

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA**

**Consolidated Financial Statements as of December 31, 2013 and 2012
and for the Years Then Ended
and Independent Auditors' Report
and Supplemental Information**

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
CONSOLIDATED BASIC FINANCIAL STATEMENTS AS OF DECEMBER 31, 2013 AND 2012 AND FOR THE YEARS THEN ENDED:	
Consolidated Statements of Net Position	13
Consolidated Statements of Revenues, Expenses, and Changes in Net Position	14
Consolidated Statements of Cash Flows	15
Notes to Consolidated Financial Statements	17
OTHER INDEPENDENT AUDITORS' REPORTS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36
SCHEDULE OF FINDINGS AND RESPONSES	38
SCHEDULE OF PRIOR FINDINGS AND RESPONSES	40



Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Hospital Service District of the Parish of St. Bernard, State of Louisiana
Chalmette, Louisiana

Report on Financial Statements

We have audited the accompanying consolidated financial statements of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), as of and for the year ended December 31, 2013 and 2012, and the related notes to consolidated 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements.

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

4330 Dumaine Street
New Orleans, LA 70119
504-833-2436(O) • 504-484-0807(F)

200-B Greenleaves Blvd.
Mandeville, LA 70448
985-626-8299(O) • 985-626-9767(F)

900 Village Lane
P. O. Box 50, Pass Christian, MS 39571
985-626-8299(O) • 985-626-9767(F)

Limited Liability Company
www.gzacpa.com

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital Service District of the Parish of St. Bernard, State of Louisiana, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Restatement of 2012 Financial Statements

As disclosed in Note B, the accompanying 2012 financial statements have been restated.

Emphasis of Matter – Adoption of GASB Statement No. 65

As disclosed in Note A to the consolidated financial statements, the District retroactively adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the derecognition of the unamortized portion of the asset associated with debt issuance costs and a decrease in net position of \$2,694,601 as of January 1, 2012.

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 4-12 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 14, 2014 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.

Gurtner Zuniga Abney, LLC

New Orleans, Louisiana
October 14, 2014

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

The following discussion and analysis for the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) d/b/a St. Bernard Parish Hospital, provides an overview of the District's financial activities for the years ended December 31, 2013 and 2012. Please read it in conjunction with the District's financial statements, which follow this analysis.

Using These Basic Financial Statements

The District's financial statements consist of three statements: a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the financial activities of the District.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

These two statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account when the underlying transactions occur, regardless of when cash is received or paid. These statements report the District's net position and the changes therein. When assessing the overall health of the District, other nonfinancial factors also need to be considered, such as changes in services offered, measures of the quality of service offered, and local economic factors.

The Statement of Cash Flows

This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities. It provides information about sources and uses of cash and the change in cash balances during the reporting periods.

Hospital Operations and Significant Events

The mission of St. Bernard Parish Hospital (the Hospital) is to provide quality, comprehensive, cost-effective, healthcare services for St. Bernard Parish. As noted in Note A, "Description of Reporting Entity and Summary of Significant Accounting Policies", on page 17 the District was formed for the purpose of construction of a non-profit community hospital in St. Bernard Parish. Construction of the 113,000 square foot state-of-the-art facility was substantially completed on July 27, 2012 and the hospital opened its doors to patients shortly thereafter. Full licensure by the Louisiana Department of Health and Hospitals was granted on August 20, 2012. The Hospital experienced its first full year of operation in 2013.

The hospital facility supports 40 patient beds, an intensive care unit, four operating suites, two endoscopy suites, a cardiac catheterization lab and a ten-bed emergency department. St. Bernard Parish Hospital also provides complete medical imaging, laboratory, in-house pharmacy, food and nutritional services, and rehabilitation services.

The adjacent medical office building (MOB) was substantially completed in late January 2013. The MOB is a compliment to the hospital facility and is occupied by physicians in private practice, administrative offices of the hospital, and the St. Bernard Community Health Center.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

By the end of December 2013, the Hospital had been serving the St. Bernard Parish community for about sixteen months. Since the vast majority of capital assets had been put in place upon the opening of the Hospital in August 2012, there was little need for significant additions to capital assets in 2013. The Hospital experienced a significant increase in current liabilities from 2012 to 2013 due to the lack of funds available for the payment of trade payables. There were unforeseen delays in collections on patient accounts through the first quarter of 2014. The District's net position decreased mainly as a result of non-cash expenses.

Changes in the District's net position from 2012 to 2013 and significant differences in revenue and expenses between the two years are discussed further in sections hereafter.

Statement of Net Position

The District's net position is the difference between its assets and liabilities as reported in the statement of net position. Table 1A presents a summary of the financial changes to the District in 2013 as compared to 2012. The District's total assets increased by \$3,003,326 or 3%.

**Table 1A - 2013 vs. 2012
Condensed Statements of Net Position**

	December 31		Dollar Change	Percent Change
	2013	2012 (As Restated)		
Assets				
Current assets	\$ 21,058,067	\$ 19,073,234	\$ 1,984,632	10%
Capital assets, net	<u>68,388,570</u>	<u>67,370,167</u>	<u>1,018,403</u>	2%
Total assets	<u>\$ 89,446,637</u>	<u>\$ 86,443,401</u>	<u>\$ 3,003,236</u>	3%
Liabilities				
Current liabilities	\$ 12,109,859	\$ 7,878,278	\$ 4,141,581	53%
Long-term debt, net	<u>57,402,328</u>	<u>56,480,000</u>	<u>(922,328)</u>	2%
Total liabilities	<u>69,422,187</u>	<u>64,358,278</u>	<u>5,063,909</u>	8%
Net Position				
Net investment in capital assets	11,280,779	14,854,789	(3,574,010)	-24%
Unrestricted	<u>8,743,671</u>	<u>7,230,334</u>	<u>1,513,337</u>	21%
Total net position	<u>\$ 20,024,450</u>	<u>\$ 22,085,123</u>	<u>\$ (2,060,673)</u>	-9%

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

Current Assets

There was a \$1,984,632 increase in total current assets from 2012 to 2013.

- Cash decreased by approximately \$3.6 million due to insufficient cash collections on patient accounts receivable required to meet all of the operational cash needs of the hospital. Restricted cash decreased by \$5.0 million of restricted cash related to payment of construction and completing purchases of furniture and equipment for the Hospital.
- Patient accounts receivable as of the end of 2013 increased \$7.7 million as a result of the District's inability to issue accurate claims to third party payers for services provided and procedures performed from the opening of the facility through the end of 2013. A third party vendor took over the billing responsibilities in late 2013 and significantly increased the cash collections for the District starting in the early part of 2014.
- Grants receivable increased \$.6 million mainly due to an increase in expected UPL program revenue while ad valorem taxes receivable remained consistent with 2012.
- Other current assets increased by approximately \$2.6 million due to emergency room professional fees receivable due from third parties related to services provided in 2013 that were not billed until fiscal 2014.

