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, 2017 and 2016
With Report of Independent Auditors

CONTENTS

Report of Independent Auditors

HORNE
CPAs & BUSINESS ADVISORS

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, 2017 and 2016, 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, 2017 and 2016, and the 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 18, 2017 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 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 18, 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.

District Statements of Net Position

A summary of the District's statements of net position for years June 30, 2017 through 2015 is presented in Table 1 below:

TABLE 1
Condensed Statements of Net Position

	June 30		
	2017	**2016**	**2015**
Total current assets	$ 109,690,658	$ 107,147,939	$ 100,617,344
Capital assets – net	224,270,527	232,512,326	241,370,810
Other assets, including board-designated investments	89,525,782	92,380,446	95,575,947
Total assets and deferred outflows	$ 423,486,967	$ 432,040,711	$ 437,564,101
Current liabilities	$ 50,941,914	$ 48,763,633	$ 43,761,960
Long-term debt outstanding and other long-term liabilities	189,970,336	195,563,598	200,069,806
Total liabilities	240,912,250	244,327,231	243,831,766
Net position:			
Net investment in capital assets	29,978,463	32,575,742	36,204,248
Restricted net position	21,821,116	22,024,661	21,648,840
Unrestricted net position	130,775,138	133,113,077	135,879,247
Total liabilities and net position	$ 423,486,967	$ 432,040,711	$ 437,564,101

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, 2017 through 2015:

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

	Year Ended June 30		
	2017	**2016**	**2015**
Revenue:			
Net patient service revenue	$ 290,066,347	$ 290,441,558	$ 288,322,575
Other	8,016,982	5,618,409	4,409,181
Total operating revenue	298,083,329	296,059,967	292,731,756
Expenses:			
Salaries and employee benefits	191,122,228	188,993,091	177,409,816
Supplies, contract services, equipment, and fees	73,314,064	71,255,738	68,779,131
Other operating expenses	17,218,145	17,943,037	17,452,373
Depreciation	15,292,642	16,314,442	17,144,543
Interest	10,983,888	11,014,835	10,861,594
Total operating expenses	307,930,967	305,521,143	291,647,457
Operating income (loss)	(9,847,638)	(9,461,176)	1,084,299
Investment income	1,026,295	1,118,207	828,781
Other nonoperating income	3,682,580	2,324,114	2,318,699
Excess (deficiency) of revenue and income over expenses	(5,138,763)	(6,018,855)	4,231,779
Net position at beginning of year	187,713,480	193,732,335	189,500,556
Net position at end of year	$ 182,574,717	$ 187,713,480	$ 193,732,335

Statistical Summary

Overall activities at the District, as measured by patient admissions, increased 1 percent to 17,866; total admissions in 2017 from 17,659 total admissions in 2016.

Outpatient registrations increased 2 percent to 113,823 in 2017 from 111,055 in 2016. ER visits increased 8 percent to 79,603 in 2017 from 73,573 in 2016. Clinic visits increased 7 percent to 283,310 in 2017 from 265,333 in 2016 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		
	2017	**2016**	**2015**
Admissions:			
Adult and Pediatric	11,471	10,468	10,346
Observation	4,564	5,360	5,124
Newborn and Neonatal Intensive Care Unit	1,260	1,323	1,297
Comprehensive Medical Rehabilitation services	571	508	494
Patient days:			
Adult and Pediatric	57,251	54,905	56,017
Observation	7,286	10,283	10,148
Medicare (included in Adult and Pediatric)	33,709	31,340	33,139
Medicaid (included in Adult and Pediatric)	12,880	8,523	8,586
Newborn and Neonatal Intensive Care Unit	4,210	4,718	5,322
Comprehensive Medical Rehabilitation services	6,244	5,548	5,785
Operating room patients	11,992	12,676	11,835
Outpatient registrations	113,823	111,055	112,405
Emergency room visits	79,603	73,573	71,552
Average daily census:			
Adult and Pediatric	157	150	154
Observation	20	28	28
Comprehensive Medical Rehabilitation services	17	15	16
Average length of stay (excluding newborn):			
All patients	5.2	5.4	5.6
Observation	1.6	1.9	2.0
Medicare patients	5.5	5.7	5.8
Medicaid patients	4.4	4.1	4.0
Comprehensive Medical Rehabilitation services	11.1	10.8	11.7
Percentage of total patient days:			
Medicare	58.88%	57.08%	59.16%
Medicaid	22.50%	15.52%	15.33%
Clinic visits	283,310	265,333	258,162
Full-time equivalents (FTEs)	2,216	2,249	2,139

Financial Analysis of the District

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:

Capital Investments	2017 Cost
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 $5,920,000 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 all patients decreased to 5.2 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.

Financial Highlights for the Year Ended June 30, 2016

- During the fiscal year, the District made capital investments for a total of approximately $7,552,000. The following is a list of significant items:

Capital Investments	2016 Cost
Medical equipment	$ 4,869,000
EPIC electronic health records information systems	1,173,000
Hospital renovations	1,313,000

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 2016.

