compared to total assets of \$15,005,000 in fiscal year 2018.

Capital Assets

Net capital assets decreased by \$551,000 in FY 2019. This decrease relates to \$81,000 in capital expenditures offset by \$8,000 in net asset retirements and \$624,000 in depreciation of the Hospital's assets. Net capital assets decreased by \$191,000 in FY 2018. This decrease relates to \$470,000 in capital expenditures offset by \$43,000 in net asset retirements and \$618,000 in depreciation of the Hospital's assets. Table 2 highlights the major capital investments for FYE 2019.

**TABLE 2
Capital Investments**

	<u>2019</u> <u>Cost</u>
<u>Equipment</u>	
Fire alarm system transferred from CIP	28,105
Endoscope transferred from CIP	6,022
Vital signs monitor	11,242
Total equipment	<u>45,369</u>
<u>Construction in Progress</u>	
Water heater costs to date	<u>35,842</u>
Total construction in progress	<u>35,842</u>
Total major acquisitions	<u>\$ 81,211</u>

Sources of Revenue

Operating Revenue

During fiscal years 2019, 2018, and 2017, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and other third party payors and patients who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and other third party payors is based upon established contracts. The difference between the full charge and payment is recognized as a contractual adjustment. During fiscal year 2016, the Hospital was audited by the Medicare Recovery Audit Contractor (RAC). There was no audit activity in fiscal years 2017, 2018 or 2019. The recoupment in FY 2016 of prior and current year reimbursement amounts was \$128,000. Medicare and Medicaid RAC audits will continue to impact future reimbursement.

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center and Affiliate

Management's Discussion and Analysis (Continued)

Sources of Revenue (Continued)

Operating Revenue (Continued)

In FY 2019, 2017 and 2016, Medicare made payments to the Hospital as an incentive for implementing electronic health records. Payments received were \$1,100, \$34,800 and \$338,000, respectively. No payments were received in FY 2018.

During fiscal years 2019, 2018, 2017 and 2016 the Hospital acted as grantor for the UPL program for eight area rural hospitals. As grantor, the hospital received total grant funds of \$17,884,603 for 2019, \$24,400,045 for 2018, \$21,809,692 for 2017, and \$17,241,715 for 2016 under the program, which is included as Medicaid patient service revenue, and disbursed \$17,070,486 for 2019, \$23,591,662 for 2018, \$21,020,507 for 2017, and \$15,846,964 for 2016 to participating hospitals. Grants under this program are to be used solely to provide adequate and essential medically necessary health care services to the citizens of the community who are low income and/or indigent. Other revenue includes interest income, sales tax revenue, cafeteria sales, and other miscellaneous services.

Table 3 represents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2019, 2018, and 2017. Payor mix percentages are computed based on gross charges by payor compared to total gross patient charges, excluding the UPL grant funds discussed in the preceding paragraph.

TABLE 3
Payor Mix by Percentage of Gross Charges

	Year ended June 30		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare	56.0%	58.3%	57.2%
Medicaid	25.7%	23.6%	17.8%
Commercial	14.2%	13.7%	16.1%
Self-pay and other	4.1%	4.4%	8.9%
Total patient revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Non-Operating Income

The Hospital holds designated and restricted funds in its Balance Sheet that are invested primarily in money market funds held at First Guaranty Bank and Gibsland Bank & Trust in Public Fund Service Accounts (PFSA). During fiscal year 2017, the long-term investment account was transferred to Gibsland due to increased interest rate. Total investment income earned was \$26,000, \$26,200, \$16,900, and \$8,500 in 2019, 2018, 2017, and 2016, respectively. All investment accounts are in NOW accounts and Money Market checking accounts earning interest currently at .65% to 1.04%.

Capital Grants and Contributions

Various small grants were received to purchase equipment. The Claiborne Healthcare Foundation, an affiliate, received contributions of \$ 39,500, \$19,000, \$16,000, and \$9,000 during fiscal years 2019, 2018, 2017 and 2016, respectively that are restricted towards future capital expenditures. The Foundation contributed approximately \$15,400, \$63,000 and \$59,000 to the Hospital in FY 2019, 2018 and 2017 for equipment purchases and \$91,000 in FY 2016 for the nurses station remodel.

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center and Affiliate

Management's Discussion and Analysis (Continued)

Income Statement

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2019, 2018, 2017, and 2016.

TABLE 4
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (In thousands)

	Years Ended June 30,			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net patient service revenue	\$ 33,116	\$ 38,329	\$ 36,094	\$ 30,972
Noncapital grants	5	7	81	338
Other revenue	1,343	1,149	929	788
Total operating revenues	<u>34,464</u>	<u>39,485</u>	<u>37,104</u>	<u>32,098</u>
Salaries	7,602	8,066	7,426	6,647
Benefits and payroll taxes	1,639	1,918	1,845	1,331
Supplies and drugs	2,271	2,492	2,413	2,181
Professional fees	2,262	1,978	1,687	2,411
Intergovernmental transfers - access grant exp	17,070	23,592	21,021	15,847
Other expenses	1,728	1,704	1,836	1,824
Insurance	214	213	233	245
Depreciation and amortization	624	618	729	978
Total operating expenses	<u>33,410</u>	<u>40,581</u>	<u>37,190</u>	<u>31,464</u>
Operating income (loss)	1,054	(1,096)	(86)	634
Investment income	26	26	17	8
Interest expense	(28)	(28)	(29)	(48)
Excess of revenues (expenses) before capital grants and contributions	1,052	(1,098)	(98)	594
Capital grants and contributions	40	19	23	9
Increase (decrease) in net position	<u>1,092</u>	<u>(1,079)</u>	<u>(75)</u>	<u>603</u>
Net position - beginning of year	8,420	9,499	9,574	8,971
Net position - end of year	<u>\$ 9,511</u>	<u>\$ 8,420</u>	<u>\$ 9,499</u>	<u>\$ 9,574</u>

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center and Affiliate

Management's Discussion and Analysis (Continued)

Accounts Receivable

Total accounts receivable at June 30, 2019 has decreased as compared to 2018 primarily due to a change in the timing of the write-off of past due accounts. These accounts are now written off when sent to the collection agency rather than when they are returned from the agency following nonpayment. This resulted in a significant writeoff of accounts receivable during the current year. Accounts receivable had increased the prior year primarily due a change in billing methods requiring all charts to be completed prior to submitting for billing resulting in the delay of some billing due to incomplete medical records.

TABLE 5
Gross Accounts Receivable Aging (In thousands)

	Year ended June 30		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current accounts	\$ 3,339	\$ 3,077	\$ 3,056
30-day accounts	1,638	1,231	437
60-day accounts	302	480	255
90-day and over accounts	1,441	2,683	2,535
Total	<u>\$ 6,720</u>	<u>\$ 7,471</u>	<u>\$ 6,283</u>

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Position between 2019 and 2018:

- Patient days, not including Senior Care days, decreased to 4,906, decreased to 5,441, and decreased to 5,882 for FY 2019, 2018, and 2017, respectively. This is a decrease of 10%, compared to a decrease of 7% and a decrease of 11%, in overall activity for the past three years.
- Salaries had a slight decrease in FY 2019 after significant increases in both FY 2018 and FY 2017. Emergency room and administration are the two areas that saw the largest increases in 2018, with a portion of the Emergency Room physician costs covered under professional fees and administration not being fully staffed for the entire year. Employee benefits decreased by \$279,000 overall in fiscal year 2019, primarily due to decrease in health insurance costs from moving from self-insured to fully insured benefits. In fiscal year 2018 there was an increase in employee benefits of \$73,000 and an increase of \$514,000 in fiscal year 2017.
- Investment income was \$26,000, \$26,200, and \$16,900 for fiscal years 2019, 2018 and 2017, respectively. Rates have remained low throughout the period, however the rate paid several accounts increased during fiscal year 2017.
- Professional fees increased by \$284,000, primarily due to additional contract ER physicians added due to physician employee being out a portion of the year on FMLA and an increase in security to daily rather than weekends only. Some of these were offset with decreased salary cost as discussed above. Fiscal year 2018 had an increase of \$290,000, primarily due to additional contract ER physicians added due to legal requirements. Fiscal year 2017 had a decrease of 724,000, primarily due to contracts terminated in administration, pharmacy and laboratory. Some of these were offset with additional salary cost as discussed above.