Capital Assets

Table 2A presents the components of capital assets at December 31, 2013 and 2012. In 2013, net capital assets increased by approximately \$1 million. Additions of \$4.9 million to capital assets were offset by current year depreciation of \$3.9 million. The District concluded the construction of the Hospital building and most of the MOB which accounted for about one-half of the additions to capital assets. Other additions were for completing purchases of major moveable equipment, furniture and computer equipment for the operations of the Hospital. Construction in progress decreased approximately \$9.3 million in 2013 since the MOB was put into service in early February 2013.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

**Table 2A
Capital Assets**

	December 31		Dollar Change
	2013	2012	
Land	\$ 2,890,000	\$ 2,890,000	\$ -
Construction in Progress	-	9,347,688	(9,347,688)
Hospital Building	43,567,030	42,255,267	1,311,763
Medical Office Building	10,497,247	-	10,497,247
Furniture and Fixtures	1,401,068	1,109,439	291,629
Major Moveable Equipment	9,972,537	9,193,771	778,766
Computer Equipment	5,743,528	4,347,237	1,396,291
Subtotal	74,071,410	69,143,402	4,928,008
Less Accumulated Depreciation	(5,682,840)	(1,773,235)	(3,909,605)
Total Assets	<u>\$ 68,388,570</u>	<u>\$ 67,370,167</u>	<u>\$ 1,018,403</u>

Projected Capital Expenditures for FY 2014

The District is contemplating the replacement of its electronic medical record system and accounting software in 2014. The cost of this replacement including annual maintenance fees over the next five years is estimated at \$4.2 million. The District plans to finance this replacement through the issuance of Hospital Revenue Bonds.

Long-Term Debt

The District had approximately \$55 million in long-term debt outstanding as of the end of 2013 which was a modest decrease from the previous fiscal year.

In June 2013, the District issued \$3,000,000 of 4.5% Revenue Anticipation Notes, Series 2013, due March 1, 2014. Principal payments totaling \$1,000,000 were made during 2014 prior to maturity and the note was refinanced in February of 2014 with the issuance of a 2014 revenue anticipation note totaling \$2,000,00 which originally matured on September 1, 2014 and was subsequently extended to December 1, 2014 in August of 2014. Additionally, in August of 2014, a principal payment of \$250,000 was made on this note. In September of 2014, the District obtained approval from the State of Louisiana Bond Commission to issue \$7,800,000 in bonds, a portion of which will be used to refinance the outstanding balance of these revenue anticipation notes. Accordingly, of the \$3,000,000 balance owed at December 31, 2013, \$1,750,000, is expected to be refinanced, as such this portion has been reclassified as long-term debt at December 31, 2013.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

Capital Lease Obligation

The District purchased cardiac catheterization lab equipment during December 2013 financed via a capital lease obligation totaling \$773,000. There were no assets under capital lease during 2012.

Net Position

Table 3A presents the components of the District's net position at December 31, 2013 and 2012:

**Table 3A
Components of Net Position**

	December 31		Dollar Change	Percent Change
	2013	2012		
Invested capital assets, net of related debt	\$ 11,280,779	\$ 14,854,789	\$ (3,574,010)	-24%
Unrestricted	8,743,671	7,230,334	1,513,337	21%
Total net position	\$ 20,024,450	\$ 22,085,123	\$ (2,060,673)	-9%

2013 and 2012 Statement of Changes in Net Position

The following discussion refers to the summarized activity presented in the District's Condensed Statements of Changes in Net Position in Table 4A for 2013 and 2012.

Operating Revenue

Operating revenue increased \$18.8 million from 2012 to 2013. The fiscal year ended December 31, 2013 reflects the results of a full year of operations for the Hospital and accordingly, there was an increase in net patient revenue in 2013 of \$17.0 million as compared to \$3.6 million in 2012.

Other operating revenue recognized by the District included UPL program revenue for the delivery of adequate and essential medically necessary health care services to the citizens in the community who are low income and/or indigent patients of approximately \$2.8 million and \$0.8 million for the years 2013 and 2012, respectively.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

**Table 4A
Condensed Statements of Changes in Net Position**

	December 31		Dollar Change
	2013	2012 (As Restated)	
Operating revenue	\$ 23,694,715	\$ 4,901,635	\$ 18,793,080
Operating expenses	27,366,809	14,309,158	13,057,651
Operating income	(3,672,095)	(9,407,523)	5,735,428
Total interest income	60	96	(36)
Capital grants	-	12,801,480	(12,801,480)
Ad valorem taxes	2,377,713	2,383,624	(5,911)
Governmental support	398,333	257,580	140,753
Asset management fees	(200,000)	(225,000)	25,000
Interest expense	(964,685)	(754,182)	(210,503)
Non-operating income	1,611,422	14,463,598	(12,852,176)
Change in net position	(2,060,673)	5,056,075	(7,116,748)
Net position, beginning of year	22,085,123	17,029,048	5,056,075
Net position, end of year	\$ 20,024,450	\$ 22,085,123	\$ (2,060,673)

Table 5A below presents the relative percentages of gross charges billed for patient services by payor.

**Table 5A
Payor Mix**

	2013	2012
Managed Care/Commercial	32%	32%
Medicare	41%	37%
Medicaid	15%	20%
Self-pay and Other	12%	11%
Total Patient Revenues	100%	100%

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

Reimbursements to the District are made on behalf of patients by the federal and state governments under the Medicare and Medicaid programs, respectively, by commercial insurance carriers and health maintenance organizations, as well as by patients on their own behalf. The difference between the covered charges and the payments under government programs and established contracts is recognized as a contractual allowance. The following table presents the contractual allowances on gross billings by payer and the provision for doubtful accounts for 2013 and 2012.

**Table 6A
Allowance Summary**

	<u>2013</u>	<u>2012</u>
Contractual allowances:		
Managed care and commercial accounts	\$ 10,917,960	\$ 2,034,977
Medicaid contractual allowances	3,669,599	858,884
Medicare contractual allowances	<u>16,643,862</u>	<u>4,155,727</u>
Total contractual allowances	31,231,421	7,049,588
Allowance for doubtful accounts	<u>6,712,156</u>	<u>1,602,614</u>
	<u>\$ 37,943,577</u>	<u>\$ 8,652,202</u>

Operating Expenses

As anticipated, the operating expenses of the Hospital increased approximately \$13.1 million from 2012 to 2013.

The Hospital maintained a staff of approximately 150 full time equivalents during its first full year of operation. This translated to an increase in salaries of approximately \$6.0 million or 116% from 2012 to 2013. Similarly, employee benefits increased at nearly the same rate.

The provision of medical services and procedures, medical and general supplies increased \$2.4 million, purchased services \$.8 million, insurance \$.5 million, utilities \$.5 million and other direct expenses \$.5 million in 2013 from 2012.

Depreciation increased in 2013 since a full year's depreciation is being recognized on the assets placed in service in 2012 including the Hospital building, MOB, furniture and fixtures, major moveable equipment and computer equipment.

Non-Operating Income and Expenses

There was no capital grant revenue recognized in 2013 since the District had concluded on the existing Community Development Block Grant and State Capital Outlay grant awards in 2012. There were no new capital grant awards in 2013.

Ad valorem taxes are received by the District from the Tax Assessor of St. Bernard Parish. The 2011 year was the first year the District levied taxes, which have been set at 8.00 mills for the purpose of

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

constructing, equipping, maintaining and operating hospital facilities within the District. The ad valorem taxes recognized by the District are recorded net of an allowance and remained fairly constant from 2012 to 2013.

The District received \$398,333 from the St. Bernard Parish Government as support during 2013. This support is given by the Parish Government to the District as per a Cooperative Agreement dated August 23, 2011 between the Hospital Service District and the St. Bernard Parish Government.

Interest expense and asset management fees increased modestly in 2013 as a result of the issuance of the Revenue Anticipation Notes discussed in "Long-Term Debt" above.

