

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND BASIC FINANCIAL STATEMENTS  
Hospital Service District No. 1 of the Parish of  
Tangipahoa, State of Louisiana**

Years Ended June 30, 2018 and 2017  
With Report of Independent Auditors

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## Report of Independent Auditors



## INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners  
Hospital Service District No. 1 of the Parish of  
Tangipahoa, State of Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance 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 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*HORNE LLP*

Ridgeland, Mississippi  
October 25, 2018

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis  
Years Ended June 30, 2018 and 2017**

This section of the annual financial report of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the District), presents background information and management's analysis of the District's financial performance. Please read it in conjunction with the basic financial statements in this report.

**Required Financial Statements**

The basic financial statements of the District report information about the District using Governmental Accounting Standards Board ("GASB") accounting principles. These statements offer short-term and long-term financial information about the District's activities. The statements of net position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. Increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net position. This statement measures changes in the District's operations over the past year and can be used to determine whether the District has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statements are the statements of cash flows. The primary purpose of this statement is to provide information about the District's cash from operations, investing, and financing activities and to provide answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)**  
Years Ended June 30, 2018 and 2017

**District Statements of Net Position**

A summary of the District's statements of net position for years June 30, 2018 through 2016 is presented in Table 1 below:

**TABLE 1  
Condensed Statements of Net Position**

	<b>2018</b>	<b>June 30 2017</b>	<b>2016</b>
Total current assets	<b>\$</b> 108,590,316	<b>\$</b> 109,690,658	<b>\$</b> 107,147,939
Capital assets – net	221,228,187	224,270,527	232,512,326
Other assets, including board-designated investments	117,341,250	89,525,782	92,380,446
Total assets and deferred outflows	<b>\$</b> 447,159,753	<b>\$</b> 423,486,967	<b>\$</b> 432,040,711
Current liabilities	<b>\$</b> 75,408,124	<b>\$</b> 50,941,914	<b>\$</b> 48,763,633
Long-term debt outstanding and other long-term liabilities	184,055,347	189,970,336	195,563,598
Total liabilities	259,463,471	240,912,250	244,327,231
Net position:			
Net investment in capital assets	32,855,117	29,978,463	32,575,742
Restricted net position	21,819,549	21,821,116	22,024,661
Unrestricted net position	133,021,616	130,775,138	133,113,077
Total liabilities and net position	<b>\$</b> 447,159,753	<b>\$</b> 423,486,967	<b>\$</b> 432,040,711

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)**  
Years Ended June 30, 2018 and 2017

**Summary of District's Income**

The following table contains a summary of income and changes in net position of the District for the years June 30, 2018 through 2016:

**TABLE 2  
Condensed Statements of Revenue, Expenses, and Changes in Net Position**

	Year Ended June 30		
	2018	2017	2016
Revenue:			
Net patient service revenue	\$ 276,790,387	\$ 290,066,347	\$ 290,441,558
Other	37,123,841	8,016,982	5,618,409
Total operating revenue	313,914,228	298,083,329	296,059,967
Expenses:			
Salaries and employee benefits	198,984,612	191,122,228	188,993,091
Supplies, contract services, equipment, and fees	72,239,855	73,314,064	71,255,738
Other operating expenses	16,784,728	17,218,145	17,943,037
Depreciation	14,337,236	15,292,642	16,314,442
Interest	10,685,565	10,983,888	11,014,835
Total operating expenses	313,031,996	307,930,967	305,521,143
Operating income (loss)	882,232	(9,847,638)	(9,461,176)
Investment income	1,306,611	1,026,295	1,118,207
Other nonoperating income	2,932,722	3,682,580	2,324,114
Increase (decrease) in net position	5,121,565	(5,138,763)	(6,018,855)
Net position at beginning of year	182,574,717	187,713,480	193,732,335
Net position at end of year	\$ 187,696,282	\$ 182,574,717	\$ 187,713,480

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)**  
Years Ended June 30, 2018 and 2017

**Statistical Summary**

Overall activities at the District, as measured by patient admissions, decreased 2 percent to 17,453 total admissions in 2018 from 17,866 total admissions in 2017.

Outpatient registrations remained flat with 113,586 in 2018 compared to 113,823 in 2017. ER visits decreased 2 percent to 77,862 in 2018 from 79,603 in 2017. Clinic visits increased 4 percent to 293,356 in 2018 from 283,310 in 2017 due to new clinics and increasing volume.

From an operational perspective, the District continues to focus on quality of patient care and safety, patient and employee satisfaction, growth, and cost reduction.

**TABLE 3  
Patient and Hospital Statistical Data**

	Year Ended June 30		
	2018	2017	2016
Admissions:			
Adult and Pediatric	11,352	11,471	10,468
Observation	4,337	4,564	5,360
Newborn and Neonatal Intensive Care Unit	1,235	1,260	1,323
Comprehensive Medical Rehabilitation services	529	571	508
Patient days:			
Adult and Pediatric	53,778	57,251	54,905
Observation	7,033	7,286	10,283
Medicare (included in Adult and Pediatric)	31,968	33,709	31,340
Medicaid (included in Adult and Pediatric)	12,726	12,880	8,523
Newborn and Neonatal Intensive Care Unit	4,714	4,210	4,718
Comprehensive Medical Rehabilitation services	6,068	6,244	5,548
Operating room patients	11,476	11,992	12,676
Outpatient registrations	113,586	113,823	111,055
Emergency room visits	77,862	79,603	73,573
Clinic visits	293,356	283,310	265,333
Average daily census:			
Adult and Pediatric	147	157	150
Observation	19	20	28
Comprehensive Medical Rehabilitation services	17	17	15
Average length of stay (excluding newborn):			
All patients	5.0	5.2	5.4
Observation	1.6	1.6	1.9
Medicare patients	5.2	5.5	5.7
Medicaid patients	4.1	4.4	4.1
Comprehensive Medical Rehabilitation services	11.4	11.1	10.8
Percentage of total patient days:			
Medicare	59.44%	58.88%	57.08%
Medicaid	23.66%	22.50%	15.52%
Full-time equivalents (FTEs)	2,267	2,216	2,249

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)  
Years Ended June 30, 2018 and 2017**

**Financial Analysis of the District**

**Financial Highlights for the Year Ended June 30, 2018**

- During the fiscal year, the District made capital investments for a total of approximately \$11,295,000. The following is a list of significant items:

<b>Capital Investments</b>	<b>2018 Cost</b>
Medical equipment	\$4,294,000
Cath Lab additions	1,289,000
Infor Enterprise Resource Planning software implementation	1,625,000
Strata Decision Support software implementation	272,000

The source of the funding for these projects was derived from operations.

- The District's long-term debt outstanding decreased by \$5,919,000 or 3 percent, due to principal payments made during fiscal year 2018.
- During fiscal year 2018, the District continued focusing on improving net revenues and reducing cost.

**Financial Highlights for the Year Ended June 30, 2017**

- During the fiscal year, the District made capital investments for a total of approximately \$7,062,000. The following is a list of significant items:

<b>Capital Investments</b>	<b>2017 Cost</b>
Medical equipment	\$ 3,251,000
EPIC enhancements / upgrades	1,489,000
Hospital renovations	618,000

The source of the funding for these projects was derived from operations.

- The District's long-term debt outstanding decreased by \$5,645,000 or 3 percent, due to principal payments made during fiscal year 2017.
- During fiscal year 2017, the District continued focusing on reducing average length of stay ("ALOS"). ALOS for adult and pediatric patients decreased to 5.0 in fiscal year 2017 from 5.4 in fiscal year 2016. ALOS for observation patients decreased to 1.6 in fiscal year 2017 from 1.9 in fiscal year 2016 as well.
- The District saw an increase in emergency room visits, which increased by 6,030 or 8 percent in fiscal year 2017. Clinic visits increased by 17,977 or 7 percent as a result of the continued growth of the District's Physician Clinic Network.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)  
Years Ended June 30, 2018 and 2017**

**Overview of the Financial Statements**

**Sources of Revenue**

*Operating Revenue*

During fiscal year 2018, the District derived the majority, approximately 88 percent, of its total revenue from patient service revenue. During fiscal years 2017 and 2016 approximately 97 and 98 percent, respectively, of the District's revenue was derived from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs, other third-party payors, and patients. Reimbursement for the Medicare and Medicaid programs and other third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract rates is recognized as a contractual allowance.

Table 4, Payor Mix by Percentage of Gross Charges, presents the relative percentages of gross charges billed for patient services by payor for the 2018, 2017, and 2016 fiscal years.