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center and Affiliate

Management's Discussion and Analysis (Continued)

Operating and Financial Performance (Continued)

- In April, 2013, the Hospital signed an Agreement for Hospital Administrative Services with Quorum Health Resources, LLC to provide management services to the hospital. This contract was terminated effective April 8, 2016.
- Supply and drug cost decreased by \$221,000 compared to an increase of \$79,000 in fiscal year 2018, primarily due to decreases in laboratory supply costs, due to utilizing less expensive testing methods, and in pharmacy supply costs due to reduction in inventory levels maintained and more cost effective product utilization.
- There was no RAC audit activity in fiscal years 2019, 2018 and 2017. In fiscal year 2016, the Medicare Recovery Audit Contractor (RAC) requested over \$228,000 in claims for review. Of this amount, the RAC recovered approximately \$120,000 in reimbursement. There could be additional recoveries in the future. In February 2010, the Hospital received the first request from the RAC for medical records to be reviewed for proper coding and documentation. The RAC is a private company hired by Medicare to identify and correct past Medicare improper payments, whether overpayments or underpayments. These audits will continue but the Hospital has implemented an internal audit and review process within the facility to identify possible coding errors prior to RAC review on issues that have been identified for review. Effective August 29, 2016, the RAC was changed from Connolly Healthcare to Cotiviti.
- During FYE 2019, the Hospital Service District (HSD 3) entered into a Cooperative Endeavor Agreement with Claiborne Parish Hospital Service District #1(HSD 1) which consolidated healthcare operations within Claiborne Parish and transferred control and management over facilities owned by HSD 1 to HSD 3. The intensive outpatient services are located in one facility and the other is leased to a medical clinic. The hospital began receiving monthly rental income from the medical clinic effective March, 2019. In addition, the hospital received cash of \$208,000 from HSD 1 which has been recognized as revenue in FYE 2019.

Contacting the Hospital's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Hospital Administration.

AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center
Homer, Louisiana

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying combined financial statements of Claiborne Parish Hospital Service District #3, d/b/a Claiborne Memorial Medical Center and its affiliate (the Hospital), a component unit of the Town of Homer, Louisiana, as of and for the years ended June 30, 2019, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic combined financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital, as of June 30, 2019, 2018 and 2017, and the respective changes in combined financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages i through vii be presented to supplement the combined basic financial statements. Such information, although not a part of the combined 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 combined basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined basic financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's combined basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Head, McElroy & Vestal, LLC

Monroe, Louisiana
December 13, 2019

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED BALANCE SHEETS
JUNE 30, 2019, 2018 AND 2017

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current:			
Cash and cash equivalents (Note 3)	\$ 2,584,410	\$ 713,981	\$ 3,252,131
Short-term investments (Note 3)	321,223	318,567	316,020
Receivables, net (Note 4)	4,814,138	6,300,151	5,424,059
Assets limited as to use - current (Notes 3 & 5)	126,784	126,930	126,922
Inventories	332,528	365,734	348,107
Prepaid expenses	258,494	127,480	165,446
Other current assets (Note 6)	<u>66,535</u>	<u>58,944</u>	<u>70,612</u>
Total current assets	<u>8,504,112</u>	<u>8,011,787</u>	<u>9,703,297</u>
Other:			
Assets limited as to use - non current (Notes 3 & 5)	1,107,212	1,080,596	1,137,641
Capital assets, net (Note 7)	<u>5,361,888</u>	<u>5,912,411</u>	<u>6,103,625</u>
 Total assets	 <u>\$ 14,973,212</u>	 <u>\$ 15,004,794</u>	 <u>\$ 16,944,563</u>
<u>LIABILITIES AND NET POSITION</u>			
Current:			
Accounts payable	\$ 3,406,664	\$ 4,356,765	\$ 5,153,065
Accrued expenses	687,827	842,522	786,343
Estimated third-party payor settlements	1,039,319	1,011,219	1,025,482
Current maturities of long-term debt (Note 8)	<u>48,000</u>	<u>46,000</u>	<u>106,600</u>
Total current liabilities	<u>5,181,810</u>	<u>6,256,506</u>	<u>7,071,490</u>
Long-term debt, net of current maturities (Note 8)	<u>280,000</u>	<u>328,000</u>	<u>374,000</u>
Total liabilities	<u>5,461,810</u>	<u>6,584,506</u>	<u>7,445,490</u>
Net Position:			
Invested in capital assets, net of related debt	5,033,888	5,538,411	5,623,025
Restricted expendable (Note 5)	212,813	208,976	287,255
Unrestricted	<u>4,264,701</u>	<u>2,672,901</u>	<u>3,588,793</u>
Total net position	<u>9,511,402</u>	<u>8,420,288</u>	<u>9,499,073</u>
 Total liabilities and net position	 <u>\$ 14,973,212</u>	 <u>\$ 15,004,794</u>	 <u>\$ 16,944,563</u>

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

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues:			
Net patient service revenue (Note 10)	\$ 33,116,433	\$ 38,328,616	\$ 36,093,641
Noncapital grants (Note 14)	4,744	6,554	81,072
Other operating revenue	<u>1,343,586</u>	<u>1,149,427</u>	<u>929,095</u>
 Total operating revenues	 <u>34,464,763</u>	 <u>39,484,597</u>	 <u>37,103,808</u>
 Operating Expenses:			
Salaries	7,602,455	8,065,962	7,426,297
Benefits and payroll taxes	1,638,891	1,917,958	1,844,543
Supplies and drugs	2,270,987	2,492,030	2,412,678
Professional fees	2,261,830	1,977,878	1,687,491
Intergovernmental transfers - access grant expense	17,070,486	23,591,662	21,020,507
Other expenses	1,727,831	1,704,261	1,836,210
Insurance	214,164	213,212	232,849
Depreciation and amortization	<u>623,676</u>	<u>618,174</u>	<u>729,381</u>
 Total operating expenses	 <u>33,410,320</u>	 <u>40,581,137</u>	 <u>37,189,956</u>
 Operating income (loss)	 <u>1,054,443</u>	 <u>(1,096,540)</u>	 <u>(86,148)</u>
 Nonoperating revenues (expenses)			
Investment income	25,979	26,158	16,876
Interest expense	<u>(28,849)</u>	<u>(27,873)</u>	<u>(29,109)</u>
 Excess of revenues (expenses) before capital grants and contributions	 1,051,573	 (1,098,255)	 (98,381)
 Capital grants and contributions	 <u>39,541</u>	 <u>19,470</u>	 <u>23,318</u>
 Increase (decrease) in net position	 1,091,114	 (1,078,785)	 (75,063)
 Net position at beginning of year	 <u>8,420,288</u>	 <u>9,499,073</u>	 <u>9,574,136</u>
 Net position at end of year	 \$ <u>9,511,402</u>	 \$ <u>8,420,288</u>	 \$ <u>9,499,073</u>

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

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:			
Cash receipts from and on behalf of patients	\$ 34,630,546	\$ 37,438,261	\$ 33,954,013
Other receipts and payments, net	1,341,736	1,210,537	990,641
Payments to suppliers and contractors	(24,586,146)	(30,755,004)	(23,466,601)
Payments for employees and benefits	<u>(9,397,267)</u>	<u>(9,927,741)</u>	<u>(9,080,080)</u>
Net cash provided (used) by operating activities	<u>1,988,869</u>	<u>(2,033,947)</u>	<u>2,397,973</u>
Cash flows from investing activities:			
Interest on investments	25,979	26,158	16,876
Change in assets whose use is limited	(26,470)	57,037	(94,928)
Change in investments	<u>(2,656)</u>	<u>(2,547)</u>	<u>(2,139)</u>
Net cash provided (used) by investing activities	<u>(3,147)</u>	<u>80,648</u>	<u>(80,191)</u>
Cash flows from capital and related financing activities:			
Capital grants and contributions	39,541	19,470	23,318
Interest paid on long-term debt	(27,623)	(27,873)	(29,109)
Principal payments on long-term debt	(46,000)	(106,600)	(176,792)
Purchase of capital assets	<u>(81,211)</u>	<u>(469,848)</u>	<u>(488,070)</u>
Net cash used by capital and related financing activities:	<u>(115,293)</u>	<u>(584,851)</u>	<u>(670,653)</u>
Net increase (decrease) in cash and cash equivalents	1,870,429	(2,538,150)	1,647,129
Beginning cash and cash equivalents	<u>713,981</u>	<u>3,252,131</u>	<u>1,605,002</u>
Ending cash and cash equivalents	\$ <u>2,584,410</u>	\$ <u>713,981</u>	\$ <u>3,252,131</u>
Supplemental disclosure of cash flow information			
Cash payments for:			
Interest (net of interest capitalized)	\$ <u>27,623</u>	\$ <u>27,873</u>	\$ <u>29,109</u>