2013 Budget to Actual Comparison

The following table presents a comparison between actual results of operations versus budgeted 2013 amounts:

**Table 7A
Budget vs Actual -Year 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues			
Net patient service revenue net of provision for bad debts of \$1,919,666 budget and \$6,712,156 actual	\$ 18,240,712	\$ 20,564,227	\$ 2,323,515
Other operating revenue	<u>1,920,000</u>	<u>3,130,488</u>	<u>1,210,488</u>
Total revenues	<u>20,160,712</u>	<u>23,694,715</u>	<u>3,534,003</u>
Operating Expenses			
Salaries, wages, and benefits	13,273,846	12,927,667	346,179
Supplies and other	4,730,464	6,692,978	(1,962,514)
Professional and contractual services	5,615,100	3,836,558	1,778,542
Depreciation and amortization	<u>3,339,545</u>	<u>3,909,606</u>	<u>(570,061)</u>
Total operating expenses	<u>26,958,955</u>	<u>27,366,809</u>	<u>(407,854)</u>
Non-operating income, net	<u>1,571,388</u>	<u>1,611,421</u>	<u>40,033</u>
Excess of revenues over expenses	<u><u>\$(5,226,855)</u></u>	<u><u>\$(2,060,673)</u></u>	<u><u>\$ 3,166,182</u></u>

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012**

At the time the budget was prepared and approved, the board of commissioners did not have a great deal of historical data for estimating anticipated revenues and expenses since the hospital had only been open for a few months when the budget for 2013 was prepared. Consequently, it was difficult to anticipate net patient service revenue and other operating revenue. Average patient census nearly doubled during 2013 and there was a significant increase in the emergency room visits. The board of commissioners also anticipated uncompensated care revenue to only double in the 2013 fiscal year. The revenue recognized in UPL program revenue exceeded the anticipated revenue by \$1.2 million.

The variance in supply and other expenses is directly related to the variance in anticipated patient volume. As would be expected, costs for medical supplies and other expenses necessary for patient care were needed to meet unanticipated patient care demands.

When the budget was prepared for 2013, management continued to employ the use of estimates to determine the basis of assets to be placed in service.

Liquidity, Economic Factors, and Next Year's Budget

The District continued to experience less than expected cash flows on the turnaround of its patient accounts receivable due to the continued billing and collection issues in fiscal 2013, as discussed in the Operating Revenue section above. In June 2013, the District issued \$3,000,000 of notes payable in order to assist with funding the cash flow for the continued operation of the hospital. Management and the board of commissioners monitored the situation closely and cash flow shortfalls began to diminish by the second quarter of fiscal 2014.

The Hospital's management and board of commissioners considered many factors when setting the fiscal year 2013 budget. Of primary importance in setting the 2013 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes and reductions
- Medicaid reductions
- Increased number of uninsured and working poor
- Workforce shortages
- Cost of supplies
- Cost of drugs
- Increased competition in the marketplace
- Prior year experience in use of estimates
- Ability to collect on open patient accounts receivable

Contacting the Financial Management

This financial report is designed to provide our taxpayers, suppliers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's finance office at 8000 West Judge Perez Drive, Chalmette, LA 70043.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
CONSOLIDATED STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2013 AND 2012**

	2013	2012 (As Restated)
ASSETS		
CURRENT ASSETS		
Cash	\$ 832,017	\$ 4,391,238
Restricted cash	137,500	5,194,622
Receivables		
Patient accounts receivable, net	10,778,010	3,092,518
Grants receivable	2,890,235	2,262,340
Ad valorem receivable, net	2,312,269	2,229,527
Inventory	831,297	344,220
Prepaid expenses	639,451	463,656
Third party settlement reimbursements, net	-	418,458
Other current assets	2,637,288	676,655
	21,058,067	19,073,234
NONCURRENT ASSETS		
Capital assets, net	68,388,570	67,370,167
	\$ 89,446,637	\$ 86,443,401
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	6,727,072	5,298,927
Accrued payroll	1,028,150	674,004
Accrued interest payable and other expenses	379,942	446,297
Current portion of long-term debt	2,685,000	1,230,000
Capital lease obligation - short-term portion	157,963	-
Short-term debt	246,949	229,050
Third party settlement reimbursements, net	775,764	-
Other current liabilities	19,019	-
	12,019,859	7,878,278
LONG-TERM LIABILITIES		
Capital lease obligation - long-term portion	607,328	-
Long-term debt, less current portion	56,795,000	56,480,000
	57,402,328	56,480,000
Total liabilities	69,422,187	64,358,278
COMMITMENTS AND CONTINGENCIES (NOTES E, F, G, H, J and N)		
	-	-
NET POSITION		
Invested in capital assets, net of related debt	11,280,779	14,854,789
Unrestricted	8,743,671	7,230,334
	20,024,450	22,085,123

See independent auditors' report and accompanying notes to financial statements.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012 (As Restated)
OPERATING REVENUES		
Net patient service revenue	\$ 20,564,227	\$ 3,553,185
Other operating revenue	355,705	578,401
UPL program revenue	2,774,783	770,049
	<hr/>	<hr/>
Total operating revenues	23,694,715	4,901,635
OPERATING EXPENSES		
Salaries and wages	11,093,711	5,150,195
Employee benefits	1,833,956	829,640
Professional fees	2,885,233	2,994,378
Medical and general supplies	4,132,630	1,760,166
Depreciation and amortization	3,909,606	1,773,008
Purchased services	951,325	184,880
Insurance	816,539	351,763
Debt issuance costs	-	533,540
Utilities	716,029	212,301
Other direct expenses	1,027,780	519,287
	<hr/>	<hr/>
Total operating expenses	27,366,809	14,309,158
NET LOSS FROM OPERATIONS	(3,672,094)	(9,407,523)
NON-OPERATING INCOME (EXPENSES)		
Capital grants	-	12,801,480
Ad valorem revenue	2,377,713	2,383,624
Governmental support	398,333	257,580
Interest income	60	96
Interest expense	(964,685)	(754,182)
Asset management fees	(200,000)	(225,000)
	<hr/>	<hr/>
Total non-operating income, net	1,611,421	14,463,598
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	<hr/>	<hr/>
	-	(2,694,601)
CHANGE IN NET POSITION	<hr/>	<hr/>
	(2,060,673)	5,056,075
NET POSITION - Beginning of year	<hr/>	<hr/>
	22,085,123	17,029,048
NET POSITION - End of year	<hr/>	<hr/>
	\$ 20,024,450	\$ 22,085,123

See independent auditors' report and accompanying notes to financial statements.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenue collected	\$ 15,216,365	\$ 1,380,333
Cash paid to or on behalf of employees	(12,573,521)	(5,336,172)
Cash paid for suppliers and services	(11,723,530)	(13,176,222)
Net cash used in operating activities	(9,080,686)	(17,132,061)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Ad valorem taxes	2,294,971	2,279,773
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grant	1,376,838	19,428,304
Principal payments on short-term debt	(1,459,050)	(1,663,087)
Proceeds from short-term debt	3,246,949	458,099
Proceeds from long-term debt	-	21,081,221
Proceeds from lease payable	765,291	-
Interest paid	(1,231,040)	(826,510)
Governmental support	398,333	257,580
Purchase of capital assets	(4,928,009)	(35,211,340)
Net cash (used in) provided by capital and related financing activities	(1,830,688)	3,524,267
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received as interest	60	96
Change in restricted cash	5,057,122	14,291,193
Net cash provided by investing activities	5,057,182	14,291,289
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,559,221)	2,963,268
CASH AND CASH EQUIVALENTS - Beginning of year	4,391,238	1,427,970
CASH AND CASH EQUIVALENTS - End of year	\$ 832,017	\$ 4,391,238

See independent auditors' report and accompanying notes to financial statements.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012 (As Restated)
RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES		
Net loss from operations	\$ (3,672,094)	\$ (9,407,523)
Adjustments to reconcile net loss from operations to net cash flows used in operating activities:		
Depreciation and amortization	3,909,606	1,773,008
Changes in operating assets and liabilities:		
Patient accounts receivable	(7,685,492)	(3,092,518)
Grants receivable (UPL)	(2,004,732)	-
Inventory	(487,077)	(344,220)
Prepaid expenses	(175,795)	(401,196)
Third party settlement reimbursements	1,194,222	(418,458)
Other current assets	(1,960,633)	(661,655)
Accounts payable	1,428,145	(5,375,837)
Accrued payroll	354,146	643,665
Other accrued expenses	-	152,673
Other current liabilities	19,019	-
	\$ (9,080,686)	\$ (17,132,061)
Net cash used in operating activities	\$ (9,080,686)	\$ (17,132,061)
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital asset purchases included in accounts payable	\$ -	\$ 3,355,432

See independent auditors' report and accompanying notes to financial statements.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE A – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The accompanying consolidated financial statements include the accounts of Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District) and St. Bernard Hospital Foundation, Inc. (the Foundation), which are collectively referred to as the Organization.