- During fiscal year 2016, the District focused on reducing average length of stay (ALOS). ALOS for all patients decreased to 5.4 in fiscal year 2016 from 5.6 in fiscal year 2015. As a result, patient days also decreased.

- The District saw an increase in emergency room visits, which increased by 2,021 or 2 percent in fiscal year 2016. The number of operating room patients also increased by 841 or 7 percent. Part of these increases is due to the new Trauma Program. Clinic visits increased by 7,171 or 2 percent as a result of the continued growth of the District's Physician Clinic Network.

Overview of the Financial Statements

Sources of Revenue

Operating Revenue

During fiscal year 2017, the District derived the majority, approximately 97 percent, of its total revenue from patient service revenue. During fiscal years 2016 and 2015, approximately 98 percent of the District's revenue was derived for 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 2017, 2016, and 2015 fiscal years.

TABLE 4
Payor Mix by Percentage of Gross Charges

	Year Ended June 30		
	2017	**2016**	**2015**
Medicare	50%	50%	51%
Medicaid	28	20	20
Managed care	17	19	19
Commercial insurance	4	5	5
Uninsured	1	6	5
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.

Other Revenue

The following table summarizes other revenue:

TABLE 5
Other Revenue

	Year Ended June 30		
	2017	**2016**	**2015**
Cafeteria	$ 1,076,229	$ 1,127,419	$ 1,102,868
Ideal Protein	218,631	269,462	274,027
Gift shop	226,113	247,824	259,930
Rental income	164,272	219,072	284,864
X-ray school income	117,657	93,408	105,224
Pharmacy and retail programs	1,936,405	1,176,334	1,993,742
EHR Meaningful Use incentive	1,061,075	1,819,276	-
Professional Services Subsidy	2,346,329	-	-
Miscellaneous	870,271	665,614	388,526
Total other revenue	$ 8,016,982	$ 5,618,409	$ 4,409,181

In 2017 and 2016, the District recognized revenue due from the Medicare and Medicaid programs for the meaningful use of certified electronic health record (EHR) technology in accordance with the American Recovery and Reinvestment Act of 2009. The amounts recorded in fiscal years 2017 and 2016 were $1,061,000 and $1,819,000, 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 $1,026,000, $1,118,000 and $829,000 during fiscal years 2017, 2016, and 2015, respectively.

Other Nonoperating Income

Other nonoperating income of approximately $2,323,000 in 2017, $2,324,000 in 2016, and $2,319,000 in 2015, 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

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 in 2017 was approximately $1,227,000.

In 2017, other nonoperating income also included approximately $132,000 in grants received.

Overview of the Financial Statements (Continued)

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 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 6
Allowance Summary

	Year Ended June 30		
	2017	**2016**	**2015**
Allowances:			
Provision for bad debts	$ 30,561,588	$ 105,111,425	$ 87,866,527
Charity Care	16,258,585	15,899,125	14,441,709
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
	$ 1,584,542,524	$ 1,577,451,102	$ 1,582,732,654

Provision for bad debts decreased approximately $74,549,000, or 71 percent, to $30,562,000 in 2017 from $105,111,000 in 2016. This is due to a shift in payor mix from Uninsured to Medicaid because of the Medicaid expansion in Louisiana.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's Charity Care policy. Based on established rates, gross charges of approximately $16,259,000 were forgone during 2017, compared with $15,899,000 in 2016, or a 2 percent increase from the prior fiscal year.

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 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.

The following summarizes the District's statements of revenue, expenses, and changes in net position between 2016 and 2015:

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 2016, net patient service revenue increased by 1 percent to $290.4 million from $288.3 million in 2015.

During fiscal year 2016, the District was advised by Louisiana Health Cooperative, Inc. ("LAHC") that they would no longer be offering health insurance policies after December 31, 2015. On September 11, 2015, the 19th Judicial District Court for the parish of East Baton Rouge entered an order of permanent rehabilitation for LAHC, effectively placing the company in receivership. In December 2015, the 19th Judicial District Court for the parish of East Baton Rouge issued an order approving the LAHC plan to continue coverage for LAHC policyholders, members, subscribers and enrollees through December 31, 2015. The order also approved payment of claims in accordance with La.R.S.22::254(G)3 at the maximum amounts that would be paid under Title XVIII of the Social Security Act, 42 U.S.C. 301, et.seq., under the federal Medicare program.

As a result, the LAHC receivables were reduced to reflect Medicare reimbursement rates. The financial impact to the District was an increase to other deductions of $3.5 million.

TABLE 7
Allowance Summary

	Year Ended June 30		
	2016	**2015**	**2014**
Allowances:			
Provision for bad debts	$ 105,111,425	$ 87,866,527	$ 89,951,062
Charity care	15,899,125	14,441,709	12,593,404
Managed care and other contractual allowances	317,894,802	310,528,387	275,951,979
Medicare Advantage contractual allowances	276,356,368	269,025,086	245,308,054
Medicare contractual allowances	531,305,777	564,295,981	549,764,246
Medicaid contractual allowances	330,883,605	336,574,964	298,042,582
	$ 1,577,451,102	$ 1,582,732,654	$ 1,471,611,327

Provision for bad debts increased approximately $17,244,000, or 19 percent, to $105,111,000 in 2016 from $87,867,000 in 2015. This is due to an increase in uninsured patients and high deductible plans.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of approximately $15,899,000 were forgone during 2016, compared with $14,442,000 in 2015, or a 10 percent increase from the prior fiscal year.