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

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 1,054,443	\$ (1,096,540)	\$ (86,148)
Adjustments to reconcile operating income (loss) to net cash flows provided (used) by operating activities:			
Loss on disposition of assets	995	42,888	-0-
Depreciation and amortization	623,676	618,174	729,381
Prior construction in progress expensed	7,063	-0-	-0-
(Increase) decrease in:			
Accounts receivable, net	1,486,013	(876,092)	(2,110,118)
Other assets	(105,399)	32,007	(22,792)
Increase (decrease) in:			
Accounts payable and accrued expenses	(1,106,022)	(740,121)	3,917,161
Estimated third-party payor settlements	<u>28,100</u>	<u>(14,263)</u>	<u>(29,511)</u>
Net cash provided (used) by operating activities	\$ <u>1,988,869</u>	\$ <u>(2,033,947)</u>	\$ <u>2,397,973</u>

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

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organizations

Claiborne Memorial Medical Center (the "Hospital") operates as an enterprise fund of the Town of Homer, Louisiana. The Hospital is controlled by a board of directors, who are a separate and distinct body from the Selectmen of the Town of Homer. The board members consist of citizens appointed by the Mayor and Selectmen of the Town of Homer. The board members serve without compensation.

As the governing authority of the Town, for reporting purposes, the Town of Homer is the financial reporting entity for the Hospital. The Hospital's financial accountability as a component unit, is defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended. The accompanying financial statements present information only on the funds maintained by the Hospital.

During the year ended June 30, 2015, governance of the hospital was transferred to Claiborne Parish Hospital Service District Number 3 based on a resolution requiring the parish to seek local tax support for the hospital. The hospital is now operating as Claiborne Memorial Medical Center.

Claiborne Healthcare Foundation, Inc. (the "Foundation") was incorporated January 1, 2007, as a Louisiana non-profit organization to support specific capital projects that complement the mission of Homer Memorial Hospital. The Hospital Board has pledged to fund the operational expenses of the Foundation so that 100% of the contributions to the Foundation can be allocated according to the donors' restrictions. The Foundation is included in the Hospital's reporting entity because of the significance of its operational and financial relationship with the Hospital. Collectively, Claiborne Memorial Medical Center and its affiliate are hereafter referred to as the "Hospital".

Nature of Business

The Hospital provides inpatient and outpatient and emergency hospital services, as well as skilled nursing (through "swing beds"), home health, and inpatient psychiatric services to patients from Claiborne and surrounding parishes and counties. The hospital facility is licensed for 47 patient beds, and has a state-of-the art intensive care unit, a modern surgery suite, an emergency department, as well as physical and occupational therapy and specialty clinics.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income therefrom, to or for the benefit of the Hospital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The accompanying financial statements include the accounts and transactions of the Hospital combined with its affiliate, Claiborne Healthcare Foundation, Inc. All material intercompany accounts and transactions have been eliminated.

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the GASB. Such accounting and reporting procedures conform to the requirements of the Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and to the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

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 affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates and assumptions are used for, but are not limited to, contractual allowances for revenue adjustments, allowance for doubtful accounts, and depreciable lives of assets.

Accounting estimates used in the preparation of the financial statements may change as new events occur and additional information is obtained. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

Income Taxes

The Hospital is a political subdivision and exempt from taxation. The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation has been classified as an organization other than a private foundation.

The Foundation adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Foundation has evaluated its positions regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. With few exceptions, the Foundation is no longer subject to federal, state, or local tax examinations by tax authorities for years before June 30, 2015.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, designated assets set aside by the Foundation Board, restricted by contributors' designations for capital projects and designated assets set aside by the Hospital Board, over which the Hospital Board retains control and may at its discretion subsequently use for other purposes.

Patient Accounts Receivable

Patient accounts receivable is reported at net realizable value, after recognition of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and on analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible amounts and decreased by write-offs of accounts determined by management to be uncollectible.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis.

Capital Assets

Capital assets are recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses the straight-line method of calculating depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Building and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	5 to 20 years

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d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The Hospital capitalizes depreciable property and equipment valued at \$5,000 or more, with a useful life greater than two years. The cost of assets retired or otherwise disposed of and related accumulated depreciation is eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

Net Position

The statement of net position reports net position as the difference between all other elements in a statement of net position and is displayed in three components – net investment in capital assets, restricted net position, and unrestricted net position.

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted assets – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted assets – Consists of all other assets that do not meet the definition of “restricted” or “net investment in capital assets” as described above.

Deferred outflows represent the consumption of the Hospital’s net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. The Hospital had no deferred outflows or inflows of resources at June 30, 2019, 2018 and 2017.

Restricted Resources

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

Operating Revenues and Expenses

The Hospital’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital’s principal activity. Non-exchange revenues, not including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

The Hospital formed collaborations with the State and area rural hospitals to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy population. These collaborations enable the rural hospitals to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). During fiscal years 2019, 2018 and 2017 the Hospital acted as grantor for the UPL.

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses (Continued)

program for eight area rural hospitals. As grantor, the hospital received total grant funds of \$17,884,603, \$24,400,045 and \$21,809,692 under the program, which is included as Medicaid patient service revenue, and disbursed \$17,070,486, \$23,591,662 and \$21,020,507 to participating hospitals. In accordance with Medicaid reporting requirements, the total grant funds is included in net patient service revenue and the total disbursements to participating hospitals is included in operating expenses.

Grants and Contributions

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

Net Patient Service Revenue

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

Credit Risk

The Hospital is located in Homer, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital's estimate of collectability is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts. The Hospital 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 Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental healthcare entities.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 4. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
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NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters; except for workers compensation, general, and professional liability claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years. See Note 13 for discussion of professional and general liability risk.

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.

New Accounting Standards

ASU 2014-09, *Revenue from Contracts with Customers*, as amended will be effective for the Hospital's fiscal year beginning July 1, 2019. The hospital is evaluating the requirements of the new standard, but it is not expected to have a significant impact on the recognition of net revenues or related disclosures for any period.

NOTE 3 - DEPOSITS AND INVESTMENTS

Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds. Currently all amounts shown as investments are interest-bearing deposits. Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose "cash in banks" is comprised of the account balances according to the banks' records.

Account balances according to banks' records at June 30, 2019, for the Hospital are as follows:

	First Guaranty	Gibsland Bank and Trust	Citizens National
Cash in bank	\$ <u>2,724,664</u>	\$ <u>795,770</u>	\$ <u>494,256</u>
Insured by FDIC	\$ <u>250,000</u>	\$ <u>250,000</u>	\$ <u>250,000</u>
Collateralization at fair market value	\$ <u>2,474,664</u>	\$ <u>649,455</u>	\$ <u>297,050</u>
Uncollateralized	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Account balances according to banks' records at June 30, 2019, for the Foundation are as follows:

	First Guaranty	Gibbsland Bank
Cash in banks	\$ <u>35,659</u>	\$ <u>25,179</u>
Insured by FDIC	\$ <u>250,000</u>	\$ <u>250,000</u>
Collateralization at fair market value	\$ <u>-0-</u>	\$ <u>-0-</u>
Uncollateralized	\$ <u>-0-</u>	\$ <u>-0-</u>