The District is a political subdivision of the State of Louisiana organized by the St. Bernard Parish Council (the Parish) under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950. The District was formed on November 6, 2007 for the purpose of constructing a non-profit community hospital in St. Bernard Parish. The District is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Board of Commissioners is the governing authority for the District and responsible for obtaining voter and/or board approval for the levy of tax or debt issuance. The District is considered a primary government pursuant to GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*.

The relationship between the Parish and the District is summarized as follows: The Parish Tax Assessor collects and remits a tax which was voter-approved and levied specifically for the Hospital District. In addition, there is a Cooperative Endeavor Agreement (CEA) dated 2009 between the District and the Parish wherein the Parish designated \$600,000 from its Sales Tax Bond Issue Series 2004 loaned to the District to pay for capital improvement projects. Interest accrues at a rate of 6% per annum and the entire unpaid balance on the loan is due on or before January 2019. Although the Louisiana legislature expressly granted police juries (the Parish) the authority to appoint and remove for cause all commissioners appointed to serve the District, these are the only powers expressly granted to the Parish. Louisiana Revised Statutes § 46:1051, 1053 and 1060, define the separate powers and duties between hospital districts and parishes in which they operate which is recognized by the Louisiana Attorney General. In summary, these statutes expressly grant the District the sole power and right to incur debts and contract obligations necessary and proper for the carrying out of the purpose for which the District was created. The Parish does not have the power to abolish the District nor the authorization to perform the duties expressly reserved to the District commission. Although there are certain approvals required by the Parish, they are considered to be ministerial in nature based on the powers granted in these statutes.

The Foundation is a Louisiana not-for-profit entity which was granted its tax exempt status on October 23, 2012 with an effective exemption date of September 21, 2010 under Internal Revenue Code 501(c)(3). The Foundation was organized on September 21, 2010, for the purpose of assisting and promoting the District with the development of the hospital facility and raising of capital for the operation of health care related services to benefit the health and wellness of the residents of the District, particularly the indigent residents of the District. The Foundation is a voluntary, nonprofit, non-stock membership organization.

The Foundation is maintained by grants, private loans, operating revenues, and joint ventures with the District. The Foundation is governed by a Board of Directors made up of five members. Four of the board members are appointed by the Board of Directors of the District and one member is appointed by Access Health Louisiana, a Louisiana nonprofit corporation. Due to this level of control and the financial benefit/burden relationship with the District that exists, the Foundation is considered a blended component unit of the District for accounting purposes.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Basis of Accounting – The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resource measurement focus.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Hospital Service District of the Parish of St. Bernard and the entity in which the District has a controlling financial interest as indicated above. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash – Cash includes amounts held in demand deposits and interest bearing demand deposits. Under state law, the Organization may deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana Law and national banks having their principal offices in Louisiana.

Restricted Cash – Restricted cash has restrictions that exist that limit the ability of the Organization to use them to pay current liabilities. The Organization's restricted cash includes cash received through a long-term debt arrangement whose use is restricted for the construction of the hospital (2012 only) and certain related management fees as outlined in the respective loan agreement.

Inventory – Inventory, which consists primarily of drugs and supplies, is valued at the lower of cost (first in, first out method) or market.

Capital Assets, net – Property and equipment are recorded at acquisition cost. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. One-half year depreciation is recorded in year of acquisition. Equipment under capital leases is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life.

Compensated Absences – Employees accumulate paid time off at varying rates according to years of service. Employees are immediately vested in accrued paid time off when earned. Upon termination, all unused paid time off hours are paid to the employee at the employee's current rate of pay. The hours in an employee's paid time off account are capped at 150% of the employee's annual accrual.

Net Patient Service Revenue and Related Receivables – Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Organization provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Organization is exposed to certain credit risks. The Organization manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities.

A summary of net patient service revenue for the year ended December 31, 2013 and for the period from August 20, 2012 (commencement of operations) through December 31, 2012 is as follows:

	2013	August 20 through December 31, 2012 (As Restated)
Gross patient service revenue	\$ 58,507,804	\$ 11,665,387
Less discounts, allowance, and estimated contractual adjustments under third-party reimbursement programs	(31,231,421)	(7,049,588)
Less provision for bad debts	(6,712,156)	(1,602,614)
Net patient service revenue	<u>\$ 20,564,227</u>	<u>\$ 3,553,185</u>

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 in net patient revenue. During the year ended December 31, 2013 and 2012, the District estimated its gross uncompensated charity revenue to be approximately \$5.19 million and \$1.73 million, respectively.

Medicare and Medicaid Reimbursement Programs – The District is reimbursed under the Medicare Prospective Payment System for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the District is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The District qualifies as a disproportionate share provider under the Medicare regulations. As such, the District receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

The District is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group.

Medicare outpatient services (excluding clinical lab and outpatient therapy) are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the District is paid a predetermined amount per procedure. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy services are reimbursed based upon the respective fee schedules.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Retroactive cost settlements, based upon annual cost reports, are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

The District is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the District. The percentage of total gross patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries, combined, was approximately 56% and 57% for 2013 and 2012, respectively.

Net Position – Net position represents the difference between assets and liabilities. Net position classifications are defined as follows:

- a) Net Position Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets plus deferred out flows of resources less deferred inflows of resources related to those assets. Net position invested in capital assets, net of related debt excludes unspent debt proceeds.
- b) Restricted Net Position – Net position is reported as restricted when there are limitations imposed on their use, either through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Organization had no restricted net position as of December 31, 2013 and 2012.
- c) Unrestricted Net Position – This component of net position consists net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt,” as described above.

The Organization first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net positions are available.

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

Consolidated Statements of Revenues, Expenses, and Changes in Net Position – All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the consolidated statements of revenues, expenses, and changes in net position. Non-operating revenues and expenses consist of revenues and expenses related to ad valorem tax revenue,

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

capital grants, and financing and investing type activities and result from non-exchange transactions or investment income.

Ad Valorem Revenues – The District receives dedicated property tax revenues in amounts sufficient to fund annual debt maturities of the general obligation bonds and related interest costs (see Note G). Such revenues are considered non-operating in the accompanying consolidated statements of revenues, expenses and changes in net position.