Salaries expense increased approximately $9,717,000, or 6 percent, to $161,204,000 in 2016 from $151,488,000 in 2015. North Oaks Medical Center achieved designation as a Level 2 Trauma Center. This has resulted in additional FTEs needed throughout the medical center and physician group in various departments which include the Operating Room, Emergency Department, Anesthesiology, and the Shock Trauma Clinic. Other increases in salaries expense are due to the growth of the North Oaks Physician Group network.

As a percentage of salaries expense, employee benefit expense was approximately 17 percent for the fiscal years ended June 30, 2016 and 2015.

Supplies expense increased approximately $2,114,000, or 5 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 $1,708,000 in 2016.

Contract services, equipment, and fees increased approximately $362,000, or 2 percent, from the prior year.

Other operating expenses increased approximately $491,000, or 3 percent, from the prior year.

Depreciation expense decreased approximately $830,000, or 5 percent, from the prior year.

Interest expense increased approximately $153,000, or 1 percent, from the prior year.

Total operating expenses increased by $13,874,000, or 5 percent, for the year ended June 30, 2016, 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 increased by $289,000 or 35 percent, from the prior year. This was due to the negotiation of a higher rate of return on deposits.

Capital Assets

During fiscal years 2017, 2016 and 2015, the District invested approximately $7,062,000, $7,552,000 and $7,140,000 respectively, in a broad range of property, plant, and equipment included in Table 8 below.

TABLE 8
Capital Assets

	June 30		
	2017	**2016**	**2015**
Land	$ 7,455,974	$ 7,455,974	$ 7,455,974
Building and equipment	482,189,672	477,464,144	469,842,767
Subtotal	489,645,646	484,920,118	477,298,741
Less accumulated depreciation	268,086,440	253,697,010	237,486,007
Construction in progress	2,711,321	1,289,218	1,558,076
Net capital assets	$ 224,270,527	$ 232,512,326	$ 241,370,810

Long-Term Debt (Excluding Capital Leases)

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.

At June 30, 2016, the District had approximately $199,937,000 in short-term and long-term debt. Total debt decreased by $5,230,000 in fiscal year 2016 from $205,167,000 in fiscal year 2015 due to principal payments.

The District issued $10,000,000 of 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 ED and Kitchen Expansion.

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

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, 2017 and 2016

	June 30 2017	2016
Assets and deferred outflows		
Current assets:		
Cash and cash equivalents	$ 17,994,846	$ 12,886,879
Patient accounts receivable, net of allowance for uncollectibles of $58,545,543 and $102,848,348 in 2017 and 2016, respectively	58,417,258	67,650,774
Current portion of designated cash and investments	6,898,329	7,264,423
Estimated third-party payor settlements – Medicare and Medicaid	13,444,707	7,728,463
Inventories	6,390,681	6,149,828
Prepaid expenses and other current assets	6,544,837	5,467,572
Total current assets	109,690,658	107,147,939
Designated cash and investments:		
Under bond indenture agreement held by trustee	22,232,982	22,863,275
By Board for plant and equipment additions and replacements	63,790,260	66,413,523
By Board for self-insurance claims	617,019	584,953
	86,640,261	89,861,751
Less current portion	6,898,329	7,264,423
Noncurrent designated cash and investments	79,741,932	82,597,328
Capital assets:		
Land	7,455,974	7,455,974
Buildings and equipment	482,189,672	477,464,144
Construction in progress	2,711,321	1,289,218
	492,356,967	486,209,336
Less accumulated depreciation	268,086,440	253,697,010
Capital assets, net	224,270,527	232,512,326
Prepaid bond insurance costs	4,134,575	4,347,469
Deferred compensation plan investments	1,588,272	1,262,015
Other long-term assets	3,978,657	4,080,429
Total assets	423,404,621	431,947,506
Deferred outflows of resources	82,346	93,205
Total assets and deferred outflows	$ 423,486,967	$ 432,040,711

See accompanying notes.