**TABLE 4  
Payor Mix by Percentage of Gross Charges**

	Year Ended June 30		
	2018	2017	2016
Medicare	50%	50%	50%
Medicaid	28	28	20
Managed care	17	17	19
Commercial insurance	4	4	5
Uninsured	1	1	6
Total patient revenues	100%	100%	100%

The increase in Medicaid percentage is due to the Medicaid Expansion in the state. The decrease in uninsured percentages is due to the shift from uninsured patients to Medicaid also as a result of the Medicaid Expansion. The District also saw a decrease in Managed Care percentages as some of these patients also shifted to Medicaid due to the expanded eligibility requirements.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)  
Years Ended June 30, 2018 and 2017**

*Other Revenue*

The following table summarizes other revenue:

**TABLE 5  
Other Revenue**

	Year Ended June 30		
	2018	2017	2016
Cafeteria	\$ 1,129,554	\$ 1,076,229	\$ 1,127,419
Ideal Protein	196,784	218,631	269,462
Gift shop	221,036	226,113	247,824
Rental income	173,847	164,272	219,072
X-ray school income	111,240	117,657	93,408
Pharmacy and retail programs	2,874,556	1,936,405	1,176,334
EHR Meaningful Use incentive	82,172	1,061,075	1,819,276
Professional services subsidy	30,617,416	2,346,329	-
Miscellaneous	1,717,236	870,271	665,614
<b>Total other revenue</b>	<b>\$ 37,123,841</b>	<b>\$ 8,016,982</b>	<b>\$ 5,618,409</b>

In 2018 and 2017, the District recognized revenue due from the Medicare and Medicaid programs for the meaningful use of certified EHR technology by eligible providers in accordance with the American Recovery and Reinvestment Act of 2009. The amounts recorded in fiscal years 2018 and 2017 were \$82,000 and \$1,061,000, respectively. The receipt of Meaningful Use funds is dependent upon the settlement of the program year.

*Investment Income*

As a Hospital Service District governed by the State of Louisiana, the District is authorized by Louisiana statutes to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The District holds designated and restricted funds that are invested primarily in money market funds, certificates of deposit, and securities issued by the U.S. Treasury and other federal agencies. These investments had a total return of approximately \$1,307,000, \$1,026,000 and \$1,118,000 during fiscal years 2018, 2017, and 2016, respectively.

*Other Nonoperating Income*

Other nonoperating income of approximately \$2,329,000 in 2018, \$2,323,000 in 2017, and \$2,324,000 in 2016, was related to subsidies received from the U.S. Department of the Treasury related to the 2009A Build America Bonds issued in fiscal year 2010.

An escrow account was established in order to distribute \$1,611,000 from a settlement agreement related to the remediation and correction of certain HVAC system design/construction deficiencies in the specifications of the North Oaks Expansion project. The escrow account was funded by the

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)**  
Years Ended June 30, 2018 and 2017

Overview of the Financial Statements (Continued)

insurers of the architect and mechanical design engineer who entered into the settlement agreement for the purpose of funding the cost of remediation. As designed and installed, the original HVAC system servicing the operating room areas was inadequate to meet cooling specifications. The revenues recognized from the settlement represent the payout thus far to remedy the deficiencies. The amount recognized was approximately \$395,000 and \$1,227,000 during fiscal years 2018 and 2017, respectively.

In 2018, other nonoperating income also included approximately \$209,000 in grants received.

**Allowances and Expense**

The District reports net patient service revenue in the statements of revenue, expenses, and changes in net position. Net patient service revenue represents gross patient revenue, net of allowances.

In 2018, net patient service revenue decreased to \$276.8M from \$290.1M in 2017 due to increased provider assessment tax and intergovernmental transfers to the state.

Allowances decreased over prior years as described in the table below:

**TABLE 6  
Allowance Summary**

	Year Ended June 30		
	2018	2017	2016
Allowances:			
Provision for bad debts and charity care	\$ 46,727,169	\$ 46,820,173	\$ 121,010,550
Managed Care and other contractual allowances	268,320,731	279,268,386	317,894,802
Medicare Advantage contractual allowances	312,042,481	294,320,978	276,356,368
Medicare contractual allowances	480,080,133	512,436,122	531,305,777
Medicaid contractual allowances	450,760,952	451,696,865	330,883,605
	<u>\$ 1,557,931,466</u>	<u>\$ 1,584,542,524</u>	<u>\$ 1,577,451,102</u>

Salaries expense increased approximately \$6,000,000 or 4 percent, to \$168,201,000 in 2018 from \$162,133,000 in 2017. The District continued its efforts to recruit physicians and advances practitioners to meet the medical needs of the community.

As a percentage of salaries expense, employee benefit expense was approximately 18 percent for the fiscal years ended June 30, 2018 and 2017.

Supplies expense increased approximately \$417,000, or 1 percent, from the prior year.

Contract services, equipment, and fees decreased approximately \$1,491,000 or 6 percent, from the prior year.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)**  
Years Ended June 30, 2018 and 2017

Other operating expenses decreased approximately \$433,000, or 3 percent, from the prior year.

Depreciation expense decreased approximately \$955,000, or 6 percent, from the prior year.

Interest expense decreased approximately \$298,000, or 3 percent, from the prior year.

Total operating expenses increased by \$5,101,000, or 2 percent, for the year ended June 30, 2018, for the reasons discussed above. The District continues cost reduction measures to control expenses.

Investment income consists of interest earnings on funds and realized and net unrealized gain or loss on fair market value adjustments. Total investment income increased by \$280,000, or 27 percent, from the prior year.

The following summarizes the District's statements of revenue, expenses, and changes in net position between 2017 and 2016:

The District reports net patient service revenues in the statements of revenue, expenses, and changes in net position. Net patient services revenue represents gross patient revenue, net of allowances.

In 2017, net patient service revenue decreased to \$290.1M from \$290.4M in 2016 due to Medicaid expansion, with shifted volume from Managed Care and Uninsured to Medicaid.

Allowances increased over prior years as described in the table below:

**TABLE 7  
Allowance Summary**

	Year Ended June 30		
	2017	2016	2015
Allowances:			
Provision for bad debts and charity care	\$ 46,820,173	\$ 121,010,550	\$ 102,308,236
Managed care and other contractual allowances	279,268,386	317,894,802	310,528,387
Medicare Advantage contractual allowances	294,320,978	276,356,368	269,025,086
Medicare contractual allowances	512,436,122	531,305,777	564,295,981
Medicaid contractual allowances	451,696,865	330,883,605	336,574,964
	<u>\$ 1,584,542,524</u>	<u>\$ 1,577,451,102</u>	<u>\$ 1,582,732,654</u>

Provision for bad debts decreased approximately \$74,190,000, or 61 percent, to \$46,820,000 in 2017 from \$121,011,000 in 2016. This is due to a shift in payor mix from Uninsured to Medicaid because of the Medicaid expansion in Louisiana.

Salaries expense increased approximately \$929,000, or 1 percent, to \$162,133,000 in 2017 from \$161,204,000 in 2016.

As a percentage of salaries expense, employee benefit expense was approximately 18 percent and 17 percent for the fiscal years ended June 30, 2017 and 2016, respectively. Supplies expense

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)  
Years Ended June 30, 2018 and 2017**

increased approximately \$479,000, or 1 percent, from the prior year. The Trauma Program has caused an increase in supplies expense. The District implemented a supply cost saving initiative in fiscal year 2015. This resulted in savings and cost avoidance of approximately \$1,307,000 and \$1,708,000 in 2017 and 2016, respectively.

Contract services, equipment, and fees increased approximately \$1,579,000, or 7 percent, from the prior year due to fees associated with a revenue cycle improvement initiative which generated a recurring net revenue benefit of \$6.9M per year.

Other operating expenses decreased approximately \$725,000, or 4 percent, from the prior year.

Depreciation expense decreased approximately \$1,022,000, or 6 percent, from the prior year.

Interest expense decreased approximately \$31,000, or less than 1 percent, from the prior year.

Total operating expenses increased by \$2,410,000, or 1 percent, for the year ended June 30, 2017, for the reasons discussed above.

Investment income consists of interest earnings on funds and realized and net unrealized gain or loss on fair market value adjustments. Total investment income decreased by \$92,000 or 1 percent, from the prior year. This was due to unrealized loss in investments.

**Capital Assets**

During fiscal years 2018, 2017 and 2016, the District invested approximately \$11,295,000, \$7,062,000 and \$7,552,000 respectively, in a broad range of property, plant, and equipment included in Table 8 below.