Impact of Recently Issued and Adopted Accounting Pronouncements – In December 2012, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amended GASB Statement No. 14, *The Financial Reporting Entity* and provide for an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations and is effective for periods beginning after June 15, 2012. The District adopted GASB 61 in 2013 and there was no change in the financial reporting entity as a result of this adoption.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Additionally, the GASB evaluated debt issue costs and concluded that, with the exception of prepaid insurance, the costs relate to services provided in the current period and thus they should be expensed in the current period. This is a significant change from current practice which is to record these as assets and amortize them over the life of the related debt issue. The provisions of the statement are effective for periods beginning after December 15, 2012. The standard was adopted in 2013 retroactively to January 1, 2012. As such, the impact of the cumulative effect of change in accounting principle resulted in a decrease in net position of \$2,694,601 on January 1, 2012 due to derecognition of the unamortized portion of the asset associated with debt issuance costs.

NOTE B – RESTATEMENT OF 2012 FINANCIAL STATEMENTS

Subsequent to the issuance of the 2012 audited financial statements, management identified the following errors detailed below in the prior year presentation. These adjustments are considered material to the 2012 consolidated financial statements. The effect of these corrections resulted in a net decrease in total assets and net patient service revenue of \$1,421,464 and an increase in operating expenses of \$447,942 (which related to the application of the retrospective adoption of GASB No. 65) in the consolidated financial statements discussed in more detail below.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

The following line-items were adjusted in the accompanying consolidated financial statements to reflect the correction of these errors:

	As Previously Reported	Adjustments	As Revised
Consolidated Statement of Net Position:			
Assets:			
Patient Accounts Receivable, Net	\$4,830,887	\$(1,738,369) (A)	\$3,092,518
Estimated Third Party Settlements, Net	\$ -	<u>\$418,458</u> (B) (\$1,319,911) (A)(B)	\$418,458
Consolidated Statement of Revenues, Expenses and Changes in Net Assets			
Revenues:			
Net Patient Service Revenue	\$4,873,096	\$(1,319,911) (A)(B)	\$3,553,185
Expenses:			
Operating Expenses	\$13,861,216	\$447,942 (C)	\$14,309,158

(A) Management estimates of allowances for patient accounts receivables were inaccurate due to erroneous information provided by third party billing/collection companies. The material weaknesses previously identified in the 2012 audit in revenue cycle controls stemming from patient accounting system implementation issues performed by a third party vender resulted in excessive levels of uncollected net patient service revenues related to 2012. During fiscal 2013, management reassessed the adequacy of the valuation of the patient accounts receivable reserves in light of continuing difficulties related to the billing and collection of receivables generated by its contracted 3rd party billing company. Management determined that the reassessment and revaluation of the December 31, 2012 net patient accounts receivables were substantially attributable to conditions that existed prior to the issuance of the financial statements which rendered full collection of these receivables unlikely at that time. Management is of the opinion that errors identified in the prior year presentation were the direct result of the errors and omissions of the District's third party billing/collection companies. Manager has requested legal counsel to review these facts and related contractual agreements and make recommendations as to whether the District should take action to recover any damages it has experienced.

(B) In addition, management did not record any Medicare/Medicaid third party settlement as they did not believe the cost report settlements as of December 31, 2012 were material and they were unable to finalize the cost reports prior to this issuance of the audited financial statements. Subsequent to the issuance of the financial statements, management was able to estimate the third party settlements based on filed cost reports and a subsequent desk review which resulted in a net third party settlement payable totaling \$418,458.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

(C) In connection with the adoption of GASB No. 65 as discussed in Note A as of January 1, 2012, in addition to the cumulative effect of change in accounting principle that was recorded on that date of \$2,694,601, amortization expense of \$85,598 previously included in operating expenses was reclassified to debt issuance costs and additional debt issuance costs of \$447,942 that were incurred during 2012 and previously capitalized were expensed in 2012 with the adoption of GASB No. 65.

NOTE C – CASH AND RESTRICTED CASH

Cash and Restricted Cash – At December 31, 2013 and 2012, the Organization had \$969,517 and \$9,585,860, respectively, in non-interest bearing demand deposits as follows:

	2013	2012
Cash	\$ 832,017	\$ 4,391,238
Restricted cash	137,500	5,194,622
	<u>\$ 969,517</u>	<u>\$ 9,585,860</u>

These deposits are stated at cost, which approximates market.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure the Organization's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2013, the Organization's entire bank balance listed above was covered by federal deposit insurance thus none of it was exposed to custodial credit risk.

Under state law, deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities, plus the federal deposit insurance, must at all times equal the amount on deposit with the fiscal agent. The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

Concentration of Credit Risk – As required under GASB statement 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, 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 five percent (5%) 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 December 31, 2013 and 2012, the Organization had no investments requiring concentration of credit risk disclosure. Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the District's future operating results.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Further, the effect of economic conditions on the State may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the District's ability to maintain sufficient liquidity.

NOTE D – AD VALOREM

Ad valorem taxes are normally levied and billed in November of each year and are due by December 31st of the year levied. Revenues are recognized when levied due to the extent they are determined to be currently collectible. Ad valorem taxes are billed and collected using the assessed values determined by the Tax Assessor of St. Bernard Parish. The 2011 year was the first year the District levied taxes, which have been set at 8.00 mills for the purpose of constructing, equipping, maintaining and operating hospital facilities within the District. The ad valorem taxes receivable as of December 31, 2013 and 2012 are recorded net of allowances of \$125,048 and \$124,719, respectively, on the accompanying consolidated statements of net position.

NOTE E – JOINT VENTURES

On July 14, 2011, the Parish and the District entered into a Cooperative Endeavor Agreement whereas the Parish committed federal and state pass-through funding to provide a public health unit equivalent (outpatient clinic) to that which existed prior to the devastation caused by Hurricane Katrina on August 29, 2005. The construction of the medical office building was completed in January 2013 and the outpatient clinic occupies approximately 10,200 square feet of space within the medical office building.

On August 23, 2011, the District and the Foundation entered into a Joint Venture Cooperative Endeavor Agreement (Agreement) to engage in a joint venture to construct and operate a hospital facility and provide emergency and other essential and specialized hospital services to the citizens of St. Bernard Parish, State of Louisiana. This agreement was to facilitate the New Markets Tax Credit (NMTC) transaction, described further in Note G. On this date, the District transferred all construction in progress associated with the hospital to the Foundation. Using the proceeds of the NMTC Notes (Facility A and B), the Foundation substantially completed the construction of the hospital building, acquired essential equipment, materials and supplies necessary for beginning the operation of the hospital, and employed and contracted with all of the physicians, health professionals, administrative staff, employees and contractors required for the operation of the hospital. Under the terms of the Agreement, the District was obligated to make the land that the District owns, including all of the District's rights, privileges, appurtenances, and amenities, available to itself and the Foundation for the term of the Agreement, in order for the Foundation to complete construction of the hospital building, which was completed in July 2012. Pursuant to the agreement, the District provides the administrative, professional and financial management of the business, policies, and operations of the hospital. There is also a revenue-sharing agreement which requires a waterfall payment of costs in the following order:

- 1) the Foundation's qualified low-income community investment (QLICI) note payments
- 2) operating expenses of the District and the Foundation jointly incurred

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

- 3) hospital operating expenses
- 4) pro rata share of the debt service due on any obligations
- 5) contingency fund in the amount of \$200,000
- 6) necessary or desirable improvements
- 7) applicable percentage of interest in each

Additionally, the Foundation is responsible for the hospital building, equipment, maintenance and repair, contract and professional services related to construction, property insurance, payroll, and payroll taxes. The District is responsible for waste disposal, utilities, professional and malpractice insurance through the Louisiana Patient Compensation Fund, licenses and other provider agreements. This agreement will terminate on June 30, 2051, unless sooner terminated as permitted.

Pursuant to the cooperative endeavor agreement as detailed in Note E, there are certain revenue and expense sharing provisions between the District and the Foundation which eliminate in consolidation in the accompanying financial statements.