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Statements of Net Position (continued)
June 30, 2017 and 2016

	June 30 2017	2016
Liabilities and net position		
Current liabilities:		
Accounts payable	$ 17,435,597	$ 20,155,489
Accrued salaries and payroll-related costs	11,431,681	11,332,348
Accrued interest payable	4,256,424	4,313,813
Accrued self-insurance claims	6,803,689	6,488,368
Current portion of long-term debt	5,910,000	5,635,000
Deferred revenue	4,692,657	-
Deferred gain	411,866	838,614
Total current liabilities	50,941,914	48,763,632
Long-term debt, excluding current portion	188,382,064	194,301,584
Deferred compensation plan obligations	1,588,272	1,262,015
Total liabilities	240,912,250	244,327,231
Net position		
Net investment in capital assets	29,978,463	32,575,742
Restricted net position	21,821,116	22,024,661
Unrestricted net position	130,775,138	133,113,077
Total net position	182,574,717	187,713,480
Total liabilities and net position	$ 423,486,967	$ 432,040,711

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, 2017 and 2016

	Year Ended June 30	
	2017	2016
Revenue:		
Net patient service revenue	$ 320,627,935	$ 395,552,983
Provision for doubtful accounts	(30,561,588)	(105,111,425)
Total net patient service revenue	290,066,347	290,441,558
Other	8,016,982	5,618,409
Total operating revenue	298,083,329	296,059,967
Expenses:		
Salaries	162,133,174	161,204,485
Employee benefits	28,989,054	27,788,606
Supplies	48,717,665	48,238,532
Contract services, equipment, and fees	24,596,399	23,017,206
Other operating expenses	17,218,145	17,943,037
Depreciation	15,292,642	16,314,442
Interest	10,983,888	11,014,835
Total operating expenses	307,930,967	305,521,143
Loss from operations	(9,847,638)	(9,461,176)
Nonoperating income:		
Investment income:		
Investment income	1,363,787	1,106,561
Unrealized (loss) gain on investments	(307,832)	48,526
Realized loss on investments	(29,660)	(36,880)
Total investment income	1,026,295	1,118,207
Other nonoperating income	3,682,580	2,324,114
Total nonoperating income	4,708,875	3,442,321
Deficiency of revenue and income over expenses	(5,138,763)	(6,018,855)
Net position at beginning of year	187,713,480	193,732,335
Net position at end of year	$ 182,574,717	$ 187,713,480

See accompanying notes.

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	Year Ended June 30 2017	2016
Operating activities		
Cash collected from patients and third-party payors	$ 299,262,718	$ 291,888,621
Cash payments to employees and for employee-related costs	(190,707,574)	(192,829,697)
Cash payments for supplies, services, and other operating expenses	(94,271,150)	(81,511,787)
Cash received from federal program	7,038,986	-
Net cash provided by operating activities	21,322,980	17,547,137
Noncapital financing activities		
Noncapital grants and contributions	132,580	-
Net cash provided by noncapital financing activities	132,580	-
Capital and related financing activities		
Purchases of capital assets	(7,360,908)	(7,855,519)
Proceeds from sale of fixed assets	2,550	63,404
Principal payments on long-term debt incurred for capital purposes	(5,635,000)	(5,220,000)
Interest payments on long-term debt	(10,827,042)	(10,771,838)
Proceeds from insurance settlement	1,227,134	-
Build America Bond subsidy	2,322,867	2,324,114
Bond issuance costs	-	(3,512)
Net cash used in capital and related financing activities	(20,270,399)	(21,463,351)
Investing activities		
Investment income	1,363,785	1,106,561
Purchases of designated cash and investments	(19,494,943)	(64,030,613)
Proceeds from sales and maturities of designated cash and investments	22,053,964	67,907,834
Net cash provided by investing activities	3,922,806	4,983,784
Net change in cash	5,107,967	1,067,570
Cash and cash equivalents at beginning of year	12,886,879	11,819,309
Cash and cash equivalents at end of year	$ 17,994,846	$ 12,886,879

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, 2017 and 2016

	Year Ended June 30 2017	2016
Reconciliation loss from operations to net cash provided by operating activities		
Loss from operations	$ (9,847,638)	$ (9,461,176)
Adjustments to reconcile loss from operations to net cash Provided by operating activities:		
Depreciation	15,292,642	16,314,442
Provision for bad debts	30,561,588	105,111,425
Loss on sale of capital assets	8,446	32,900
Amortization of prepaid bond insurance costs	288,034	212,894
Amortization of premium on long-term debt	(9,520)	(9,979)
Amortization of deferred outflows of resources	10,859	10,859
Interest expense on long-term debt and capital lease obligations	10,694,515	10,801,061
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(21,328,072)	(102,754,153)
Inventories, prepaid expenses, and other assets	(1,318,118)	(175,222)
Estimated third-party payor settlements – Medicare and Medicaid	(5,716,244)	(6,561,518)
Deferred revenue	4,692,657	-
Accounts payable, accrued salaries, payroll-related costs, and other accrued expenses	(2,006,169)	4,025,604
Net cash provided by operating activities	$ 21,322,980	$ 17,547,137

See accompanying notes.

NOTES TO BASIC FINANCIAL STATEMENTS

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 Oak 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 36 active clinics. 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 Holding 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.

NOTES TO BASIC FINANCIAL STATEMENTS

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 2017 and 2016.

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."

NOTES TO BASIC FINANCIAL STATEMENTS

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 2017, 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 $1,173,000 in 2017 and an increase to net patient service revenue of approximately $1,372,000 in 2016.

In fiscal year 2017, the District recorded Full Medicaid Payout (FMP) revenue for Physician Supplemental payments of approximately $12,742,000 and District Upper Payment Limit (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.