**TABLE 8  
Capital Assets**

	<b>2018</b>	<b>June 30 2017</b>	<b>2016</b>
Land	\$ 7,457,774	\$ 7,455,974	\$ 7,455,974
Building and equipment	491,901,417	482,189,672	477,464,144
Subtotal	499,359,191	489,645,646	484,920,118
Less accumulated depreciation	281,975,479	268,086,440	253,697,010
Construction in progress	3,844,475	2,711,321	1,289,218
Net capital assets	<b>\$ 221,228,187</b>	<b>\$ 224,270,527</b>	<b>\$ 232,512,326</b>

**Long-Term Debt**

At June 30, 2018, the District had approximately \$188,373,000 in short-term and long-term debt. Total debt decreased by approximately \$5,919,000 in fiscal year 2018 from \$194,292,000 in fiscal year 2017 due to principal payments.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)**  
Years Ended June 30, 2018 and 2017

At June 30, 2017, the District had approximately \$194,292,000 in short-term and long-term debt. Total debt decreased by \$5,645,000 in fiscal year 2017 from \$199,937,000 in fiscal year 2016 due to principal payments.

More detailed information about the District's long-term debt is presented in the notes to basic financial statements.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Management's Discussion and Analysis (continued)**  
Years Ended June 30, 2018 and 2017

**Contacting the District's Financial Officer**

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

## Basic Financial Statements

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**

Statements of Net Position  
June 30, 2018 and 2017

	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets and deferred outflows</b>		
Current assets:		
Cash and cash equivalents	\$ 9,109,022	\$ 17,994,846
Patient accounts receivable, net of allowance for uncollectibles of \$51,174,056 and \$58,545,543 in 2018 and 2017, respectively	53,363,866	58,417,258
Current portion of designated cash and investments	6,555,156	6,898,329
Estimated third-party payor settlements – Medicare and Medicaid	12,204,374	13,444,707
Inventories	6,784,494	6,390,681
Prepaid expenses and other current assets	20,573,404	6,544,837
Total current assets	108,590,316	109,690,658
Designated cash and investments:		
Under bond indenture agreement held by trustee	21,837,346	22,232,982
By Board for plant and equipment additions and replacements	90,797,715	63,790,260
By Board for self-insurance claims	625,185	617,019
	113,260,246	86,640,261
Less current portion	6,555,156	6,898,329
Noncurrent designated cash and investments	106,705,090	79,741,932
Capital assets:		
Land	7,457,774	7,455,974
Buildings and equipment	491,901,417	482,189,672
Construction in progress	3,844,475	2,711,321
	503,203,666	492,356,967
Less accumulated depreciation	281,975,479	268,086,440
Capital assets, net	221,228,187	224,270,527
Prepaid bond insurance costs	3,921,681	4,134,575
Deferred compensation plan investments	1,882,277	1,588,272
Other long-term assets	4,760,715	3,978,657
Total assets	447,088,266	423,404,621
<b>Deferred outflows of resources</b>	71,487	82,346
Total assets and deferred outflows	\$ 447,159,753	\$ 423,486,967

See accompanying notes.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Statements of Net Position (continued)  
June 30, 2018 and 2017

	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Liabilities and net position</b>		
Current liabilities:		
Accounts payable	\$ 15,668,146	\$ 17,435,597
Accrued salaries and payroll-related costs	12,176,406	11,431,681
Accrued interest payable	4,166,988	4,256,424
Accrued self-insurance claims	6,328,615	6,803,689
Current portion of long-term debt	6,200,000	5,910,000
Deferred revenue	30,850,969	4,692,657
Deferred gain	17,000	411,866
Total current liabilities	75,408,124	50,941,914
Long-term debt, excluding current portion	182,173,070	188,382,064
Deferred compensation plan obligations	1,882,277	1,588,272
Total liabilities	259,463,471	240,912,250
<b>Net position</b>		
Net investment in capital assets	32,855,117	29,978,463
Restricted net position	21,819,549	21,821,116
Unrestricted net position	133,021,616	130,775,138
Total net position	187,696,282	182,574,717
Total liabilities and net position	\$ 447,159,753	\$ 423,486,967

See accompanying notes.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Statements of Revenue, Expenses, and Changes in Net Position  
Years Ended June 30, 2018 and 2017

	<b>Year Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
Revenue:		
Net patient service revenue	\$ 315,585,764	\$ 320,627,935
Provision for doubtful accounts	(38,795,377)	(30,561,588)
	276,790,387	290,066,347
Total net patient service revenue		
Other	37,123,841	8,016,982
	313,914,228	298,083,329
Total operating revenue		
Expenses:		
Salaries	168,201,056	162,133,174
Employee benefits	30,783,556	28,989,054
Supplies	49,134,594	48,717,665
Contract services, equipment, and fees	23,105,261	24,596,399
Other operating expenses	16,784,728	17,218,145
Depreciation	14,337,236	15,292,642
Interest	10,685,565	10,983,888
	313,031,996	307,930,967
Total operating expenses		
Income (loss) from operations	882,232	(9,847,638)
Nonoperating income:		
Investment income (loss):		
Investment income	1,600,807	1,363,787
Unrealized loss on investments	(294,196)	(307,832)
Realized loss on investments	-	(29,660)
	1,306,611	1,026,295
Total investment income		
Other nonoperating income	2,932,722	3,682,580
	4,239,333	4,708,875
Total nonoperating income		
Increase (decrease) in net position	5,121,565	(5,138,763)
Net position at beginning of year	182,574,717	187,713,480
Net position at end of year	\$ 187,696,282	\$ 182,574,717

See accompanying notes.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Statements of Cash Flows  
Years Ended June 30, 2018 and 2017

	<b>Year Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Cash collected from patients and third-party payors	\$ 291,598,237	\$ 299,262,718
Cash payments to employees and for employee-related costs	(198,714,961)	(190,707,574)
Cash payments for supplies, services, and other prepaid expenses	(105,791,790)	(94,271,150)
Cash received from supplemental program	54,768,028	7,038,986
Net cash provided by operating activities	41,859,514	21,322,980
<b>Noncapital financing activities</b>		
Noncapital grants and contributions	208,656	132,580
Net cash provided by noncapital financing activities	208,656	132,580
<b>Capital and related financing activities</b>		
Purchases of capital assets	(11,112,386)	(7,360,908)
Proceeds from sale of fixed assets	-	2,550
Principal payments on long-term debt incurred for capital purposes	(5,910,000)	(5,635,000)
Interest payments on long-term debt	(10,560,243)	(10,827,042)
Proceeds from insurance settlement	394,867	1,227,134
Build America Bond subsidy	2,329,200	2,322,867
Net cash used in capital and related financing activities	(24,858,562)	(20,270,399)
<b>Investing activities</b>		
Investment income	1,600,807	1,363,785
Purchases of designated cash and investments	(73,960,615)	(19,494,943)
Proceeds from sales and maturities of designated cash and investments	46,264,376	22,053,964
Net cash provided by (used in) investing activities	(26,095,432)	3,922,806
Net change in cash	(8,885,824)	5,107,967
Cash and cash equivalents at beginning of year	17,994,846	12,886,879
Cash and cash equivalents at end of year	\$ 9,109,022	\$ 17,994,846

*See accompanying notes.*

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Statements of Cash Flows (continued)  
Years Ended June 30, 2018 and 2017

	<b>Year Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Reconciliation income from operations to net cash provided by operating activities</b>		
Income from operations	\$ 882,232	\$ (9,847,638)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	14,337,236	15,292,642
Provision for bad debts	38,795,377	30,561,588
Gain on sale of capital assets	-	8,446
Amortization of prepaid bond insurance costs	212,894	288,034
Amortization of premium on long-term debt	(8,995)	(9,520)
Amortization of deferred outflows of resources	10,859	10,859
Interest expense on long-term debt and capital lease obligations	10,470,807	10,694,515
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(33,741,985)	(21,328,072)
Inventories, prepaid expenses, and other assets	(14,422,380)	(1,318,118)
Estimated third-party payor settlements – Medicare and Medicaid	1,240,333	(5,716,244)
Deferred revenue	26,158,312	4,692,657
Accounts payable, accrued salaries, payroll-related costs, and other accrued expenses	(2,075,176)	(2,006,169)
	<b>\$ 41,859,514</b>	<b>\$ 21,322,980</b>

See accompanying notes.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 1. Organization and Significant Accounting Policies**

**Organization**

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District"), is a political subdivision of the State of Louisiana created by ordinance of the Tangipahoa Parish Police Jury, which is now the Parish Council, adopted on May 17, 1955, pursuant to Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, as amended. The District is governed by a Board of Commissioners consisting of five members appointed by the Parish Council.

Founded in 1954 by the citizens of Tangipahoa Parish and opening its doors on April 20, 1960, as a 60-bed, nonprofit public hospital service district facility, the former "Seventh Ward General Hospital" has evolved into what is now commonly known as the North Oaks Health System (the "System").