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits might not be recovered. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. Claiborne Memorial Medical Center's deposits were entirely insured or collateralized by securities held by the pledging bank in the Hospital's name at June 30, 2019, 2018, and 2017. The Affiliate's (Foundation) had no uninsured deposits at June 30, 2019, 2018 and 2017.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value is to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The carrying amounts of deposits and investments are included in the Hospital's balance sheets at June 30 as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Carrying amount			
Deposits	\$ 2,584,410	\$ 713,981	\$ 3,252,131
Investments	<u>1,555,219</u>	<u>1,526,093</u>	<u>1,580,583</u>
Totals	\$ <u>4,139,629</u>	\$ <u>2,240,074</u>	\$ <u>4,832,714</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 2,584,410	\$ 713,981	\$ 3,252,131
Short-term investments	321,223	318,567	316,020
Assets limited as to use - current	126,784	126,930	126,922
Assets limited as to use - noncurrent	<u>1,107,212</u>	<u>1,080,596</u>	<u>1,137,641</u>
Totals	\$ <u>4,139,629</u>	\$ <u>2,240,074</u>	\$ <u>4,832,714</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 4 - RECEIVABLES, NET AND PATIENT SERVICE REVENUE

Accounts Receivable

A summary of net receivables at June 30 is presented below:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accounts receivable			
Patient accounts receivable, net of contractual allowances	\$ 3,464,724	\$ 4,498,630	\$ 4,214,268
Estimated uncollectibles	<u>(1,096,053)</u>	<u>(2,530,754)</u>	<u>(2,552,513)</u>
Net patient accounts receivable	2,368,671	1,967,876	1,661,755
Receivable - Medicaid Fiscal Intermediary	2,334,290	4,286,430	3,635,927
Third-party cost based settlements	<u>111,177</u>	<u>45,845</u>	<u>126,377</u>
Receivables, net	\$ <u>4,814,138</u>	\$ <u>6,300,151</u>	\$ <u>5,424,059</u>

The following is a summary of the mix of gross receivables from patients and third-party payors at June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare	41%	34%	29%
Medicaid	14%	15%	9%
Other third-party payors	11%	10%	12%
Others	<u>34%</u>	<u>41%</u>	<u>50%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Patient Service Revenue

Percentage mix of gross revenue for the years ended June 30, 2019, 2018 and 2017 for patient services rendered under contract with major third-party cost reimbursers follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare	56%	58%	57%
Medicaid	26%	24%	18%
Commercial	14%	14%	16%
Self-pay and other	4%	4%	9%
Total patient revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Hospital.

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
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NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 5 - ASSETS LIMITED AS TO USE

The components of assets limited as to use at June 30, is set forth in the following table. Investments are stated at fair value and are comprised primarily of certificates of deposit and money market brokerage accounts.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Restricted by third parties			
Capital improvement	\$ 86,029	\$ 82,204	\$ 160,491
Self-funded insurance fund	<u>126,784</u>	<u>126,772</u>	<u>126,764</u>
Total restricted by third parties	<u>212,813</u>	<u>208,976</u>	<u>287,255</u>
Internally designated by board			
Education fund	-0-	158	158
Long-term investment fund	795,771	787,068	779,535
Investment fund	<u>225,412</u>	<u>211,324</u>	<u>197,615</u>
Total internally designated by board	<u>1,021,183</u>	<u>998,550</u>	<u>977,308</u>
Total assets limited as to use	1,233,996	1,207,526	1,264,563
Less: Current portion	<u>126,784</u>	<u>126,930</u>	<u>126,922</u>
Non current assets limited as to use	<u>\$ 1,107,212</u>	<u>\$ 1,080,596</u>	<u>\$ 1,137,641</u>

NOTE 6 - OTHER CURRENT ASSETS

The following is a summary of other current assets at June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Sales tax receivable	\$ 59,050	\$ 57,419	\$ 69,731
Miscellaneous receivables	<u>7,485</u>	<u>1,525</u>	<u>881</u>
Balance, end of year	<u>\$ 66,535</u>	<u>\$ 58,944</u>	<u>\$ 70,612</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
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NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 7 - CAPITAL ASSETS

The following is a summary of capital assets and related accumulated depreciation at June 30:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Land and improvements	\$ 384,827	\$ -0-	\$ -0-	\$ 384,827
Buildings and improvements	12,361,043	-0-	2,820	12,358,223
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	7,062,949	45,370	462,908	6,645,411
Construction in progress	<u>70,255</u>	<u>69,969</u>	<u>41,189</u>	<u>99,035</u>
Total	19,899,694	115,339	506,917	19,508,116
Accumulated depreciation	<u>(13,987,283)</u>	<u>(623,676)</u>	<u>(464,731)</u>	<u>(14,146,228)</u>
Net	\$ <u>5,912,411</u>	\$ <u>(508,337)</u>	\$ <u>42,186</u>	\$ <u>5,361,888</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
Land and improvements	\$ 384,827	\$ -0-	\$ -0-	\$ 384,827
Buildings and improvements	12,361,043	-0-	-0-	12,361,043
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	10,539,549	522,682	3,999,282	7,062,949
Construction in progress	<u>123,088</u>	<u>269,512</u>	<u>322,345</u>	<u>70,255</u>
Total	23,429,127	792,194	4,321,627	19,899,694
Accumulated depreciation	<u>(17,325,502)</u>	<u>(618,174)</u>	<u>(3,956,393)</u>	<u>(13,987,283)</u>
Net	\$ <u>6,103,625</u>	\$ <u>174,020</u>	\$ <u>365,234</u>	\$ <u>5,912,411</u>
	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
Land and improvements	\$ 384,827	\$ -0-	\$ -0-	\$ 384,827
Buildings and improvements	12,289,785	71,258	-0-	12,361,043
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	9,863,563	675,986	-0-	10,539,549
Construction in progress	<u>382,262</u>	<u>387,332</u>	<u>646,506</u>	<u>123,088</u>
Total	22,941,057	1,134,576	646,506	23,429,127
Accumulated depreciation	<u>(16,596,121)</u>	<u>(729,381)</u>	<u>-0-</u>	<u>(17,325,502)</u>
Net	\$ <u>6,344,936</u>	\$ <u>405,195</u>	\$ <u>646,506</u>	\$ <u>6,103,625</u>

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NOTE 8 - LONG-TERM DEBT

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

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2019</u>	<u>Due Within One Year</u>
2015 Series bonds payable	374,000	-0-	46,000	328,000	48,000
Total	\$ 374,000	\$ -0-	\$ 46,000	\$ 328,000	\$ 48,000
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
2015 Series bonds payable	418,000	-0-	44,000	374,000	46,000
2011 Series B bonds payable	62,600	-0-	62,600	-	-0-
Total	\$ 480,600	\$ -0-	\$ 106,600	\$ 374,000	\$ 46,000
	<u>June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2017</u>	<u>Due Within One Year</u>
2015 Series bonds payable	460,000	-0-	42,000	418,000	44,000
2011 Series A bonds payable	29,702	-0-	29,702	-0-	-0-
2011 Series B bonds payable	167,690	-0-	105,090	62,600	62,600
Total	\$ 657,392	\$ -0-	\$ 176,792	\$ 480,600	\$ 106,600

The terms and due dates of the Hospital's long-term debt, at June 30, 2019, 2018 and 2017, follow:

- 4.0% 2011A Hospital revenue bonds, principal and interest payable in monthly payments of \$7,377, collateralized by a pledge of Hospital operating revenue. Bonds matured on November 16, 2016.
- 3.25% 2011B Hospital revenue bonds, principal and interest payable in monthly payments of \$9,040, collateralized by a pledge of Hospital operating revenue. Bonds matured on February 15, 2018.
- 3.75% 2015 Hospital revenue bonds, principal payable in annual installments due December 1 of each year, beginning at \$40,000 and increasing in increments of \$2,000- \$3,000 annually. Interest is payable in

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NOTE 8 - LONG-TERM DEBT (Continued)

- semi-annual installments. The bonds are collateralized by a pledge of Hospital operating revenue. Bonds mature on December 1, 2024.

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

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 48,000	11,400
2021	51,000	9,544
2022	53,000	7,594
2023	56,000	5,550
2024	59,000	3,394
2024	61,000	1,144
Total	\$ <u>328,000</u>	\$ <u>38,626</u>

NOTE 9 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The Hospital previously rented space for IOP Services from North Claiborne Hospital Service District No. 1 for \$2,500 per month on an annual renewal lease. During the year ended June 30, 2019, the Hospital Service District entered into a Cooperative Endeavor Agreement to manage and control the property previously leased. See Note 15 for discussion of the Cooperative Endeavor Agreement. All current operating leases are on a short-term renewal basis.