In fiscal year 2016, the District recorded a disproportionate share payment of $69,225 related to high Medicaid utilization and uncompensated care costs. The District recorded Full Medicaid Payout (FMP) revenue for Physician Supplemental payments of approximately $10,900,500 and District UPL revenue of approximately $7,122,000 during the year ended June 30, 2016. These amounts were used to offset Medicaid contractual adjustments, which resulted in an increase in net patient service revenue.

In fiscal year 2016, the District also received $194,000 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

NOTES TO BASIC FINANCIAL STATEMENTS

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 increased from 87 percent of self-pay accounts receivable at June 30, 2016, to 90 percent of self-pay accounts receivable at June 30, 2017. The District has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016.

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 $1,061,000 in 2017 and $1,819,000 in 2016 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 hospital 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 hospital is not adequately covered by the payments.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

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

The District estimated uncompensated care cost amounts of $38,303,000 and $34,205,000 in 2017 and 2016, 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 68.78 percent and 66.46 percent of total cost for 2017 and 2016, 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 77 percent and 70 percent for the years ended June 30, 2017 and 2016, respectively.

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.

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.

Adopted Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 72 ("GASB 72")

The District adopted GASB 72, *Fair Value Measurement and Application*, in fiscal year 2017. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of GASB 72 did not have a significant impact on the financial statements of the District.

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

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

	Maturity	Fair Value
2017		
Securities type:		
U.S.-government backed obligations	2018-2021	$ 22,232,982
Cash and cash equivalents, certificates of deposit, and accrued interest receivable		82,402,125
		$ 104,635,107
2016		
Securities type:		
U.S.-government backed obligations	2017-2021	$ 22,863,275
Cash and cash equivalents, certificates of deposit, and accrued interest receivable		79,885,355
		$ 102,748,630

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:

	Statement of Net Position Classification			
	Cash and Equivalents	Designated Investments Current	Designated Investments Long Term	Total
2017				
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

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Continued

	Statement of Net Position Classification			
	Cash and Equivalents	Designated Investments Current	Designated Investments Long Term	Total
2016				
U.S.-government backed obligations	$ -	$ 7,264,423	$ 15,598,852	$ 22,863,275
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	12,886,879	-	66,998,476	79,885,355
	$ 12,886,879	$ 7,264,423	$ 82,597,328	$ 102,748,630

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.

	Desired Percentage Range of Overall Portfolio
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, 2017 and 2016, 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.

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, 2017 and 2016, 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, 2017, $82,470,015 of the District's bank balances of $83,970,015 was 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, 2017 and 2016, 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, 2017 and 2016:

		Years		
Investment Type	Fair Value	< 1	1–5	> 5
2017				
U.S.-Government backed obligations	$ 22,232,982	$ 7,133,844	$ 15,099,138	$ -
2016				
U.S.-Government backed obligations	$ 22,863,275	$ 8,185,582	$ 14,677,693	$ -

NOTES TO BASIC FINANCIAL STATEMENTS

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 $3,637,000 as of June 30, 2017 and $3,524,000 as of June 30, 2016 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:

	2017	2016
Medicare	27%	24%
Medicaid	4	4
Self Pay	6	17
Other (managed care, commercial)	63	55
	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:

	2017	2016
Bond principal account	$ 2,554,802	$ 2,477,620
Bond interest account	3,925,224	3,948,089
Reserve accounts and other	15,752,956	16,437,566
	$ 22,232,982	$ 22,863,275

NOTES TO BASIC FINANCIAL STATEMENTS

Note 5. Capital Assets

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

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
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	$ 232,512,000	$ (8,230,000)	$ -	$ (11,000)	$ 224,271,000

The District's investment in capital assets consisted of the following as of June 30, 2016:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	$ 7,456,000	$ -	$ -	$ -	$ 7,456,000
Buildings and fixed equipment	310,775,000	791,000	960,000	(95,000)	312,431,000
Equipment	159,068,000	4,186,000	1,884,000	(105,000)	165,033,000
Construction in progress	1,558,000	2,575,000	(2,844,000)	-	1,289,000
	478,857,000	7,552,000	-	(200,000)	486,209,000
Less accumulated depreciation	237,486,000	16,314,000	-	(103,000)	253,697,000
Capital assets, net	$ 241,371,000	$ (8,762,000)	$ -	$ (97,000)	$ 232,512,000

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 $4,590,000 and $4,303,000 in 2017 and 2016, respectively, representing the required contributions in both years.

NOTES TO BASIC FINANCIAL STATEMENTS

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 $1,588,000 and $1,262,000 for the fair market value of the plans' combined assets as of June 30, 2017 and 2016, 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 $4,823,000 and $4,586,000 as of June 30, 2017 and 2016, 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 has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The District accrued approximately $1,981,000 and $1,902,000 at June 30, 2017 and 2016, respectively, for employee health insurance and workers' compensation claims.