The System completed a restructuring in 2012 that resulted in formation of the following subsidiaries: (i) North Oaks Medical Center, L.L.C. ("NOMC"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's acute-care hospital known as North Oaks Medical Center pursuant to a Management Services Agreement between the District and the NOMC Affiliate; North Oaks Medical Center is currently licensed for 330 beds; (ii) North Oaks Rehabilitation Hospital, L.L.C. ("NORH"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's comprehensive medical rehabilitation hospital known as North Oaks Rehabilitation Hospital pursuant to a Management Services Agreement between the District and the NORH Affiliate; North Oaks Rehabilitation Hospital is currently licensed for 27 beds; and (iii) North Oaks Physician Group, L.L.C. ("NOPG"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's network of multispecialty physician clinics known as North Oaks Physicians Group pursuant to a Management Services Agreement between the District and the NOPG Affiliate. NOPG currently has 17 active clinics. On June 25, 2018, 20 on-campus clinics were licensed as provider-based clinics and became outpatient clinics of NOMC. Additionally, in 2009 in connection with the acquisition of the North Oaks Surgery Center, the System formed Gold Leaf Holdings, L.L.C., a wholly-owned subsidiary of the System whose members are the District and Gold Leaf Holdings II, L.L.C. Each of the Affiliated Entities is governed by a separate Board of Managers that is subject to the power of the Board of Commissioners of the District and whose members are appointed by the Board of Commissioners of the District.

**Basis of Accounting**

The District reports in accordance with accounting principles generally accepted in the United States in accordance with accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the System have been prepared on the accrual basis of accounting using the economic resources measurement focus.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by the Board of Commissioners' designation or under trust agreements.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 1. Continued**

**Investments**

All investments are stated at fair value based on quoted market prices. Changes in the difference between the cost and the fair market value of the investments are included in investment income. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

Investment income is reported as nonoperating income.

**Inventories**

Inventories are valued at the lower of cost or market.

**Capital Assets**

The District records all capital asset acquisitions at cost except for assets donated to the District. Donated assets are recorded at appraised value at the date of donation. The District provides for depreciation of its capital assets using the straight-line method based on the estimated useful lives of the assets as suggested by the American Hospital Association. Equipment recorded under capital lease obligations is included in buildings and equipment, and the associated amortization of these assets is included in depreciation expense.

**Self-Insurance Claims**

Accrued self-insurance claims represent the District's best estimate of incurred but unpaid expenses for professional and general liability, workers' compensation, and employees' health insurance expense. Actuarial reports were obtained to estimate outstanding liabilities for professional and general liability and workers' compensation for fiscal years 2018 and 2017.

**Net Position**

The District's net position is classified into three components: invested in capital assets, net of related debt, restricted, and unrestricted. These components are defined as follows:

- Net Investment in Capital Assets – This component reports capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component reports those net positions with externally imposed constraints on their use by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component reports net positions that do not meet the definition of either of the other two components: "restricted" or "net investment in capital assets, related debt."

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 1. Continued**

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

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in operating revenue or expenses. All peripheral transactions are reported as a component of nonoperating income.

Other nonoperating income includes subsidies received from the U.S. Department of Treasury, per the terms of the 2009 bond agreement, to reduce interest payments for the 2009A Build America Bonds. In FY 2018, it also included revenue recognized as part of a settlement agreement related to design/construction deficiencies of a certain HVAC system. Noncapital grants received are also reported as other nonoperating income.

**Net Patient Service Revenue and Related Receivables**

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the District is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors, and others for services rendered. Settlements under reimbursement agreements with Medicare are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final cost report settlements are determined. These adjustments resulted in an increase to net patient service revenue of approximately \$261,000 in 2018 and an increase to net patient service revenue of approximately \$1,173,000 in 2017.

In fiscal year 2018, the District recorded Full Medicaid Payout (FMP) revenue for Physician Supplemental payments of approximately \$12,840,000 and District Upper Payment Limit ("UPL") revenue of approximately \$17,336,000 during the year ended June 30, 2018. These amounts were used to offset Medicaid contractual adjustments, which resulted in an increase in net patient service revenue.

In fiscal year 2018, the District also received \$94,000 for a Medicaid NICU outlier, which offset Medicaid contractual adjustments.

The District recorded Full Medicaid Payout (FMP) revenue for Physician Supplemental payments of approximately \$12,741,000 and District UPL revenue of approximately \$19,529,000 during the year ended June 30, 2017. These amounts were used to offset Medicaid contractual adjustments, which resulted in an increase in net patient service revenue.

In fiscal year 2017, the District also received \$67,000 for a Medicaid NICU outlier, which offset Medicaid contractual adjustments.

To provide for accounts receivable that could be uncollectible in the future, the District establishes an allowance for doubtful accounts to reduce the carrying value of patient receivables to their estimated net realizable value. The primary uncertainty related to collection is related to uninsured

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 1. Continued**

patient receivables, insured patient deductibles, and co-payments and other amounts due from individual patients. There are various factors that can affect collection trends, such as economic changes, which can affect unemployment rates and the number of uninsured and underinsured patients, the volume of emergency room visits, high deductible plans, and business practices related to collection efforts. These factors are monitored continuously and can affect collection trends and the estimation process.

The District's allowance for doubtful accounts for self-pay patients decreased from 90 percent of self-pay accounts receivable at June 30, 2017, to 83 percent of self-pay accounts receivable at June 30, 2018. The District has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017.

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, the District estimates a significant portion of uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

**Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 ("the Act") provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record ("EHR") technology. The District recognizes income related to Medicare and Medicaid incentive payments using a grant accounting model that is based upon when the District has demonstrated Meaningful Use of certified EHR technology for the applicable period. Beginning in 2014, the District achieved compliance with certain of the requirements of the Act. As a result, the District recognized \$82,000 in 2018 and \$1,061,000 in 2017 as other operating revenue. The receipt of Meaningful Use funds is dependent upon the settlement of the program year.

**Charity Care**

The District 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 District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Records of charges forgone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

**Uncompensated Care**

Uncompensated care cost includes cost of care provided to uninsured and indigent patients for which the District is not compensated, care provided to patients who have the financial capacity to pay, but are unwilling to settle the claim, and care provided to Title XIX Medicaid patients, which the District is not adequately covered by the payments.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 1. Continued**

The Balanced Budget Refinement Act (BBRA) requires that short-term acute care hospitals submit the uncompensated care cost data on the District's cost reports each year.

The District estimated uncompensated care cost amounts to \$32,366,000 and \$38,303,000 in 2018 and 2017, respectively.

**Medicare and Medicaid Reimbursement**

The District is reimbursed under the Medicare Prospective Payment System, which reimburses the District a predetermined amount for Medicare inpatient acute services rendered based, for the most part, on the MS Diagnosis Related Group assigned to the patient. Medicaid inpatient services are paid on a prospective per diem basis.

The District is reimbursed for Medicare outpatient services under the Ambulatory Payment Classification based on fixed rates per outpatient procedure.

Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed under fee schedule payment methodology, while other outpatient services are reimbursed based on an average of 72.83 percent and 68.78 percent of total cost for 2018 and 2017, respectively.

Medicare bad debts, Medicare Disproportionate Share Hospital payments, and Medicaid non-fee schedule outpatient services were reimbursed on a tentative basis during the year and are subject to a retroactive payment adjustment determined in accordance with appropriate Medicare or Medicaid program regulations. Retroactive cost settlements are accrued on an estimated basis in the period the related services are rendered and adjusted as necessary in future periods as final settlements are determined. Medicare and Medicaid settlements have been determined following the principles of reimbursement applicable to each program.

The District's percentage of gross patient revenue derived from Medicare and Medicaid program beneficiaries was 78 percent for the years ended June 30, 2018 and 2017.

**Income Taxes**

The District is exempt from federal income taxation as a political subdivision of the State of Louisiana, and accordingly, the accompanying basic financial statements do not include any provision for income taxes.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 1. Continued**

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 possibility that recorded estimates related to these programs will change by a material amount in the near term.