NOTE F – CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2013 is as follows:

	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Land	\$ 2,890,000	\$ -	\$ -	\$ 2,890,000
Hospital building	42,255,267	1,311,764	-	43,567,031
Medical office building	-	10,497,247	-	10,497,247
Furniture and fixtures	1,109,440	291,296	-	1,401,070
Major moveable equipment	9,193,771	778,766	-	9,972,537
Computer equipment	4,347,236	1,396,291	-	5,742,527
Total acquisition cost	59,795,714	14,275,698	-	74,071,412
Less accumulated depreciation:				
Hospital building	(528,191)	(1,071,901)	-	(1,600,092)
Medical office building	-	(131,216)	-	(131,216)
Furniture and fixtures	(44,663)	(98,245)	-	(142,908)
Major moveable equipment	(652,935)	(1,344,067)	-	(1,997,002)
Computer equipment	(547,446)	(1,264,178)	-	(1,811,624)
Total accumulated depreciation	(1,773,235)	(3,909,607)	-	(5,682,842)
Construction in progress	9,347,688	(9,347,688)	-	-
Capital assets, net	\$ 67,370,167	\$ 1,018,403	\$ -	\$ 68,388,570

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Capital asset activity for the fiscal year ended December 31, 2012 is as follows:

	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Land	\$ 2,890,000	\$ -	\$ -	\$ 2,890,000
Hospital building	-	42,255,267	-	42,255,267
Furniture and fixtures	7,444	1,101,996	-	1,109,440
Major moveable equipment	1,475	9,192,296	-	9,193,771
Computer equipment	192,581	4,154,655	-	4,347,236
Total acquisition cost	3,091,500	56,704,214	-	59,795,714
Less accumulated depreciation:				
Hospital building	-	(528,191)	-	(528,191)
Furniture and fixtures	(36)	(44,627)	-	(44,663)
Major moveable equipment	-	(652,935)	-	(652,935)
Computer equipment	(191)	(547,255)	-	(547,446)
Total accumulated depreciation	(227)	(1,773,008)	-	(1,773,235)
Construction in progress	30,840,560	(21,492,872)	-	9,347,688
Capital assets, net	\$ 33,931,833	\$ 33,438,334	\$ -	\$ 67,370,167

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was \$3,909,606 and \$1,773,008, respectively.

NOTE G – SHORT-TERM AND LONG-TERM DEBT

The following table summarizes the Organization's outstanding debt at December 31, 2013 and 2012:

Short-Term Debt	2013	2012
Note Payable: Principal and interest payable monthly at rate of 3.49% through May 25, 2013.	(A) \$ -	\$ 229,050
Note Payable: Principal and interest payable monthly at rate of 3.49% through May 25, 2014.	(A) 246,949	
Total short-term debt	\$ 246,949	\$ 229,050

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Long-Term Debt	<u>2013</u>	<u>2012</u>
Taxable Revenue Anticipation Note, Series 2013: Principal and interest payable on March 1, 2014 at rate at 4.5% per annum (expected to be refinanced) (B) \$	3,000,000	\$ -
New Markets Tax Credit Facility A: Interest payable semi-annually at rate of 1.00%. Principal is payable annually 2019 through 2051. (C)	33,028,779	33,028,779
New Markets Tax Credit Facility B: Interest payable semi-annually at rate of 1.00%. Principal is payable annually 2019 through 2051. (D)	11,671,221	11,671,221
Taxable Limited Tax Certificates, Series 2011: Interest payable semi-annually at rate of 3.54%. Principal is payable annually through March 2015. (E)	1,965,000	2,895,000
Tax-Exempt Limited Tax Certificates, Series 2012 A: Interest payable semi-annually at rate of 3.67%. Principal is payable annually through March 2018. (F)	5,215,000	5,515,000
Tax-Exempt Limited Tax Certificates, Series 2012 B: Interest payable semi-annually at rate of 3.10%. Principal is payable annually through March 2020. (G)	4,000,000	4,000,000
Intergovernmental Loan from St. Bernard Parish: Interest rate of 6% per annum, payable on or before January 2019. (H)	<u>600,000</u>	<u>600,000</u>
	59,480,000	57,710,000
Less: current maturities of long-term debt	<u>(2,685,000)</u>	<u>(1,230,000)</u>
Total long-term debt	<u>\$ 56,795,000</u>	<u>\$ 56,480,000</u>

(A) In each of August of 2012 and 2013, the District issued short-term notes payable of approximately \$320,000 related to the financing of a portion of the premiums and related fees and taxes for various insurance policies, secured by a security interest in all right, title and interest to the policies. Principal and interest was payable monthly at the rate of 3.49% and matured in May of the following year. The balance on the notes at December 31, 2013 and 2012 were \$246,989 and \$229,050, respectively.

(B) On June 20, 2013, the District issued a taxable revenue anticipation note in the amount of \$3,000,000. The principal and interest on this note was secured by and payable from a pledge and dedication of the income, revenues and receipts of the District with a maturity date of March 1, 2014. Principal payments totaling \$1,000,000 were made during 2014 prior to maturity and the note was refinanced in February of

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

2014 with the issuance of a 2014 revenue anticipation note totaling \$2,000,00 which originally matured on September 1, 2014 and was subsequently extended to December 1, 2014 in August of 2014. Additionally, in August of 2014, a principal payment of \$250,000 was made on this note. Coincident therewith, in September of 2014, the District obtained approval from the State of Louisiana Bond Commission to issue \$7,800,000 in bonds, a portion of which will be used to refinance the outstanding balance of these revenue anticipation notes (See Note O). The balance owed at December 31, 2013 was \$3,000,000, because the balance outstanding as of the date of this report, \$1,750,000, is expected to be refinanced, this portion has been reclassified as long-term debt in the accompanying 2013 statement of financial position.

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

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

The remaining Facility A note funds received were expended and the certificate of occupancy for the hospital facility was received during 2012.

(D) On September 14, 2012, the Facility B note (subordinate note) was issued for \$11,671,221 to SBP Redevelopment II, LLC, after all of the Facility A note funds had been expended and the certificate of occupancy for the hospital facility was issued. The note is secured under the same aforementioned credit and loan agreements executed by the Foundation for the Facility A note. The Facility B note matures August 22, 2051. The terms of the Facility B note are similar to those of the Facility A note. Mandatory payments under a loan participation agreement are due serially from June 30, 2019 to August 22, 2051. The note bears interest at a rate per annum equal to 1% and the Foundation pays interest only on this note semi-annually in arrears on June 30 and December 31 of each year commencing December 31, 2012, and continuing until December 31, 2018. Principal and interest on this Note shall be due and payable in consecutive semi-annual installments on June 30 and December 31 of each year commencing June 30, 2019. The Foundation may not prepay this note in full or in part any time prior to the expiration of the NMTC compliance period.

The Facility A and B notes are intended to qualify as a "qualified low-income community investment" (QLCI) for the purposes of generating certain tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, the Foundation must comply with certain representations, warranties and covenants over the respective year NMTC

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

compliance period. These include, but are not limited to, a covenant that the "portion of the business" (as defined) will operate to qualify as a qualified low-income community business. If, as a result of the breach of the agreement or loan documents by the Foundation, the Lender is required to recapture all or any part of the New Markets Tax Credits previously claimed by the Lender, the Foundation agrees to pay to the Lender an amount equal to the sum of the credits recaptured. Additionally, the QLICI Lender has a security interest in the assets of the Foundation other than real property.

For the years ended December 31, 2013 and 2012, the Foundation paid the CDE a total of \$200,000 and \$225,000, respectively for ongoing management services related to the NMTCs as required per the agreement. The Foundation is required to pay a total of \$302,500 in asset management fees to the CDE from 2014 through 2019.