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

Year Ended June 30	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2017	$ 6,488,000	$ 29,536,000	$ 29,220,000	$ 6,804,000
2016	$ 5,874,000	$ 30,820,000	$ 30,206,000	$ 6,488,000

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Long-Term Debt and Capital Lease Obligations

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

	June 30 2017	2016
Hospital Revenue Bonds, Series 2003A	$ 21,825,000	$ 21,825,000
Hospital Revenue Bonds, Series 2003B	18,000,000	18,600,000
Hospital Revenue Bonds, Series 2009A	99,000,000	99,000,000
Bonds, Series 2011	19,275,000	20,795,000
Bonds, Series 2013	26,935,000	30,000,000
Bonds, Series 2015	9,200,000	9,650,000
Total	194,235,000	199,870,000
Plus unamortized bond premium on 2004, 2003, and 2013 bonds	57,064	66,584
	194,292,064	199,936,584
Less current portion	5,910,000	5,635,000
Long-term debt, less current maturities	$ 188,382,064	$ 194,301,584

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 was 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, 2017.

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. It is understood that the purchaser and the District have no obligation to remarket the Series 2003 B Bonds on the put date. 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, 2017.

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 2017 and 2016, the District received approximately $2,323,000 and $2,324,000 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, 2017.

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 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 2017 – 2028.

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2017, were as follows:

	Principal	Interest
2018	$ 5,910,000	$ 10,624,282
2019	6,200,000	10,450,361
2020	6,355,000	10,259,496
2021	6,600,000	10,052,180
2022	6,830,000	9,832,493
2023–2027	37,915,000	45,319,242
2028–2032	29,930,000	37,465,255
2033–2037	37,850,000	29,465,440
2038–2042	56,645,000	12,608,640
	$ 194,235,000	$ 176,077,389

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Continued

Included in the estimated interest payments in the table above is approximately $52 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 and capital lease obligations:

Year Ended June 30	Beginning of Fiscal Year Long-Term Debt	Additions	Principal Payments	Balance at Fiscal Year-End
2017	$ 199,870,000	$ -	$ 5,635,000	$ 194,235,000
2016	$ 205,090,000	$ -	$ 5,220,000	$ 199,870,000

Note 9. Charity Care

The estimated cost of total uncompensated care for the years ended June 30, 2017 and 2016 is approximately $2,152,000 and $2,032,000, 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 $2,710,000 and $1,791,000 at June 30, 2017 and 2016, 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.

NOTES TO BASIC FINANCIAL STATEMENTS

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 of approximately $19,529,000 and $7,122,000 in 2017 and 2016, 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 North Oaks Physician Groups entered in to 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. Physician group 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, Physician Group assigns all rights and authorities to HSD to contract for and to collect payment of PREFs.

For this agreement, the Hospital recognized total revenue of approximately $12,741,000 and $10,901,000 in 2017 and 2016, 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

On June 1, 2017, the North Oaks Physician Group (NOPG) entered in to an agreement with a private health care provider. Under the terms of this agreement the private healthcare provider agrees to work cooperatively with the NOPG 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.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 12. Continued

The NOPG received funds under this program in the amount of approximately $7,039,000 in 2017. The Hospital recorded approximately $4,693,000 as deferred revenues and $2,346,000 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 Hospital 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 $22,232,982 and $22,863,275 as of June 30, 2017 and 2016, respectively, are valued using prices quoted in active markets for those securities (Level 1 inputs).

HORNE
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, 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, the 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 year ended June 30, 2017 and the related notes to the financial statements, and have issued our report thereon dated October 18, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Horne LLP

Ridgeland, Mississippi
October 18, 2017

HORNE
CPAs & Business Advisors

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, 2017 and 2016, 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 18, 2017. 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 18, 2017

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Year Ended June 30, 2017

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

Agency Head:
Chief Executive Officer*

Purpose		Amount
Salary	$	620,620
Benefits-insurance		13,220
Benefits-retirement		135,659
Benefits-other		26,506
Car allowance		-
Vehicle provided by government		-
Per diem		-
Reimbursements		-
Travel		1,229
Registration fees		2,699
Conference travel		14,797
Continuing professional education fees		-
Housing		-
Unvouchered expenses		-
Special meals		-
	$	814,730

*During the fiscal year there was a transition in the Chief Executive Officer ("CEO") position for the District on January 1, 2017. The amount presented above represents the cumulative of partial year compensations for two CEOs.

See Independent Auditor's Report on Supplementary Information

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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, 2016 through June 30, 2017. 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, 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. If budget-to-actual comparison was shown, determine whether management was deficit spending during the fiscal period and whether there is a formal/written plan to eliminate the deficit spending.

   We noted during our examination of the minutes provided by management that the budget-to-actual financial information was reviewed in the executive committee sessions.

5. If there is a formal/written plan to eliminate the deficit spending, determine whether any minutes reflect that the Board is monitoring the plan in accordance with its written policy.

   We noted during our examination of the minutes provided by management that the budget-to-actual financial information was reviewed in the executive committee sessions.

6. Determine whether the minutes referenced or included non-budgetary financial information such as approval of contracts, approval of disbursements, etc.