**Note 2. Cash, Investments, and Designated Cash and Investments**

At June 30, cash and investment balances were as follows:

	<u>Maturity</u>	<u>Fair Value</u>
<b>2018</b>		
Securities type:		
U.S. Government-backed obligations	2018-2021	\$ 21,837,346
Cash and cash equivalents, certificates of deposit, and accrued interest receivable		<u>100,531,922</u>
		<u>\$ 122,369,268</u>
<b>2017</b>		
Securities type:		
U.S. Government-backed obligations	2017-2021	\$ 22,232,982
Cash and cash equivalents, certificates of deposit, and accrued interest receivable		<u>82,402,125</u>
		<u>\$ 104,635,107</u>

The table below reconciles the cash, investments, and designated cash and investments by security type to the amounts recorded on the statements of net position at June 30:

	<u>Statement of Net Position Classification</u>			
	<u>Cash and Equivalents</u>	<u>Designated Investments Current</u>	<u>Designated Investments Long Term</u>	<u>Total</u>
<b>2018</b>				
U.S. Government-backed obligations	\$ -	\$ 6,555,156	\$ 15,282,190	\$ 21,837,346
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	9,109,022	-	91,422,900	<u>100,531,922</u>
	<u>\$ 9,109,022</u>	<u>\$ 6,555,156</u>	<u>\$ 106,705,090</u>	<u>\$ 122,369,268</u>

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 2. Continued**

	<b>Statement of Net Position Classification</b>			
	<b>Cash and Equivalents</b>	<b>Designated Investments Current</b>	<b>Designated Investments Long Term</b>	<b>Total</b>
<b>2017</b>				
U.S. Government-backed obligations	\$ -	\$ 6,898,329	\$ 15,334,653	\$ 22,232,982
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	17,994,846	-	64,407,279	82,402,125
	\$ 17,994,846	\$ 6,898,329	\$ 79,741,932	\$ 104,635,107

Louisiana statutes authorize the District to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The cash and cash equivalents, certificates of deposit, and accrued interest receivable are all secured with pledged collateral from the financial institution.

The District has a policy for the composition of asset allocation and specific allocation of funds as outlined below, and the result is that maturity terms are staggered.

	<b>Desired Percentage Range of Overall Portfolio</b>
Type of investment:	
Certificates of deposit	0% to 100%
Direct U.S. Treasury obligations (T-Bills, T-Notes)	0% to 100%
Treasury funds	0% to 100%
Bonds or notes – issued or guaranteed by federal agencies or government instrumentalities (which are federally sponsored)	0% to 100%
Mutual funds (100% government-backed)	0% to 25%
Term of investments:	
0 to 6 months	0% to 100%
6 months to 1 year	0% to 100%
1 year to 5.5 years	0% to 100%
5.5 years to 10 years	0% to 30%
Greater than 10 years, but less than 20 years	0% to 30%

During the years ended June 30, 2018 and 2017, the District invested primarily in securities issued by the U.S. Treasury and other federal agencies.

**Credit Risk – Investments**

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 2. Continued**

**Concentration of Credit Risk**

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3* (GASB 40), concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5 percent of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At June 30, 2018 and 2017, the District had no investments requiring concentration of credit risk disclosure.

**Custodial Credit Risk – Deposits**

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the District be protected by Federal Deposit Insurance Corporation (FDIC) insurance or collateral. The fair value of the collateral pledged must equal 100 percent of the deposits not covered by FDIC insurance. As of June 30, 2018, \$104,212,627 of the District's bank balances of \$105,410,054 were collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured. The remaining balance was protected by FDIC insurance.

**Custodial Credit Risk – Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2018 and 2017, the District was not exposed to custodial credit risk for its investments, as all were registered in the name of the District.

**Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of June 30, 2018 and 2017:

Investment Type	Fair Value	Years		
		< 1	1-5	> 5
<b>2018</b>				
U.S. Government-backed obligations	\$ 21,837,346	\$ 7,371,622	\$ 14,465,724	\$ -
<b>2017</b>				
U.S. Government-backed obligations	\$ 22,232,982	\$ 7,133,844	\$ 15,099,138	\$ -

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 2. Continued**

The District's group purchasing organization, Premier Healthcare Solutions, Inc. ("PHSI"), completed an initial public offering on September 26, 2013. This resulted in the District's 9,518 shares of PHSI stock being converted into 225,090 shares of Class B units in the public company. The District's initial ownership interest in PHSI was recorded as an equity-based investment of \$75,000 at June 30, 2013. In conjunction with the offering, PHSI sold 35,985 shares of the District's stock at \$25.38 per share. This resulted in the District recognizing a realized gain of approximately \$844,000 in October 2013. The remaining 189,105 shares were converted into Class B common shares. These shares are exchangeable pro rata over seven years into Class A common shares or to retain as Class B shares. The carrying value of the Premier investment was approximately \$4,493,000 as of June 30, 2018 and \$3,637,000 as of June 30, 2017 and is included in other long-term assets.

**Note 3. Concentration of Credit Risk**

The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30 was as follows:

	<b>2018</b>	<b>2017</b>
Medicare	33%	27%
Medicaid	7	4
Self-pay	8	6
Other (managed care, commercial)	52	63
	100%	100%

**Note 4. Designated Cash and Investments**

The terms of the District's Revenue Bonds (see Note 8) require funds to be maintained on deposit in certain accounts with the trustee. The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the related bond resolutions. As of June 30, the funds were deposited as follows:

	<b>2018</b>	<b>2017</b>
Bond principal account	\$ 2,656,922	\$ 2,554,802
Bond interest account	3,864,687	3,925,224
Reserve accounts and other	15,315,737	15,752,956
	\$ 21,837,346	\$ 22,232,982

**Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana**  
Years Ended June 30, 2018 and 2017

**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 5. Capital Assets**

The District's investment in capital assets consisted of the following as of June 30, 2018:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements</b>	<b>Ending Balance</b>
Land and land improvements	\$ 7,456,000	\$ 2,000	\$ -	\$ -	\$ 7,458,000
Buildings and fixed equipment	313,284,000	140,000	3,432,000	-	316,856,000
Equipment	168,905,000	4,244,000	2,344,000	(448,000)	175,045,000
Construction in progress	2,712,000	6,909,000	(5,776,000)	-	3,845,000
	492,357,000	11,295,000	-	(448,000)	503,204,000
Less accumulated depreciation	268,086,000	14,337,000	-	(448,000)	281,975,000
Capital assets, net	<u>\$ 224,271,000</u>	<u>\$ (3,042,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 221,229,000</u>

The District's investment in capital assets consisted of the following as of June 30, 2017:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements</b>	<b>Ending Balance</b>
Land and land improvements	\$ 7,456,000	\$ -	\$ -	\$ -	\$ 7,456,000
Buildings and fixed equipment	312,431,000	293,000	618,000	(58,000)	313,284,000
Equipment	165,033,000	2,937,000	1,791,000	(856,000)	168,905,000
Construction in progress	1,289,000	3,832,000	(2,409,000)	-	2,712,000
	486,209,000	7,062,000	-	(914,000)	492,357,000
Less accumulated depreciation	253,697,000	15,292,000	-	(903,000)	268,086,000
Capital assets, net	<u>\$ 232,512,000</u>	<u>\$ (8,230,000)</u>	<u>\$ -</u>	<u>\$ (11,000)</u>	<u>\$ 224,271,000</u>

**Note 6. Employee Retirement Plan**

The District has a defined contribution plan for employees. Under the plan, the District is required to contribute a specified percentage of eligible employees' salaries based on years of service. Participants may contribute up to the maximum level allowed by the Internal Revenue Code (IRC) or 25 percent of gross salary, whichever is less. The participants vest immediately in all participant contributions and vest 100 percent over a five-year cliff vesting schedule in all District contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59½, severe financial hardship, or death.

Retirement expense included in employee benefit expense was approximately \$4,637,000 and \$4,590,000 in 2018 and 2017, respectively, representing the required contributions in both years.

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**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 6. Continued**

The District also sponsors deferred compensation plans 415(m) and 457 of the IRC. The District reports the plan assets and a corresponding liability in the accompanying basic financial statements. Accordingly, the District has recorded an asset and a corresponding liability of approximately \$1,882,000 and \$1,588,000 for the fair market value of the plans' combined assets as of June 30, 2018 and 2017, respectively.

**Note 7. Risk Management**

The District participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides malpractice coverage to the District for claims in excess of \$100,000, up to \$500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to \$500,000 per occurrence. District management has no reason to believe that the District will be prevented from continuing its participation in the Fund.

The District is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the District and are currently in various stages of litigation. The District accrued approximately \$4,465,000 and \$4,823,000 as of June 30, 2018 and 2017, respectively, for the estimated losses and expenses related to general and malpractice liability claims for which the District is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the District arising from services provided to patients. The District has made an accrual on estimates for these claims.

The District is self-insured for its workers' compensation and employee health claims. The District has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The District accrued approximately \$1,864,000 and \$1,981,000 at June 30, 2018 and 2017, respectively, for employee health insurance and workers' compensation claims.