NOTE 10 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute, psychiatric and outpatient services rendered to Medicare program beneficiaries are paid primarily by prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare bad debts and are paid 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 difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

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NOTE 10 - NET PATIENT SERVICE REVENUE (Continued)

Medicaid - Inpatient acute and psychiatric services are reimbursed based on a prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate which is adjusted annually based on published market basket updates (inpatient) or adjusted cost-to-charge ratios per annual cost reports (outpatient) as submitted by the Hospital and settle by the Medicaid fiscal intermediary.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

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 Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amount becomes final. The Hospital does not anticipate significant adverse adjustments on cost reports which remain open.

Additionally, the Hospital foregoes charges relating to Medicare, Medicaid and other third-party payors.

Home health services are paid by Medicare under a per episode prospective payment system (PPS) and by Medicaid under a PPS per visit method. Commercial and uninsured visits are not significant.

Following is a schedule of patient service revenue at established rates and charges foregone for the years ended June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gross patient service charges	\$ 38,556,669	\$ 39,757,241	\$ 40,480,270
Medicaid UPL grants received as grantor	17,884,603	24,400,045	21,809,692
Medicare and Medicaid contractual adjustments	(16,400,610)	(19,265,443)	(19,372,145)
Other third-party payor contractual adjustments	(5,372,371)	(5,106,926)	(5,054,554)
Provision for bad debts	(1,551,858)	(1,444,342)	(1,742,430)
Charity care	-0-	(11,959)	(27,192)
	<hr/>	<hr/>	<hr/>
Net patient service revenue	\$ <u>33,116,433</u>	\$ <u>38,328,616</u>	\$ <u>36,093,641</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE 10 - NET PATIENT SERVICE REVENUE (Continued)

The Hospital receives a substantial portion of its revenue from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare and Medicaid gross patient charges	\$ 31,206,159	\$ 32,498,438	\$ 33,182,344
Contractual adjustments	<u>(16,400,610)</u>	<u>(19,265,443)</u>	<u>(19,372,145)</u>
Program patient service revenue without Medicaid UPL Intermediary Payments	\$ <u>14,805,549</u>	\$ <u>13,232,995</u>	\$ <u>13,810,199</u>
% of total gross patient charges from Medicare and Medicaid	<u>81%</u>	<u>82%</u>	<u>82%</u>
% of total net patient revenue from Medicare and Medicaid	<u>45%</u>	<u>35%</u>	<u>38%</u>

NOTE 11 - COMPENSATED ABSENCES

As of June 30, 2019, 2018, and 2017, the Hospital has accrued a compensated absence liability of \$339,406, \$336,000, and \$334,414, respectively. The Hospital pays accrued vacation absences upon termination, if proper notice and termination procedures are followed.

NOTE 12 -- RETIREMENT PLANS

Effective January 1, 2007, employees may participate in a qualified defined contribution retirement plan (exempt under Section 457(b) of the Internal Revenue Code). Each employee is eligible to join the plan upon completion of 90 days of continuous full-time employment. Employees are immediately 100% vested on contributions to the plan through a salary reduction agreement.

Effective January 1, 2007, the Hospital sponsors a money purchase pension plan (exempt under Section 401(a) of the Internal Revenue Code). The Hospital contributes a match amount equal to the 457(b) employee deferral contribution up to a maximum of 5% of compensation for eligible employees that are actively employed on the last day of each plan year.

Acuff and Associates is the third party administrator of the 457(b) and the 401(a) plans. The Board of Commissioners adopted these plans and may change the terms of the plans to improve administration and can, at their discretion, increase or decrease the contribution percentages.

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NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE 12 – RETIREMENT PLANS (Continued)

Following is a schedule that summarizes information regarding the defined contribution retirement plans in effect for the years ended June 30, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total payroll	\$ 7,602,000	\$ 8,066,000	\$ 7,426,000
Total covered payroll	7,602,000	8,066,000	7,378,000
Employee contributions	219,000	226,000	209,000
Employer contributions	170,000	176,000	170,000

NOTE 13 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. To the extent that resolution of contingencies results in amounts which vary from the Hospital’s estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 10) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare programs, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital’s Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital. The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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NOTE 13 – CONTINGENCIES (Continued)

Professional and General Liability Risk - Effective for claims filed after May 1, 2004, the Hospital discontinued professional and general liability insurance coverage through the Louisiana Hospital Association Trust Fund. The Hospital continues to participate in the Louisiana Patient’s Compensation Fund (“PCF”) established by the State of Louisiana to provide medical professional liability coverage to health care providers. The PCF provides for \$400,000 in coverage for actual claims (attorney fees are the Hospital’s responsibility) per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The PCF places no limitation on the number of occurrences covered. In connection with the establishment of the Patient’s Compensation Fund, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF’s exposure to \$400,000 per occurrence.

The Hospital included provision of \$55,000, \$45,000, and \$40,000 at June 30, 2019, 2018, and 2017, respectively, for professional liability losses and legal defense costs not covered by the Louisiana Patient’s Compensation Fund. The Hospital is contingently liable for losses and related defense costs from professional liability not underwritten by the Louisiana Patient’s Compensation Fund. The Hospital included no provision at June 30, 2019, 2018, and 2017 for uninsured general liability losses. The Hospital is contingently liable for losses and related defense costs from general liability.

A reconciliation of the changes in the aggregate uninsured professional and general liability is as follows:

	Professional/General Liability		
	2019	2018	2017
Balance, beginning of year	\$ 45,000	\$ 40,000	\$ 40,000
Claim payments	-0-	(10,456)	(32,038)
Change in estimate	(45,000)	(29,544)	(7,962)
Incurred claims	55,000	45,000	40,000
Balance, end of year	\$ 55,000	\$ 45,000	\$ 40,000

NOTE 14 - GRANT REVENUE

The Hospital recognized operating grant income of approximately \$1,129 and \$34,789 from Medicare during the years ended June 30, 2019 and 2017, respectively, as an incentive for implementing electronic health records (EHR). These amounts are included in noncapital grants. No payment was received in the year ended June 30, 2018. The key component of receiving the EHR incentive payments is “demonstrating meaningful use”, which is meeting a series of objectives that make use of an EHR’s potential related to the improvement of quality, efficiency, and patient safety. The Hospital’s policy is to record the incentive payments once various stages have been met rather than recognizing ratably throughout the attestation period. In order to receive the incentive payments under each stage, a hospital must attest through a secure mechanism that they have met the meaningful use criteria. The EHR payments each year are based on management’s best estimate. The payments

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NOTE 14 - GRANT REVENUE (Continued)

can be retained and additional payments can be earned for each stage if the Hospital meets certain criteria in future implementation. The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries.

The Hospital received grants of \$814,117, \$808,383, and \$789,185 in 2019, 2018 and 2017, respectively, to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the Hospital, along with other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement. The gross income from these grants is included in net patient service revenue and payments to other participating hospitals is shown as Intergovernmental transfers in operating expenses.

Various other grants were received during the year for other uses.

NOTE 15 – COOPERATIVE ENDEAVOR AGREEMENT

During FYE 2019, the Hospital Service District (HSD 3) entered into a Cooperative Endeavor Agreement with Claiborne Parish Hospital Service District #1 (HSD 1) which consolidated healthcare operations within Claiborne Parish and transferred control and management over facilities owned by HSD 1 to HSD 3. The Hospital's Intensive Outpatient Services program is located in one facility and the other is leased to a medical clinic. The Hospital began receiving monthly rental income from the medical clinic effective March, 2019. In addition, the Hospital received cash of \$208,000 from HSD 1, which has been recognized as revenue in FYE 2019.

NOTE 16 - CLAIBORNE HEALTHCARE FOUNDATION (AFFILIATE)

The accompanying combined financial statements include the accounts of the Foundation, with intercompany accounts eliminated. Foundation contributions received of \$39,531, \$19,470, and \$16,205 are included in capital grants and contributions for the years ended June 30, 2019, 2018, and 2017, respectively. Hospital support of operational expenses for the Foundation were \$10,030, \$153, and \$43,000 during years ended June 30, 2019, 2018, and 2017, respectively.