   Management provided us with the required minutes and we noted non-budgetary financial information was reviewed and, if necessary, approval given during the monthly meeting of the Finance Committee and the Board.

Bank Reconciliations

7. Obtain from management a listing of all bank accounts held by the Health System.

   Management provided us with the required list of Health System bank accounts.

8. Select a sample of one-third of the bank accounts provided in the listing obtained from management in SAUP 7. For each sample, obtain bank statements and reconciliations for all months in the reporting period and determine whether:

   a) Bank reconciliations have been prepared for the sample selected;

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

   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 eight 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 six 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 six 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 & 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

9. Obtained from management a listing of all cash collection locations maintained by the Health System.

10. Select a sample of one-third of the collection locations provided in the listing obtained from management in SAUP 9. For each sample, obtain:

    a) Any existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (i) bonded, (ii) not responsible for depositing cash in the bank, recording the transaction or reconciling the bank account, and (iii) not required to share the same cash register or drawer with another employee.

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

    (i) All employees associated with collecting cash are bonded;
    (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) Some cashiers do share the same cash drawer; however, when on duty each cashier has a unique log-in for the accounting system.

    b) Any existing written documentation (e.g. sequentially numbered receipts, system reports, reconciliation worksheets, policy manual) and report whether the Health System has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections.

    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.

11. Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the reporting period and:

    a) Using supporting collection documentation, trace daily collections to the deposit date on the corresponding bank statement and determine whether the deposits were made within one day of collection.

    We inspected supporting documentation, including bank statements, check copies, EFT transfers, etc., noting all deposits were submitted timely.

b) Using supporting collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

We inspected supporting documentation, including bank statements, check copies, EFT transfers, etc., noting all total deposit amounts were properly supported and footed.

12. Obtain written documentation (e.g. policy manual, written procedures) and report whether the Health System has a process specifically defined to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions by a person who is not responsible for collections.

We performed inquiries and reviewed supporting documentation related to the cash collection process and noted all cash collections are documented properly. The completeness of collections is addressed in the Health System's policies and we also noted that those responsibilities are executed by personnel separate from the actual cash collections.

Disbursements

13. Obtain from management a listing of all Health System disbursements for the reporting period.

14. Select a sample of 25 disbursements, excluding credit cards, provided in the listing obtained from management in SAUP 13. Obtain supporting documentation for each transaction to determine whether the documentation demonstrated that:

a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions.

We reviewed supporting documentation related to the disbursement sample and noted all purchases were properly initiated using a written requisition or through the purchase order system.

b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate 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.

c) Payments for purchases were not processed without (i) an approved requisition and/or purchase order, or electronic equivalent; (ii) a receiving report showing receipt of goods purchased, or electronic equivalent; and (iii) an approved invoice.

We performed inquiries and reviewed supporting documentation related to the disbursement sample and noted:

(i) All purchases had an approved requisition and/or purchase order, or electronic equivalent;
(ii) All purchases had a receiving report or electronic equivalent;
(iii) All purchases had an approved invoice.

15. Using Health System documentation (e.g. electronic system control documentation, written procedure, policy manual), report whether the person responsible for processing payments is prohibited from adding vendors to the Health System's purchasing/disbursement system.

We reviewed management's purchasing/disbursement-related policies and noted that the policy currently lists the AP Manager (the person responsible for reviewing the processing of payments) as a position 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. We also noted that prior to fiscal year end the Health System updated their policies to include the Labor/Cost Analyst as the backup for adding new vendors to the purchasing/disbursement system.

16. Using Health System documentation (e.g. electronic system control documentation, written procedure, policy manual), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

    We reviewed management's purchasing/disbursement related policies and noted that final authorization for disbursements does not come from the person responsible for initiating or recording purchases.

17. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons who do not have signatory authority. Alternatively, if the checks are electronically printed on blank check stock, review Health System documentation (electronic system control documentation) and determine whether the persons with signatory authority have system access to print checks.

    We performed inquiries and observed the locked location where all unused checks are maintained. We confirmed that the only personnel with access to unused checks do not have signatory authority to issue the checks.

18. If a signature stamp or signature machine is used, inquire of the signer whether his/her signature is maintained under his/her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed.

    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.

Credit Cards

19. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards maintained by the Health System.

20. Select a sample of 10 cards used from the listing obtained from management in SAUP 19 during the reporting period. For each sample, obtain bank statements and reconciliations for all months in the reporting period.

    Management provided us with all the required bank statements and reconciliations of all months for the sample selected.

21. Select the monthly statement with the largest dollar activity for each sample obtained from management in SAUP 20 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 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.

c) For each transaction, determine whether the transaction is supported by (i) an original itemized receipt, (ii) documentation of the business/public purpose (for meal charges, there should also be documentation of the individuals participating), and (iii) other documentation that may be required by written policy (e.g., purchase order, written authorization).