The following table summarizes the changes in the self-insurance liability:

<b>Year Ended June 30</b>	<b>Beginning of Fiscal Year Liability</b>	<b>Current-Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at Fiscal Year-End</b>
2018	\$ 6,804,000	\$ 27,531,000	\$ 28,006,000	\$ 6,329,000
2017	\$ 6,488,000	\$ 29,536,000	\$ 29,220,000	\$ 6,804,000

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**Note 8. Long-Term Debt**

The District's long-term debt consisted of the following:

	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
Hospital Revenue Bonds, Series 2003A	\$ 21,825,000	\$ 21,825,000
Hospital Revenue Bonds, Series 2003B	17,400,000	18,000,000
Hospital Revenue Bonds, Series 2009A	99,000,000	99,000,000
Bonds, Series 2011	17,690,000	19,275,000
Bonds, Series 2013	23,810,000	26,935,000
Bonds, Series 2015	8,600,000	9,200,000
Total	188,325,000	194,235,000
Plus unamortized bond premium on 2004, 2003, and 2013 bonds	48,070	57,064
	188,373,070	194,292,064
Less current portion	6,200,000	5,910,000
Long-term debt, less current maturities	\$ 182,173,070	\$ 188,382,064

On July 2, 2003, the District issued \$70,000,000 of Hospital Revenue and Refunding Bonds, Series 2003A (Series 2003A Bonds). Approximately \$50,000,000 of the Series 2003A Bond proceeds were used to repay a portion of previously issued bonds. The Series 2003A Bonds originally consisted of \$24,080,000 of serial bonds and \$45,920,000 of term bonds. The serial bonds mature annually in amounts ranging from \$700,000 in 2007 to \$2,895,000 in 2018, and bear interest at rates ranging from 2.750 percent to 5.375 percent. The term bonds consist of \$24,095,000 due February 1, 2025, bearing interest at 5 percent, and \$21,825,000 due February 1, 2030, bearing interest at 5 percent. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2018.

On August 28, 2003, the District issued \$20,000,000 of Hospital Revenue Bonds, Series 2003B (Series 2003B Bonds). These serial bonds were to mature annually in amounts ranging from \$2,625,000 in 2030 to \$5,920,000 in 2033, at variable interest rates not to exceed 12 percent.

On September 10, 2009, the District entered into a transaction with a financial institution to purchase the Series 2003B Bonds with the outstanding principal amount of \$19,000,000. The financial institution chose not to remarket the bonds in 2014, the first fifth-year period. The financial institution has the option to tender the bond every fifth year. In addition, the interest rate was modified to be a variable rate based on 65.00 percent of the London Interbank Offered Rate (LIBOR) plus 2.50 percent with a LIBOR floor of 2.00 percent. On May 1, 2013, the variable interest rate was renegotiated to 65.00 percent of LIBOR plus 2.25 percent. In April 2015, the District renegotiated with the financial institution to change the remaining mandatory sinking fund payment schedule and extend the right to remarket the bond to February 2024, which will be the only remarket option for the remaining bank years. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2018.

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**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 8. Continued**

On October 7, 2009, the District issued \$99,000,000 of Hospital Revenue Bonds, Series 2009 (Series 2009A Bonds), which are insured, taxable Build America Bonds with a coupon interest rate of 7.2 percent. These bonds qualify for a 32 percent interest payment subsidy from the U.S. Department of the Treasury. The subsidy was reduced from 35 percent to 32 percent in July 2013 due to a federal sequestration reduction. During 2018 and 2017, the District received approximately \$2,329,000 and \$2,323,000 of subsidies, respectively, which have been recorded as nonoperating revenue in the statements of revenue, expenses, and changes in net position. These bonds funded a major expansion program on the NOMC campus. These bonds mature annually in amounts ranging from \$1,170,000 in 2030 to \$12,390,000 in 2042. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2018.

On November 3, 2011, the District issued \$25,000,000 of Hospital Revenue Bonds, Series 2011 (Series 2011 Bonds). These bonds mature annually beginning in 2014 through 2027 in amounts ranging from \$1,345,000 to \$2,305,000 and bear interest at a fixed annual rate of 4.36 percent. The Series 2011 Bonds are callable for redemption at any time prior to their stated maturities at the option of the District, at whole but not in part, at the principal amount thereof, including accrued interest at the redemption date, plus a premium of up to 5 percent, depending on the date of redemption. The District renegotiated with the financial institution to reduce the interest rate from an annual rate of 4.36 percent to 3.86 percent and to remove the entire redemption premium with the effective date of July, 1, 2017.

The District issued \$36,240,000 of Bonds, Series 2013 on December 19, 2013. The entire bond issue was a direct bank purchase. The proceeds of the bond issue were used to pay off \$34,825,000 of the Series 2003A Bonds. The remainder of the money was used for cost of issuance and to set up the required reserve accounts.

The District issued \$10,000,000 of Fixed Rate Bonds, Series 2015, on May 20, 2015. The proceeds of the bond issue were used to reimburse the district for capital expenditures including those related to the emergency department and kitchen expansion. There is no put option on these bonds. Principal payments are due from years 2019 – 2028.

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2018, were as follows:

	<b>Principal</b>	<b>Interest</b>
2019	\$ 6,200,000	\$ 10,389,351
2020	6,355,000	10,205,801
2021	6,600,000	10,006,017
2022	6,830,000	9,794,050
2023	7,065,000	9,568,455
2024–2028	39,375,000	43,804,325
2029–2033	26,630,000	36,079,540
2034–2038	42,940,000	26,873,280
2039–2042	46,330,000	8,530,200
	<b>\$ 188,325,000</b>	<b>\$ 165,251,019</b>

**Hospital Service District No. 1 of the  
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**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 8. Continued**

Included in the estimated interest payments in the table above is approximately \$50 million of interest for the Series 2009 Build America Bonds that is estimated to be received by the District as a subsidy from U.S. Department of the Treasury over the remaining term of the bonds.

The following table summarizes the changes in the long-term debt:

Year Ended June 30	Beginning of Fiscal Year Long- Term Debt	Additions	Principal Payments	Balance at Fiscal Year-End
2018	\$ 194,235,000	\$ -	\$ 5,910,000	\$ 188,325,000
2017	\$ 199,870,000	\$ -	\$ 5,635,000	\$ 194,235,000

**Note 9. Charity Care**

The estimated cost of total uncompensated care for the years ended June 30, 2018 and 2017 is approximately \$1,098,000 and \$2,152,000, respectively. This estimate is based on the cost-to-charge ratio of patient care costs, including salaries and benefits, supplies, other operating expenses, and depreciation, to gross patient charges.

**Note 10. Governmental Regulations**

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

**Note 11. Commitments**

The District had various commitments totaling approximately \$5,407,000 and \$2,710,000 at June 30, 2018 and 2017, respectively. These commitments include various capital equipment purchases.

**Note 12. Louisiana Medicaid Supplemental Payment Programs**

The District has entered into a series of collaborative agreements and cooperative endeavors designed to provide additional Medicaid funds to help improve or expand allowable healthcare services for Medicaid beneficiaries or low-income, uninsured patients in the community.

**Hospital Service District No. 1 of the  
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**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 12. Continued**

East Jefferson General Hospital Cooperative Endeavor Agreement

On November 30, 2015, the District entered into a cooperative endeavor agreement with East Jefferson General Hospital ("EJGH"), a Louisiana hospital service district, and other participating hospital service districts ("HSD"). The Centers for Medicare and Medicaid Services ("CMS") have previously approved Medicaid State Plan Amendments ("SPA"), submitted by the Louisiana Department of Health ("LDH"), which provides for reimbursement to non-rural, non-state public hospitals up to the Medicaid inpatient upper payment limit. Under this agreement, EJGH has agreed to cooperate in the establishment of a funding program by negotiating with all Medicaid Managed Care Organizations ("MCOs") to receive a specific portion of Full Medicaid Pricing ("FMP") payments LDH made to ("MCOs"). EJGH shall make supplemental payments to the other HSDs for the purpose of ensuring that adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens and medically underserved non-rural populations in Louisiana in a manner defined in the agreement. Funding for each participating HSD is based upon a formula utilizing each district's reported Medicaid patient days and Medicaid losses. The term of this agreement is one year with automatic renewals for additional terms of one year each unless previously terminated.

For this agreement, the District recognized total revenue, net of expenses, of approximately \$17,336,000 and \$19,529,000 in 2018 and 2017, respectively. The revenue earned from this agreement is included as a component of net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Physician Rate Enhancement Agreement

On June 1, 2016, the HSD and the NOPG entered into a Physician Rate Enhancement Funds ("PREFs") Assignment Agreement with LDH. Under the program LDH increased PMPM rate for reimbursement of physician services to include the FMP for safety-net physicians to receive enhanced rates. The PREFs can only be paid to a HSD that elects to provide the state match for the federal funding associated with these Physician Rate Enhancement payments. NOPG has to contract with or be employed by the HSD to provide inpatient and outpatient physician services to be eligible to receive the funds. Under the agreement, NOPG assigns all rights and authorities to HSD to contract for and to collect payment of PREFs.