Following is a summary of net position and results of operations of the Foundation as of June 30, 2019, 2018, and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Limited use assets	\$ <u>86,029</u>	\$ <u>82,204</u>	\$ <u>160,491</u>
LIABILITIES			
Contribution Payable	-	20,037	54,663
NET POSITION	<u>86,029</u>	<u>62,167</u>	<u>105,828</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ <u>86,029</u></u>	<u>\$ <u>82,204</u></u>	<u>\$ <u>160,491</u></u>

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NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE 16 - CLAIBORNE HEALTHCARE FOUNDATION (AFFILIATE) (Continued)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
REVENUE			
Contributions from third parties	\$ 39,531	\$ 19,470	\$ 16,205
Non-cash contributions from Hospital	10,030	153	43,000
Interest & gain/loss on investments	<u>39</u>	<u>121</u>	<u>198</u>
Total Revenue	<u>49,600</u>	<u>19,744</u>	<u>59,403</u>
EXPENSES			
Grants to Claiborne Memorial Medical Center	15,556	63,277	58,880
Other expense	152	(25)	43
Administrative expense	<u>10,030</u>	<u>153</u>	<u>43,000</u>
Total Expenses	<u>25,738</u>	<u>63,405</u>	<u>101,923</u>
Increase (decrease) in net position	\$ <u>23,862</u>	\$ <u>(43,661)</u>	\$ <u>(42,520)</u>

NOTE 17 – RELATED PARTY TRANSACTIONS

Effective December 1, 2017, the Hospital entered into a month-to-month lease agreement with its former CEO for the residential property owned by the Hospital. The monthly rent is \$550 per month. The lease ended with the termination of the CEO's employment with the Hospital.

NOTE 18 - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through December 10, 2019, which is the date the financial statements were available to be issued.

In August, 2019, a lease agreement was signed for the one of the properties included in the Cooperative Endeavor Agreement discussed in Note 16. Under the lease agreement, the Hospital is receiving \$4,000 monthly rent income on the property.

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NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019, 2018 AND 2017

NOTE 18 - SUBSEQUENT EVENTS (Continued)

The Hospital has received two grants from the Department of Health and Human Services under the Rural Communities Opioid Response program related to development of an Opioid Treatment Facility, both of which are on a cost reimbursement basis. The initial grant of \$200,000, approved in May, 2019, is a one year grant for planning purposes. Subsequent to year-end, the hospital began making drawdowns on this grant. To date, \$54,796 has been received from this grant. The second grant has a 3 year project period for program implementation purposes. The initial award from this grant is \$1,000,000 for the budget period September 1, 2019 – August 31, 2020.

SUPPLEMENTARY FINANCIAL INFORMATION

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COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Routine services:			
Adult and pediatric	\$ 4,673,658	\$ 4,179,728	\$ 3,939,547
Intensive care unit	1,487,445	1,507,320	1,468,364
Senior care	1,251,972	1,490,993	2,360,846
IOP services	770,500	712,175	1,305,678
Swing bed	<u>228,438</u>	<u>409,689</u>	<u>390,285</u>
 Total routine services	 <u>8,412,013</u>	 <u>8,299,905</u>	 <u>9,464,720</u>
 Other professional services:			
Operating room			
Inpatient	96,696	122,780	130,458
Outpatient	<u>691,239</u>	<u>622,221</u>	<u>663,010</u>
 Total	 <u>787,935</u>	 <u>745,001</u>	 <u>793,468</u>
 Anesthesia			
Inpatient	54,925	45,370	70,460
Outpatient	<u>285,935</u>	<u>243,295</u>	<u>286,195</u>
 Total	 <u>340,860</u>	 <u>288,665</u>	 <u>356,655</u>
 Radiology			
Inpatient	1,256,650	1,250,311	1,305,003
Outpatient	<u>4,602,888</u>	<u>4,576,730</u>	<u>4,007,256</u>
 Total	 <u>5,859,538</u>	 <u>5,827,041</u>	 <u>5,312,259</u>
 Laboratory			
Inpatient	1,949,932	2,100,346	2,089,900
Outpatient	<u>2,831,497</u>	<u>3,512,735</u>	<u>3,162,505</u>
 Total	 <u>4,781,429</u>	 <u>5,613,081</u>	 <u>5,252,405</u>
 Blood			
Inpatient	263,025	345,601	317,111
Outpatient	<u>164,248</u>	<u>207,633</u>	<u>157,932</u>
 Total	 <u>\$ 427,273</u>	 <u>\$ 553,234</u>	 <u>\$ 475,043</u>

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COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Respiratory therapy			
Inpatient	\$ 2,666,216	\$ 3,236,391	\$ 3,505,897
Outpatient	<u>550,393</u>	<u>465,702</u>	<u>411,389</u>
Total	<u>3,216,609</u>	<u>3,702,093</u>	<u>3,917,286</u>
Physical therapy			
Inpatient	86,320	124,384	112,544
Outpatient	<u>184,645</u>	<u>143,445</u>	<u>106,756</u>
Total	<u>270,965</u>	<u>267,829</u>	<u>219,300</u>
Occupational therapy			
Inpatient	92,530	124,340	103,950
Outpatient	<u>257,555</u>	<u>175,905</u>	<u>154,340</u>
Total	<u>350,085</u>	<u>300,245</u>	<u>258,290</u>
Central supply			
Inpatient	481,438	448,784	462,333
Outpatient	<u>536,028</u>	<u>458,772</u>	<u>457,076</u>
Total	<u>1,017,466</u>	<u>907,556</u>	<u>919,409</u>
Pharmacy			
Inpatient	3,133,021	3,404,172	3,977,028
Outpatient	<u>1,990,143</u>	<u>1,907,904</u>	<u>2,028,721</u>
Total	<u>5,123,164</u>	<u>5,312,076</u>	<u>6,005,749</u>
Outpatient treatment area			
Outpatient	<u>289,005</u>	<u>227,667</u>	<u>244,743</u>
Total	\$ <u>289,005</u>	\$ <u>227,667</u>	\$ <u>244,743</u>