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

Lastly, with regards to the New Markets Tax Credits Facility notes A and B, the District has agreed to grant to the investor, as defined, an option (Put Option) to sell their investor interest, as defined in the agreement, to the District for a price of \$1,000, plus costs incurred by the Investor attributable to the Put Option and any amounts owed by the District to the Investor. In the event that the Investor does not deliver a notice to the District during the Put Option Period, as defined, then the District has the right, during a defined period, to purchase the Investor Interest for an amount equal to the fair market value of the Investor Interest, as determined by mutual agreement amongst the parties.

(E) On July 15, 2011, the District issued \$3,000,000 of taxable limited tax certificates for the purpose of constructing, equipping, maintaining and operating hospital facilities. The certificates are secured by the irrevocable pledge and dedication of the funds to be derived from the levy and collection of the ad valorem tax of 8 mills authorized at the November 2, 2010 election. Interest is payable semi-annually at the rate of 3.54%. Principal payments began March 1, 2012 and are paid annually through March 1, 2015.

(F) On March 7, 2012, the District issued \$5,515,000 of tax-exempt limited tax certificates for the purpose of constructing, equipping, maintaining and operating hospital facilities. The certificates are secured by the irrevocable pledge and dedication of the fund to be derived from the levy and collection of the ad valorem tax of 8 mills authorized at the November 2, 2010 election. Interest is payable semi-annually at the rate of 3.67%. Principal payments began March 1, 2013 and are paid annually through March 1, 2018.

(G) On March 7, 2012, the District issued \$4,000,000 of tax-exempt limited tax certificates for the purpose of constructing, equipping, maintaining and operating hospital facilities. The certificates are secured by the irrevocable pledge and dedication of the fund to be derived from the levy and collection of the ad valorem tax of 8 mills authorized at the November 2, 2010 election. Interest is payable semi-annually at the rate of 3.10%. Principal payments begin March 1, 2018 and are paid annually through March 1, 2020.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

(H) During the fiscal year ended December 31, 2009, the District entered into a cooperative endeavor agreement with the St. Bernard Parish Government (the Parish), whereas the Parish designated \$600,000 from its issue of Sales Tax Bonds, Series 2004, to be loaned to the District to pay for capital improvement projects. Interest shall accrue on the loan at the rate of 6.00% per annum. The District shall repay the Parish the entire unpaid balance of the loan on or before January 2019.

Future minimum payments on long-term debt obligations at December 31, 2013 are as follows:

2014	\$ 2,685,000
2015	1,490,000
2016	1,545,000
2017	1,600,000
2018	1,660,000
Thereafter	<u>50,500,000</u>
	<u>\$ 59,480,000</u>

NOTE H – CAPITAL LEASE OBLIGATION

The Foundation entered into a lease for equipment during 2013. There were no assets under capital lease during 2012. The economic substance of the lease is that the Foundation is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities. The capital lease obligation expires November 2018. The lease agreement contains a fair value purchase option at the end of the lease term. The net book value of assets recorded under capital leases as of December 31, 2013 consists of the following:

	2013
Equipment	<u>\$ 772,796</u>
Less accumulated amortization	<u>(55,200)</u>
	<u>717,596</u>

Amortization of assets held under the capital lease totaling \$55,200 for 2013 is included in depreciation and amortization expense.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

The following is a schedule by years of future minimum payments required under the lease together with their present value as of December 31, 2013:

2014	\$	157,963
2015		157,963
2016		157,963
2017		157,963
2018		144,799
Total minimum lease payments		776,651
Less amount representing imputed interest at 11.5%		(185,237)
Present value of minimum lease payments	\$	591,414

NOTE I – UPPER PAYMENT LIMIT PROGRAM

Since October 8, 2012, the District formed collaborations with the State and several units of local governments in Louisiana to more fully fund the Medicaid program (the “Program”) and ensure the availability of quality healthcare services for the low income and needy population. These collaborations enable the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State’s UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. The District recognizes all funds received under the UPL program as operating revenues in the period applicable to the receipt of the funds. Any amounts related to that year that are not received as of fiscal year-end are recorded as receivables and reflected in other current assets in the accompanying consolidated statements of net position. These receivables can be subject to adjustments that are reflected in the period they become known. The District recognized \$2,774,783 and \$770,049 in net revenue related to this program in 2013 and 2012, respectively.

NOTE J – COMMITMENTS AND CONTINGENCIES

Commitments

Meraux Foundation Commitment – On March 12, 2010, the Arlene and Joseph Meraux Charitable Foundation (Meraux) agreed to grant the District an access easement over, upon and across a parcel of land contiguous to the District property for the purpose of utility access, and vehicular and pedestrian ingress and egress to and from West Judge Perez Drive. The District was required to and completed the construction and installation of the curb cuts, pavement and other improvements to the servitude land, at no expense to Meraux. The District is required to carry and keep in force, at its own expense, comprehensive general liability insurance with companies licensed to do business in the State of Louisiana. On March 12, 2010, Meraux granted to the District a temporary construction servitude over, upon and across the servitude land for the exclusive purpose of vehicular and pedestrian ingress and egress to and from West Judge Perez Drive. This servitude has not been accessed as of the date of this report.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Low Income and Needy Care Collaboration Agreement – In April of 2012, the District entered into a Low Income and Needy Care Collaboration Agreement with certain participating private hospitals primarily to improve access and provide low income and needy care services in the community it serves by the participating hospitals. The agreement was effective when the District became operational with an initial term through December 31, 2013 and may be renewed annually unless other party provides notice to terminate. Expenses incurred under this agreement totaled \$789,013 and \$1,506,901 for the years ending December 31, 2013 and 2012, respectively.

Contingencies

Workers' Compensation – The District purchased commercial insurance that provides coverage for workers' compensation claims up to \$1,000,000 per claim in excess of its self-insured limits. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic social factors. Due to the start-up nature of the hospital operations, workers' compensation reserves were not material to the consolidated financial statements as of December 31, 2013 and 2012.

Medical Malpractice – The District participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides for malpractice coverage to the District for claims in excess of \$100,000 and up to \$500,000 per claim. According to state law, medical malpractice liability (exclusive of future medical care awards and litigation expenses) is limited to \$500,000 per occurrence.

The District purchased commercial insurance policies that provide coverage for medical malpractice. These policies included a professional liability claims made policy that provides coverage up to \$1,000,000 per occurrence and \$3,000,000 in the aggregate, a general liability policy that provides coverage up to \$5,000,000 per occurrence and in the aggregate, and an excess liability policy that provides coverage up to \$5,000,000 per occurrence and in the aggregate.

Management Services Agreement – During 2011, the District entered into a management services agreement with a third party, Franciscan Missionaries of Our Lady Health System – Management Services, St. Bernard, L.L.C. (Manager) to provide certain services to assist with the opening of the hospital and on-going management, administrative and support services necessary to operate the hospital. Pursuant to this agreement, the District was responsible for reimbursing the Manager on a monthly basis for any direct and indirect expenses for any equipment, supplies or services provided. The agreement expired one day prior to the fifth anniversary of the opening date (August 19, 2017), unless either party terminates the agreement prior to this date. In October 2012, the District received a termination notice from the Manager for alleged unpaid fees. This matter is in the mediation process pursuant to the terms of the management services agreement. If the mediation is unsuccessful, the District intends to vigorously defend this matter. In the opinion of management, the ultimate outcome of this mediation will not have a material adverse affect on the financial statements.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE K – RISK MANAGEMENT AND REGULATORY MATTERS

Regulatory Matters – 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, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. 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 Organization is in compliance with fraud and abuse, 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.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a so-called Recovery Audit Contractor (RAC) program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare reimbursement in an amount estimated to equal the overpayment.