We performed inquiries and reviewed supporting documentation related to the reimbursement sample and noted:

(i) There were two exceptions where the credit card activity selected did not have original receipts identifying the item that was purchased. We noted that prior to fiscal year end the Health System updated their policies and now require each person who purchases fuel to have their own PIN number. A report is run at the end of each month listing all fuel purchases by PIN and any missing receipts are reported to the Director;

(ii) There was one exception where a receipt did not properly document the purpose or the individuals participating for a meal charge.

d) For each transaction, compare the transaction details to the Health System's written purchasing/disbursement policies and the Louisiana Public Bid Law and determine if there are any exceptions.

We reviewed supporting documentation related to all credit card activity selected and noted all expenses were in accordance with written policies and the Louisiana Public Bid Law.

e) For each transaction, compare the Health System's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and determine if there are any exceptions.

We reviewed supporting documentation related to the credit card activity selected and noted no prohibited transactions per Article 7, Section 14 of the Louisiana Constitution.

Travel and Expense Reimbursement

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

23. Obtain the Health System's written policies related to travel and expense reimbursements. Compare the amounts in the policies to 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. However, we did note that the Health System has a set amount for meals under the current policy language for reimbursement of per diem at $60, which could exceed the GSA rates. If expenses are higher than the allowed per diem, administrative approval is required.

24. Select a sample of three employees who incurred the most travel costs during the reporting period provided in the listing obtained from management in SAUP 22. For each sample, obtain the expense reimbursement reports or prepaid expense documentation, including supporting documentation, and choose the largest travel expense for each person to review in detail as follows:

    a) Compare expense documentation to written policies and determine whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging).

    We reviewed supporting documentation related to all reimbursements selected and noted all expenses were reimbursed or prepaid in accordance with written policy.

    b) Determine whether each expense is supported by (i) an original itemized receipt that identifies precisely what was purchased, (ii) documentation of the business/public purpose, and (iii) other documentation as may be required by written policy.

    We performed inquiries and reviewed supporting documentation related to the reimbursement sample and noted:

    (i) All expenses reimbursed (or prepaid) had original receipts identifying what was purchased;
    (ii) All expenses reimbursed (or prepaid) had documentation regarding the business/public purpose of the travel;
    (iii) All expenses reimbursed (or prepaid) had all other required documentation present.

    c) Compare the Health System's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and determine if there are any exceptions.

    We reviewed supporting documentation related to each reimbursement and noted no prohibited transactions per Article 7, Section 14 of the Louisiana Constitution.

    d) 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

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

26. Select a sample of five vendors who were paid the most money during the reporting period, excluding state contracts and payments to practitioners, provided in the listing obtained from management in SAUP 25. Obtain the related contracts and paid invoices and:

    a) Determine whether there is a formal written contract that supports the services arrangement and the amount paid.

    We reviewed supporting documentation related to each vendor selected and noted all maintained formal contracts for services provided.

b) 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.

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.

d)

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

e) 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.

27. Select a sample of the largest single payment from each of the five vendors' samples pulled in SAUP 25. 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

28. Obtain from management a listing of all employees during the reporting period. Select a sample of five employees and obtain their personnel files, and:

a) Review compensation paid to each employee during the reporting period and determine whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

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.

b) Review changes made to hourly pay rates/salaries during the reporting period and determine whether those changes were approved in writing and in accordance with written policy.

We reviewed supporting documentation within personnel files related to the employees selected and noted all pay rate/salary changes made during the reporting period were made in accordance with policies and with the proper approval of management.

29. Obtain from management a listing of all attendance and leave records during the reporting period. Select one pay period, within that pay period, select a sample of 25 employees and:

a) Determine whether 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) Determine whether 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) Determine whether 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.

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

30. Obtain from management a listing of all employees terminated during the reporting period. Select a sample of the two employees who received the largest termination payments. Obtain the 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.

31. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the reporting period. Determine whether the employee and employer portions of payroll taxes and retirement contributions, as well as any required reporting forms, were submitted to the applicable agencies by the required deadlines.

We inspected supporting documentation relating to payroll taxes and retirement contributions during the reporting period, including bank statements and check copies, noting all portions of payroll taxes and retirement contributions, as well as any required reporting forms, were submitted timely.

Ethics

32. Using the sample of five employees from the listing provided in SAUP 28, obtain ethics compliance documentation from management and determine whether the Health System maintained documentation to demonstrate that required ethics training was completed.

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

33. Inquire of management whether any alleged ethics violations were reported to the Health System during the reporting period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, any corrective actions taken, and determine whether management's actions complied with the Health System's ethics policy.

We inquired with the Health System's Compliance Officer who noted that there have been no reported instances of ethics violations during the reporting period.

Debt Service

34. 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.

35. If the Health System had outstanding debt during the reporting period, obtain supporting documentation from the Health System and 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.

36. If the Health System had tax millages relating to debt service during the reporting period, obtain supporting documentation from the Health System and determine whether the millage collections exceed debt service payments by more than 10 percent. Also, report any millages that continue to be received for debt that has been paid off.

    The Health System did not receive any tax millages relating to debt service during the reporting period.

Other

37. 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.

38. 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 the 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.

Postlethwaite & Netterville, APAC

Ridgeland, Mississippi
October 18, 2017