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COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Emergency room			
Inpatient	\$ 1,215,241	\$ 1,103,588	\$ 863,136
Outpatient	<u>5,461,990</u>	<u>5,651,673</u>	<u>5,632,661</u>
Total	<u>6,677,231</u>	<u>6,755,261</u>	<u>6,495,797</u>
Home health			
Skilled nursing visits	727,210	697,202	571,362
Physical therapy visits	228,165	219,155	159,265
Occupational therapy visits	1,068	-0-	-0-
Aide visits	29,810	32,670	27,500
Medical supplies	<u>16,843</u>	<u>8,560</u>	<u>7,019</u>
Total	<u>1,003,096</u>	<u>957,587</u>	<u>765,146</u>
UPL grant funds received as grantor	<u>17,884,603</u>	<u>24,400,045</u>	<u>21,809,692</u>
Other professional services			
Inpatient	11,295,994	12,306,067	12,937,820
Outpatient	17,845,566	18,193,682	17,312,584
Home health	<u>1,003,096</u>	<u>957,587</u>	<u>765,146</u>
Total other professional services	<u>30,144,656</u>	<u>31,457,336</u>	<u>31,015,550</u>
Gross patient service charges	<u>56,441,272</u>	<u>64,157,286</u>	<u>62,289,962</u>
Contractual adjustments	(21,772,981)	(24,372,369)	(24,426,699)
Provision for bad debts	(1,551,858)	(1,444,342)	(1,742,430)
Charity care	<u>-0-</u>	<u>(11,959)</u>	<u>(27,192)</u>
Total patient service allowances	<u>(23,324,839)</u>	<u>(25,828,670)</u>	<u>(26,196,321)</u>
Net patient service revenue	\$ <u>33,116,433</u>	\$ <u>38,328,616</u>	\$ <u>36,093,641</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OTHER OPERATING REVENUE
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cafeteria	\$ 165,919	\$ 137,865	\$ 116,832
Medical records	2,638	4,928	4,965
Vending machines	7,974	7,422	7,495
Rental income	5,304	3,763	-0-
Sales tax revenue	624,627	643,428	614,707
Pharmacy sales to employees	21,001	28,309	18,219
Medicaid Physician IPA	258,180	333,122	146,193
Gain (loss) on asset dispositions	(995)	(42,888)	-0-
Intergovernmental contribution - Claiborne HSD #1	208,481	-0-	-0-
Miscellaneous	<u>50,457</u>	<u>33,478</u>	<u>20,684</u>
Total other operating revenue	\$ <u>1,343,586</u>	\$ <u>1,149,427</u>	\$ <u>929,095</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries:			
Administrative and general	\$ 1,197,745	\$ 1,284,746	\$ 1,125,816
Plant operations and maintenance	87,656	95,310	87,128
Quality	39,325	36,822	7,334
Housekeeping	153,437	164,147	152,148
Dietary and cafeteria	189,766	181,654	176,931
Nursing administration	17,891	38,298	41,333
Central supply	88,919	109,476	88,615
Pharmacy	286,144	275,885	251,827
Medical records	217,984	182,971	212,902
Nursing services	1,263,837	1,531,695	1,312,099
Intensive OP services	176,989	254,437	238,762
Intensive care unit	659,979	597,912	515,828
Senior care unit	519,786	459,556	466,731
Operating room	240,343	354,465	343,675
Anesthesia	121,267	1,698	-0-
Radiology	289,828	314,997	312,692
Laboratory	469,927	509,387	407,810
Respiratory therapy	323,621	315,609	273,313
Emergency room	960,507	1,080,749	1,177,213
Home health	246,438	225,495	183,441
Outpatient treatment area	<u>51,066</u>	<u>50,653</u>	<u>50,699</u>
 Total salaries	 \$ <u>7,602,455</u>	 \$ <u>8,065,962</u>	 \$ <u>7,426,297</u>
 Benefits and payroll taxes:			
Payroll taxes	\$ 572,107	\$ 568,578	\$ 529,954
Health insurance	671,802	975,092	1,062,658
Other benefits	<u>394,982</u>	<u>374,288</u>	<u>251,931</u>
 Total benefits and payroll taxes	 \$ <u>1,638,891</u>	 \$ <u>1,917,958</u>	 \$ <u>1,844,543</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Administration	\$ 484,397	\$ 556,170	\$ 460,240
Housekeeping	106,836	106,591	106,198
Maintenance	5,620	10,253	5,204
Dietary	244,415	265,867	259,762
Medical records	28,674	4,868	17,531
Adults and pediatrics	116,732	116,891	126,179
Infection control	3,085	-0-	-0-
Intensive care unit	75,407	77,375	62,886
Intensive outpatient program	1,928	1,292	6,005
Emergency room	74,663	72,107	70,628
Operating room	65,885	69,614	69,303
Anesthesiology	271	5	466
Radiology	23,094	21,970	25,815
Laboratory	357,764	481,431	380,417
Blood	116,620	86,447	127,460
Physical therapy	507	2,045	2,171
Occupational therapy	152	202	47
Central supply	4,643	3,390	9,268
Respiratory therapy	65,484	49,323	39,655
Pharmacy	478,522	549,733	621,629
Outpatient treatment area	6,190	6,621	8,157
Quality	264	1,908	-0-
Home health	6,643	4,187	5,347
Senior care	<u>3,191</u>	<u>3,740</u>	<u>8,310</u>
 Total supplies and drugs	 \$ <u>2,270,987</u>	 \$ <u>2,492,030</u>	 \$ <u>2,412,678</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating room	\$ 5,000	\$ 350	\$ 750
Anesthesiology	-0-	-0-	750
Laboratory	105,413	83,272	89,762
Respiratory therapy	2,010	3,620	3,560
Physical therapy	142,894	141,675	122,448
Occupational therapy	169,789	134,703	127,685
Speech therapy	1,975	5,120	738
Pharmacy	42,466	36,490	52,728
Intensive care unit	-0-	22,581	1,686
Emergency room	1,189,380	1,073,902	750,778
Outpatient treatment area	104,353	85,023	95,512
Intensive OP services	54,500	30,528	39,965
Home health	78,533	70,210	60,760
Senior care	110,338	141,929	150,865
Dietary	21,073	16,562	21,805
Medical records	76,299	42,730	16,177
Med Surg unit	5,000	3,600	-0-
Quality	9,709	-0-	-0-
Administration	<u>143,098</u>	<u>85,583</u>	<u>151,522</u>
 Total professional fees	 \$ <u>2,261,830</u>	 \$ <u>1,977,878</u>	 \$ <u>1,687,491</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Legal and accounting	\$ 210,168	\$ 227,798	\$ 262,701
Repairs and maintenance	509,131	461,024	592,920
Utilities	271,111	313,270	290,985
Telephone	87,613	156,726	104,137
Travel	14,838	23,121	38,274
Rentals	267,100	272,600	273,838
License, inspection and membership fees	135,605	32,087	67,611
Education	34,664	34,412	45,908
Postage	27,394	27,224	25,627
Public relations	55,563	27,672	47,709
Education contracts	-0-	-0-	286
Miscellaneous	<u>114,644</u>	<u>128,327</u>	<u>86,214</u>
 Total other expenses	 \$ <u>1,727,831</u>	 \$ <u>1,704,261</u>	 \$ <u>1,836,210</u>

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
SCHEDULE OF PER DIEM AND
OTHER COMPENSATION PAID TO HOSPITAL BOARD MEMBERS
YEARS ENDED JUNE 30, 2019, 2018, AND 2017

	----- TERM -----		Compensation 2019
	<u>BEGAN</u>	<u>ENDING</u>	
Commissioners:			
Mr. Mark Alan Brown	Sept. 2014	Dec. 2021	None
Ms. Beverlee Kilgore	Sept. 2014	Dec. 2021	None
Mayor Xanthe Seals	Jan. 2019	Dec. 2023	None
Dr. Sam Abshire	Oct. 2015	Dec. 2020	None
Dr. Mark Haynes	Oct. 2015	Dec. 2020	None
Ms. Angela Kennedy	Jan. 2018	Dec. 2022	None
Mr. Sherman E. Brown	Oct. 2016	Dec. 2019	None
Mr. Kevin Gray	Jan. 2019	Dec. 2023	None
Mr. Albert L. Faulk	Sept. 2016	Dec. 2020	None

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2019

RISK COVERED	COVERAGE	PERIOD
Directors & Officers Liability	\$2,000,000	9/1/18-08/31/19
Commercial Insurance Package	Damage to Covered Property	\$45,613,115
	Time Element Loss	Included
	Expediting Expense	\$ 2,500,000
Physician & Surgeons Prof. Liability	LHA Physicians Trust Per Occurrence	\$100,000
	LHA Physicians Trust Annual Aggregate	\$300,000
	LA Patients Comp Fund	\$400,000
Commercial Automobile	Each Accident	\$1,000,000
Crime Policy	Employee Theft	\$500,000
	ERISA	\$500,000
	Computer Crime	\$500,000
	Funds Transfer Fraud	\$500,000
ER Physicians Liability	Each Medical Incident	\$1,000,000
	Aggregate	\$3,000,000
Senior Care General Liability	General Aggregate Limit	\$1,000,000
	Products / Completed Operations	Included
	Personal & Advertising Injury Limit	\$1,000,000
	Each Occurrence Limit	\$1,000,000
	Damage to Premises Rented	\$50,000
Patient's Compensation Fund	\$125,000	3/1/19- 2/28/20

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
 d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
 SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS
 TO AGENCY HEAD
 FOR THE YEAR ENDED JUNE 30, 2019

<u>Agency Head:</u>	<u>Toni Goodin, CEO</u>	<u>Tina Haynes, CEO</u>
Salary	213,176	12,164
Benefits – insurance	7,693	-
Benefits – retirement	9,314	608
Travel	3,262	-

OTHER REPORTS

HEARD, McELROY, & VESTAL

LLC

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Board of Directors
Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center
Homer, Louisiana

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

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 combined financial statements of Claiborne Parish Hospital Service District #3, d/b/a Claiborne Memorial Medical Center and its affiliate (the Hospital) as of and for the year ended June 30, 2019, and have issued our report thereon dated December 13, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, we consider the deficiency described in the accompanying schedule of findings and responses to be material weaknesses: 2019-02 and 2019-04.