For this agreement, the District recognized total revenue, net of expenses, of approximately \$12,840,000 and \$12,741,000 in 2018 and 2017, respectively. The revenue earned from this agreement is included as a component of net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Professional Services Agreement

NOPG and NOMC entered into agreements with a private health care provider. Under the terms of this agreement the private healthcare provider agrees to work cooperatively with the NOPG and NOMC to improve access to healthcare for low-income and/or indigent citizens. The agreement may be terminated by either party with thirty days' written notice.

**Hospital Service District No. 1 of the  
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**NOTES TO BASIC FINANCIAL STATEMENTS**

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**Note 12. Continued**

The District recorded approximately \$30,801,000 and \$4,693,000 as deferred revenues as of June 30, 2018 and 2017, respectively. The District also recorded \$28,610,000 and \$2,346,000 as of June 30, 2018 and 2017, respectively, as other operating revenue on the accompanying statements of revenue, expenses, and changes in net position.

**Note 13. Fair Value Measurement**

The District holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the District's mission, the District determined that the disclosures related to these investments only need to be disaggregated by major type. The District elected a narrative format for the fair value disclosures.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements:

- Government agency bond obligations of \$21,837,346 and \$22,232,982 as of June 30, 2018 and 2017, respectively, are valued using prices quoted in active markets for those securities (Level 1 inputs).



## **Independent Accountant's Report on Applying Agreed-Upon Procedures**

The Board of Commissioners  
Hospital Service Health System No. 1 of the Parish of  
Tangipahoa, State of Louisiana

We have performed the procedures enumerated below, which were agreed to by Hospital Service Health System No. 1 of Tangipahoa Parish, State of Louisiana, d/b/a North Oaks Health System (the "Health System") and the Louisiana Legislative Auditor ("LLA") on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures ("SAUPs") for the fiscal period July 1, 2017 through June 30, 2018. The Health System's management is responsible for those control and compliance areas identified in the SAUPs.

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

The procedures and associated findings are as follows:

### **Written Policies and Procedures**

1. Determine whether the Health System's written policies and procedures address each of the following financial/business functions: budgeting, purchasing, disbursements, receipts/collections, payroll/personnel, contracting, credit cards, travel and expense reimbursement, ethics and debt service.

**We obtained and examined the Health System's policies and procedures documentation for each of the financial/business functions listed above and confirmed the inclusion of all necessary items as defined by LLA's SAUPs 1.**

### **Board/Committee Meetings**

2. Determine whether the managing Board met (with quorum) at least monthly, or on a frequency in accordance with the Board of Commissioners' (the "Board") enabling legislation, charter, or other equivalent document.

**Management provided us with the required minutes and we noted that the Finance Committee and the Board met monthly and maintained the necessary quorum to conduct their meetings during the reporting period.**

3. Determine that the minutes referenced or included monthly budget-to-actual financials.

**It was determined from the minutes provided by management that monthly budget-to-actual financial information was reviewed at each meeting by the Finance Committee.**

4. Reviewed the prior year audit report to determine whether negative ending unrestricted fund balance at year-end. If negative balance present, observe in the minutes whether a formal/written plan was included to eliminate the deficit spending.

**We noted during our examination of prior year audit report there was not a negative unrestricted fund balance.**

### **Bank Reconciliations**

5. Obtain from management a listing of all bank accounts held by the Health System.
6. Select the Health System's operating account and four additional bank accounts provided in the listing obtained from management in SAUP 5 as the sample. For each sample, obtain a bank statement and corresponding reconciliation for randomly selected month in the reporting period and determine whether:

- a) Bank reconciliations have been prepared for the sample selected within two months of closing date;

**We inspected supporting documentation, including bank statements and reconciliations, for all months related to the accounts sampled. We noted that all months were reconciled to the general ledger within the required time frame.**

- b) The sampled bank reconciliations were properly reviewed by management;

**We inspected supporting documentation, including bank statements and reconciliations, for all months related to the accounts sampled. We noted that all months were approved by personnel other than the employee responsible for preparing the reconciliation.**

- c) Management has researched reconciling items that have been outstanding for more than twelve months as of the end of the reporting period and documented such research accordingly, if applicable.

**We inspected supporting documentation for reconciling items per the bank reconciliations, noting checks outstanding for more than twelve months. Per our discussion with management, they perform a review each quarter to determine whether any amounts need to be classified as 'abandoned' per R.S. 40:2811 and R.S. 9:151-181. Management relies on the Health System's written policy to determine whether an item has reached the necessary threshold. We reviewed the Health System's policy and noted that it is consistent with the statutes listed above.**

### **Collections**

7. Obtained from management a listing of all deposit sites maintained by the Health System.
8. Select a sample of five deposit sites provided in the listing obtained from management in SAUP for each selected deposit site; obtain from management a listing of all cash collection locations maintained by the Health System. Randomly select one collection location for each deposit site. For each sample, obtain:

Any existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (i) not required to share the same cash register or drawer with another employee, (ii) not responsible for making/preparing the bank deposit, (iii) recording the transaction to the general ledger or subsidiary ledger, and (iv) reconciling cash collections to the general ledger and/or subsidiary ledger.

**We performed inquiries and reviewed supporting documentation related to the cash collection process and noted:**

- (i) **Some cashiers do share the same cash drawer; however when on duty, each cashier has a unique log-in for the accounting system;**
- (ii) **All cashiers are responsible for writing up the deposit, which is delivered to the bank by a third-party delivery service, and entering the information into the accounting system. However after doing so, all documentation is forwarded to the finance department and they are solely responsible for reconciling all bank accounts;**
- (iii) **All cashiers are responsible for entering the information into the accounting system. However after doing so, all documentation is forwarded to the finance department and they are solely responsible for reconciling all bank accounts; and**
- (iv) **The finance department is solely responsible for reconciling all bank accounts and cash collections to the general ledger.**

9. Inquire with management whether each person who has access to cash is covered by a bond or insurance policy for theft.

**We performed inquiries and reviewed supporting documentation related to the cash collection process and noted that all employees associated with collecting cash are bonded.**

10. Select two deposit dates for each of the five bank accounts selected SAUP 6. Obtain supporting documentation for each deposit and trace documentation (e.g. sequentially numbered receipts, system reports, reconciliation worksheets) to the deposit slip, the deposit slip to the bank statement and general ledger. Observe that the deposit was made within required timeframe of receipt at the collection location

**We performed inquiries and reviewed supporting documentation related to the cash collection process and noted all cash collection documentation is forwarded to the finance department and they are solely responsible for reconciling cash to all bank accounts and general ledger accounts. This is consistent with management's written policies regarding the cash collection process. We inspected supporting documentation, including bank statements, check copies, EFT transfers, etc., noting all deposits were submitted timely.**

### **Non-Payroll Disbursements**

11. Obtain from management a listing of all Health System disbursements for the reporting period and a listing of all employees involved with non-payroll purchasing and payment functions.
12. Obtain written policies and procedures related to 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 making the purchase.

**We reviewed supporting documentation related to the disbursement sample and noted all purchases were properly approved by someone other than the person initiating the purchase via the written requisition or through the purchase order system.**

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

**We performed inquiries and reviewed supporting documentation and noted that at least two employees are involved in the processing and approval of payments to vendors.**
- c) Employees responsible for processing payments are prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

**We reviewed management's purchasing/disbursement-related policies and noted that the policy currently lists the Fixed Asset Specialist or Labor/Cost Analyst as the positions**

**whose responsibilities include adding vendors to the Health System's purchasing/disbursement system. We noted that the position responsible for processing payments is the AP Specialist and they do not have the ability to add vendors to the Health System's purchasing/disbursement system.**

- 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.

**We reviewed management's purchasing/disbursement related policies as well as observed that final authorization for disbursements does not come from the person responsible for initiating or recording purchases. We performed inquiries and observed that all checks issued by the Health System have dual signatures. The checks are printed with the signatures on them with the knowledge and consent of the signers. The signed checks are likewise maintained by an authorized user until mailed or picked up.**

13. Select a sample of five disbursements, excluding credit cards and travel reimbursements, provided in the listing obtained from management in SAUP 11. Obtain supporting documentation for each transaction to determine whether the documentation demonstrated that the disbursement matched related original invoice as well as segregation of duties tested at SAUP 12.

**We reviewed supporting documentation related to the disbursement sample and noted all purchases were properly reconciled back to original documentation including but not limited to the purchase order, invoice, billing statement, etc. Per testing performed on disbursement sample, we noted proper segregation of duties as required in SAUP 12.**

#### **Credit Cards**

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards maintained by the Health System.
15. Select a sample of five cards used from the listing obtained from management in SAUP 19 during the reporting period. For each sample, obtain one monthly bank statement and reconciliation during the reporting period and:

- a) Determine whether the monthly statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder;

**We reviewed monthly statements and supporting documentation related to credit card activity selected and noted all statements were properly reconciled and all items were approved in accordance with written policy.**

- b) Determine whether finance charges and/or late fees were assessed on the selected statements.

**We reviewed statements related to all credit card activity selected and noted no assessment of finance charges and/or late fees.**

16. Select a sample of 10 transactions from each statement selected in SAUP 15. For each transaction:

- a) Determine whether the transaction is supported by an original itemized receipt that identified what was purchased;

**We performed inquiries and reviewed supporting documentation related to the credit card transaction sample and noted that all transactions had an itemized receipt and/or other equivalent.**

- b) Determine whether the transaction is supported by documentation of the business/public purpose; and

**We performed inquiries and reviewed supporting documentation related to the credit card transaction sample and noted that all transactions had appropriate documentation of purpose.**

- c) For meal charges only, determine whether the transaction is supported documentation of the individuals participating.

**We performed inquiries and reviewed supporting documentation related to the credit card transaction sample and noted that all transactions had necessary documentation in accordance with written policies.**

### **Travel and Expense Reimbursement**

- 17. Obtain from management a listing of all travel and related expense reimbursements for the reporting period.

- 18. Select a sample of five reimbursements during the reporting period provided in the listing obtained from management in SAUP 17. For each sample, obtain the expense reimbursement reports or prepaid expense documentation, including supporting documentation, and review in detail as follows:

- a) Compare the amounts in the sample to Health System's policies as well as the per diem and mileage rates established by the U.S. General Services Administration ("GSA") and determine if there are any exceptions exceeding the GSA rates.

**We reviewed management's travel and expense reimbursement policy and noted that mileage is reimbursed per the IRS standard mileage rates. We also noted that lodging is set not to exceed the single occupancy rate available. We noted that the Health System has a set per diem rate as well as language to address any event where the rate could exceed the GSA rates. If expenses are higher than the allowed per diem, administrative approval is required.**

- b) Determine whether each expense is supported by documentation of the business/public purpose and other documentation as may be required by written policy.

**We performed inquiries and reviewed supporting documentation related to the reimbursement sample and noted all expenses reimbursed (or prepaid) had original receipts identifying what was purchased, documentation regarding the business/public purpose of the travel and all other required documentation per the Health System's policies.**

- c) Determine whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

**We reviewed supporting documentation related to each reimbursement and noted all were approved in accordance with written policy.**

### **Contracts**

- 19. Obtain from management a listing of all contracts in effect during the reporting period.

- 20. Select a sample of five contracts from the listing obtained from management in SAUP 19. Obtain the related contracts and:

- a) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Determine whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and whether each contract complied with the legal requirements applicable.

**We reviewed supporting documentation related to each contract selected and noted all were compliant with applicable legal requirements, whether subject to the Louisiana Public Bid Law or Procurement Code.**

- b) Obtain/review the contract documentation and Board minutes and determined whether there is documentation of Board approval, if required by policy or law.

**We reviewed supporting documentation related to each contract selected and noted all appropriate contracts were noted in the Board minutes and approved, if required by policy or law.**

- c) Determine whether the contract was amended and if so, determine the scope and dollar amount of the amendment and whether the original contract terms provided for such an amendment.

**We reviewed supporting documentation related to each contract selected and noted no amendments.**

- d) Select a sample of a single payment from each of the five contract samples. Obtain the supporting invoice, compare the invoice to the contract terms, and determine whether the invoice and related payment complied with the terms and conditions of the contract.

**We reviewed supporting documentation related to each payment selected and noted all were compliant with all terms and conditions per each contract.**

## **Payroll and Personnel**

- 21. Obtain from management a listing of all employees during the reporting period. Select a sample of five employees, obtain their personnel files, and agree the paid salaries to pay rates within the personnel files.

**We reviewed supporting documentation within personnel files related to the employees selected and noted all compensation paid during the reporting period was made in accordance with terms and conditions of the employment contract or pay rate structure per each file.**

- 22. Randomly select one pay period during the period and for the five employees selected above in SAUP 21 obtain attendance records and leave documentation for that period. Observe documentation and determine whether:

- a) All selected employees documented their daily attendance and leave (e.g. vacation, sick, compensatory).

**We reviewed supporting documentation related to selected employees' attendance, noting all attendance and leave is maintained electronically via the Health System's time clock system.**

- b) There is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees.

**We reviewed supporting documentation related to employee attendance for the employees selected and noted all attendance sheets had been approved by proper supervisors for the chosen pay period.**

- c) There is written documentation that the Health System maintained written leave records (e.g. hours earned, hours used, and balance available) on those selected employees that earn leave and it is reflected in the cumulative leave records.

**We reviewed supporting documentation related to employee attendance, noting all attendance and leave is maintained electronically via the Health System's time clock system.**

- 23. Obtain from management a listing of all employees terminated during the reporting period. Select a sample of the two employees, obtain the related documentation (e.g. hours, pay rates, personnel files) for the sample and determine whether the termination payments were made in accordance with policy and/or contract and approved by management.

**Management provided us with the required list of all employees terminated during the reporting period and the personnel files related to the employees selected. We reviewed supporting documentation and noted termination payments were made in accordance with policies and with the proper approval of management.**

24. Inquiry with management and review supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes, retirement contributions, health insurance premiums and workers' compensation premiums paid during the reporting period. Determine whether all payments and required reporting forms were submitted to the applicable agencies by the required deadlines.

**We inspected supporting documentation related to payments made during the reporting period, including bank statements and check copies, noting all portions of payroll taxes, retirement contributions, health insurance premiums and workers compensation premiums as well as any required reporting forms, were submitted timely.**

### **Ethics**

25. Using the sample of five employees from the listing provided in SAUP 21, obtain ethics compliance documentation from management and determine whether the Health System maintained documentation to demonstrate:

- a) Each employee completed one hour of required ethics training during the period.

**We inspected ethics compliance supporting documentation for the employees selected and noted that all required ethics training courses were completed appropriately.**

- b) Each employee attested through signature verification that they have read the Health System's ethics policy during the period.

**We inspected ethics policy supporting documentation within the personnel files for each of the employees selected and note proper signatures dated during the reporting period.**

### **Debt Service**

26. If debt was issued during the reporting period, obtain supporting documentation from the Health System, and determine whether approval was obtained from the State Bond Commission.

**The Health System did not issue any debt during the reporting period.**

27. If the Health System had outstanding debt during the reporting period, select one bond/note and obtain supporting documentation related to reserve balance, payments and debt covenants. Determine whether the Health System made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

**We inspected supporting documentation indicating all required debt service payments were made appropriately. We calculated all required metrics for current debt held by the Health System, noting all covenants were met as of the reporting period.**

### **Other**

28. Inquire of management whether the Health System had any misappropriations of public funds or assets during the reporting period. If applicable, review supporting documentation and determine whether the Health System reported the misappropriation to the legislative auditor and the Health System attorney of the parish in which the Health System is domiciled.

**We inquired with the Health System's Compliance Officer who noted that there have been no reported instances of any misappropriations of funds or assets during the reporting period.**

29. Observe whether the Health System has posted on its premises and website the notice required by R.S 24:523.1 related to the reporting of misappropriation, fraud, waste or abuse of public funds.

**We observed the required flyers posted in conspicuous places around the Health System premises. We also noted that there is a link to the Louisiana Legislative Auditor Hotline on the bottom of the home page of the Health System's website (<http://www.northoaks.org>).**

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

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

*HORNE LLP*

Ridgeland, Mississippi  
October 25, 2018



## Independent Auditor's Report on Other Supplementary Information

The Board of Commissioners  
Hospital Service District No. 1 of the Parish of Tangipahoa,  
State of Louisiana

We have audited the statement of net position of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District") as of June 30, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and have issued our report thereon dated October 25, 2018. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Compensation, Benefits, and Other Payments to Agency Head are presented for the purpose of additional analysis, as required by Louisiana Revised Statute 24:513 A (3), and is not a required part of the basic financial statements.

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

*HORNE LLP*

Ridgeland, Mississippi  
October 25, 2018

Hospital Service District No. 1 of the  
Parish of Tangipahoa, State of Louisiana  
Year Ended June 30, 2018

**Schedule of Compensation, Benefits, and other Payments to Agency Head**

**Agency Head:**

Chief Executive Officer

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 595,335
Benefits-insurance	11,739
Benefits-retirement	105,728
Benefits-other	-
Car allowance	-
Vehicle provided by government	-
Per diem	-
Reimbursements	-
Travel	458
Registration fees	4,333
Conference travel	16,209
Continuing professional education fees	825
Housing	-
Unvouchered expenses	-
Special meals	-
	<u>\$ 734,627</u>

See Independent Auditor's Report on Supplementary Information