We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2019-01 and 2019-03.

HMV

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

The Hospital's Response to Findings

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana
December 13, 2019

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a/ CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weaknesses identified – Yes
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – No

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

2019-01 - Revenues

Finding: The postings of various revenue items were misclassified during fiscal year 2019. This led to cost report receivables and other accounts being over or understated on an interim basis as well as at year end. The failure to share and seek documentation as to proper classification among management and the accounting staff contributed to these misclassifications.

Recommendation: Original correspondence from Medicare and Medicaid should be maintained in respective files for ease in locating documentation. Copies should be timely provided to relevant staff (top management plus payment information to accounting, billing information to the billing supervisor, etc.) with the routing tree on the original document. Training of staff to question unlabeled or questionable receipts will aid in mitigating the risk of future misclassifications.

Response: Entity was without a CFO for majority of the year. Newly hired CFO will institute procedures to verify that management and staff receive requisite documentation in a timely manner. Original correspondence will be maintained in files that are easily accessed by relevant staff. Staff will be trained to question unidentified receipts.

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a/ CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

Section II. Financial Statement Findings (Continued)

2019-02 - Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 115 places more responsibility on management to ensure the propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary to internally complete the reporting requirements. Under generally accepted auditing standards, this condition represents a control deficiency that is also considered to be a material weakness in internal controls.

Recommendation: Management should either: (a) obtain the resources necessary to internally prepare or review the auditor's preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost of "a" overrides the benefit of correcting this control deficiency.

Response: Due to the Hospital's size, the cost of obtaining and/or training personnel with the complete knowledge of GAAP would not be cost effective.

2019-03 - General Accounting

Finding: It was noted that certain detail schedules supporting balance sheet accounts had not been reconciled to the general ledger at year-end including home health and cost report related receivables, fixed asset and equity accounts. This required several adjusting entries to correct the general ledger balances to accurately reflect the activity.

Recommendation: Management should review with hospital personnel the proper procedures to insure that all detail information is reconciled to the general ledger on a monthly basis to insure proper financial reporting.

Response: Management is implementing review procedures to see that all detail information is reconciled prior to monthly financial statements being prepared. Improvements have been noted, but additional work is needed.

2019-04 - Bank Reconciliations

Finding: It was noted that monthly bank reconciliations were not being reconciled to the general ledger cash accounts. The primary variance was due to outstanding checks not properly being properly cleared from the reconciliation. Lack of independent review led to bank reconciliations not being agreed to general ledger accounts.

Recommendation: Management should review with hospital personnel the proper procedures to insure that all bank activity is reconciled to the general ledger on a monthly basis to insure proper financial reporting.

Response: Newly hired CFO is implementing new reconciliation procedures to see that all bank accounts are reconciled and reconciliations are independently reviewed prior to monthly financial statements being prepared.

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a/ CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

Section III. Federal Award Findings

Not applicable

Section IV. Management Letter

Not applicable

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

Section II. Financial Statement Findings

2018-01 - Revenues

Finding: The postings of various revenue items were misclassified during fiscal year 2018. This led to cost report receivables and other accounts being over or understated on an interim basis as well as at year end. Change in accounting personnel and the failure to share and seek documentation among management and the accounting staff contributed to these misclassifications.

Recommendation: Original correspondence from Medicare and Medicaid should be maintained in respective files for ease in locating documentation. Copies should be timely provided to relevant staff (top management plus payment information to accounting, billing information to the billing supervisor, etc.) with the routing tree on the original document. Training of staff to question unlabeled or questionable receipts will aid in mitigating the risk of future misclassifications.

Response: CFO will institute procedures to verify that management and staff receive requisite documentation in a timely manner. Original correspondence will be maintained in files that are easily accessed by relevant staff. Staff will be trained to question unidentified receipts.

Current status: Not resolved - See finding 2019-01.

2018-02 - Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 115 places more responsibility on management to ensure the propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary to internally complete the reporting requirements.

Recommendation: Management should either: (a) obtain the resources necessary to internally prepare or review the auditor's preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost of "a" overrides the benefit of correcting this control deficiency.

Response: Due to the Hospital's size, the cost of obtaining and/or training personnel with the complete knowledge of GAAP would not be cost effective.

Current status: Not resolved – See finding 2019-02.

CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
d/b/a CLAIBORNE MEMORIAL MEDICAL CENTER AND AFFILIATE
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

Section II. Financial Statement Findings (Continued)

2018-03 - General Accounting

Finding: It was noted that certain detail schedules supporting balance sheet accounts had not been reconciled to the general ledger at year-end and that the final payroll of the year was recorded as paid even though it was paid after year-end. This required several adjusting entries to correct the general ledger balances to accurately reflect the activity.

Recommendation: Management should review with hospital personnel the proper procedures to insure that all detail information is reconciled to the general ledger on a monthly basis to insure proper financial reporting.

Response: Management is implementing review procedures to see that all detail information is reconciled prior to monthly financial statements being prepared. Improvements have been noted, but additional work is needed.

Current status: Not resolved – See finding 2019-03.

Section III. Federal Award Findings

Not applicable

Section IV. Management Letter

Not applicable

**CLAIBORNE PARISH HOSPITAL SERVICE DISTRICT #3
D/B/A CLAIBORNE MEMORIAL MEDICAL CENTER**

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2019

HEARD, McELROY, & VESTAL

—LLC—
CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center
Homer, Louisiana

Louisiana Legislative Auditor
Baton Rouge, Louisiana

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

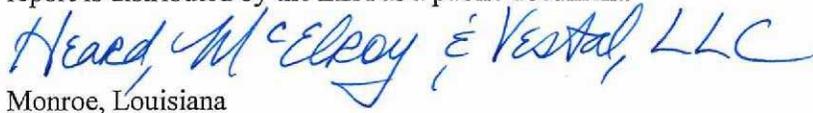
We have performed the procedures enumerated below, which were agreed to by Claiborne Memorial Medical Center (CMMC) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2018 through June 30, 2019. CMMC's management is responsible for those C/C areas identified in the SAUPs.

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

The findings obtained are described in the attachment to this report.

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

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


Monroe, Louisiana

December 13, 2019

**SUPPLEMENT TO INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Claiborne Parish Hospital Service District #3
d/b/a Claiborne Memorial Medical Center

Agreed-Upon Procedures and Findings
Year Ended June 30, 2019

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget
 - b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) ***Disbursements***, including processing, reviewing, and approving
 - d) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
 - e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process
 - g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
 - h) ***Travel and expense reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
 - i) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised 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) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- k) **Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

Findings:

Budgeting policy does not address monitoring, or amending.

Purchasing policy does not address adding vendors to the vendor list.

Entity does not have a receipts/collections policy.

Entity does not have a policy on contracts.

Ethics policy does not address employees annually attesting to reading the ethics policy.

Board or Finance Committee

Not applicable because of no exceptions in previous year.

Bank Reconciliations

Not applicable because of no exceptions in previous year.

Collections

Not applicable because of no exceptions in previous year.

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

- 8. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.
- 9. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
10. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Findings:

The entity is not consistently documenting the business/public purpose of the credit card transaction.

The entity is not documenting the persons attending the meal on the receipt.

Disbursements

11. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
12. 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.
13. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's

representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

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

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

Findings:

The controller has rights and authority to add vendors and approve payments.

The accounts payable clerk's duties include processing payments and mails signed checks.

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

Not applicable because of no exceptions in previous year.

Contracts

Not applicable because of no exceptions in previous year.

Payroll and Personnel

Not applicable because of no exceptions in previous year.

Ethics

14. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above obtain ethics documentation from management, and:
- a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Findings:

Entity is not having employees attest to reading the Ethics policy annually.

Debt Service

Not applicable because entity does not have the authority to issue debt.

Other

Not applicable because of no exceptions in previous year.

Management's Response

Management understands the importance of having policies and procedures in place addressing critical areas and being able to monitor those policies and procedures for compliance. Management is in the process of updating policies and procedures to address the critical areas and will consider the findings noted in this document as the policies and procedures are being adopted or updated. Management will also review procedures currently in place that do not meet the LLA's requirements to determine any necessary changes to ensure compliance in future periods.