A five-state pilot program concluded in March 2008, with a nationwide rollout of the RAC effort done in phases beginning in 2009. The experiences during the pilot found far more overpayments than underpayments.

Similarly, the Centers for Medicare & Medicaid Services (CMS) created new entities titled Audit Medicaid Integrity Contractors (MIC) in order to continue its efforts to ensure the highest integrity of its healthcare programs. The goal of the provider audits is to identify overpayments and to ultimately decrease the payment of inappropriate Medicaid claims. The MIC is to review claims submitted by all types of Medicaid providers, including all settings of care and types of services, with most audits taking place at staff headquarters and on occasion on-site at a provider's place of business.

The Organization has not been the subject of any RAC or MIC audits during 2013 or 2012.

NOTE L – DEFINED CONTRIBUTION 403(B) PLAN

All new full-time employees are immediately eligible to join the defined contribution 403(b) plan, St. Bernard Parish Hospital Retirement Savings Plan (Plan) established on November 1, 2012. Participants make pre-tax contributions to the Plan and receive employer matching contributions up to 50% of the first 1%. Employer contributions to the 403(b) plan totaled \$43,731 for 2013 and \$1,551 for the period November 1, 2012 (date of inception) through December 31, 2012. To vest in the employer annual non-discretionary contribution, employees must complete at least 3 years of service.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE M – CURRENT ECONOMIC CONDITIONS AND LIQUIDITY

The current protracted economic decline and reduction in third party reimbursement continues to present hospitals with difficult circumstances resulting in constraints on liquidity. Additionally, since the commencement of operations in August of 2012, the District has experienced, and continues to experience through the date of this report, delays in billing and collections of net patient service revenue primarily due to continued software implementation issues and billing/collection outsourcing issues within the revenue cycle. In August of 2013, the District contracted with a new third party vendor to take over the billing/collection function, effective October 2013. The District has experienced significant improvements in cash collections, however, continues to be experience system limitations that delay the billing and ultimate collections net patient service revenue. Of the \$10,778,010 in net patient accounts receivables at December 31, 2013, the District has collected approximately 48% or \$5,201,000 (exclusive of third party settlements) through September 30, 2014.

On September 18, 2014, the Louisiana State Bond Commission approved a \$7,800,000 bond issuance for the benefit of the District, a portion of the proceeds will be used to acquire and implement a new electronic medical records system that will interface with the billing system which is expected to ultimately resolve the issues within the revenue cycle. In addition, a portion of this bond issuance is also available to fund working capital requirements (See Note O). The financial statements have been prepared using values and information currently available to the District.

NOTE N – RELATED PARTIES

See discussion of the District and St. Bernard Parish Government related party transactions in Note A.

There was no compensation paid to board members for the years ended December 31, 2013 or 2012.

NOTE O – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 14, 2014, and determined that, except as follows, there were no events that required disclosure in the notes to the financial statements. In June 2013, the District issued \$3,000,000 of 4.5% Revenue Anticipation Notes, Series 2013, due March 1, 2014. Principal payments totaling \$1,000,000 were made on the District's outstanding \$3,000,000 Revenue Anticipation Notes as of December 31, 2013 prior to their maturity on March 1, 2014. The note was refinanced in February of 2014 with the issuance of a 2014 revenue anticipation note totaling \$2,000,000 which originally matured on September 1, 2014 and was subsequently extended to December 1, 2014 in August of 2014. On September 18, 2014, the Louisiana State Bond Commission approved a \$7,800,000 bond issuance for the benefit of the District, at an interest rate not exceeding 8% per annum and a maturity not to exceed ten (10) years from the date of issuance. A portion of the proceeds totaling approximately \$6,000,000 will be used to pay the costs of capital improvements (primarily a new electronic medical records system), costs of debt issuance and funding working capital and the remaining \$1,800,000 will be used to refund all or a portion of the District's outstanding \$2,000,000 Revenue Anticipation Notes and related debt issuance costs.

OTHER INDEPENDENT AUDITORS' REPORTS



Certified Public Accountants & Consultants

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

To the Board of Commissioners of
Hospital Service District of the Parish of St. Bernard, State of Louisiana
Chalmette, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated basic financial statements of the Hospital Service District of the Parish of St. Bernard, State of Louisiana (the District), as of and for the year ended December 31, 2013, and the related notes to consolidated financial statements, which collectively comprise the District's consolidated basic financial statements, and have issued our report thereon dated September 30, 2013.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above. See finding (2012-1).

4330 Dumaine Street
New Orleans, LA 70119
504-833-2436(O) • 504-484-0807(F)

200-B Greenleaves Blvd.
Mandeville, LA 70448
985-626-8299(O) • 985-626-9767(F)

900 Village Lane
P. O. Box 50, Pass Christian, MS 39571
985-626-8299(O) • 985-626-9767(F)

Limited Liability Company
www.gzacpa.com

Compliance and Other Matters

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

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses, and accordingly we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Gurtner Zuniga Abney, LLC

New Orleans, Louisiana
October 14, 2014

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section II – Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*

MATERIAL WEAKNESS

2012-01 – Patient Revenue Cycle System Implementation (Repeat Finding)

Condition: (2012) The failure of the original system implementation of the patient revenue cycle application from a third party vendor, Healthland, during 2012 created a material weakness in internal controls over financial reporting related to the inability of the District to appropriately capture and estimate net patient service revenue in its financial reporting systems as well as generate bills on 2012 charges on a timely basis.

The District implemented the Healthland patient billing system which experienced significant issues relating to the clinical component inclusive of registration through charge capture and bill generation. Among other issues, the electronic medical records (EMR) component failed to function and there were multiple interface issues from the ancillary departments (e.g. emergency department, pharmacy, radiology) which did not allow the charges to drop in order to generate bills in the system.

(2013 Update) – Although the District changed third party billing/collection companies, there continues to be challenges with respect to billing and collection as all bills have to be generated manually by the third party billing company from the medical records due to the inability of the EMR system to interface with the various hospital departments and the billing software. Further, without adequate financial reporting systems in the revenue cycle, the Hospital is unable to generate an aged accounts receivable trial balance which further limits management’s ability to properly estimate net patient service revenue and related net accounts receivable.

Effect: The effective capturing of revenue generated by hospital services and the timely conversion into cash is critical to sustaining profitable operations and generating funding for future capital expenditures.

Recommendation: Management has continued to make changes to remediate the revenue cycle process system issues. We recommend that management engage a consultant to independently assess and evaluate revenue cycle operations, including patient registration, medical records, utilization management and business office services. The Board should provide oversight to ensure that these remedial activities are executed timely.

Management Response (2012): The Healthland system computed revenues of approximately \$8.3 million in unbilled gross charges from September 14, 2012 to December 31, 2012. In November 2012, the District retained an outside company, Axcension, to extract the revenue from the Healthland system and scan all the medical records into their system (Prevalent) in order to generate bills. Once this information was uploaded, the revised gross charges were \$11.7 million. Effective May 15, 2013, the Hospital converted the clinical application of the revenue cycle system to Icharts (an electronic medical records application) which directly interfaces with

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Prevalent. As of the end of June, the turnaround time to drop a patient bill from discharge date has been reduced significantly. The hospital has established a goal of an average of five days from discharge and is managing toward that goal. The District is in the process of establishing and tracking historical patterns of actual collection activity by payor. Once this is achieved, management believes that a more timely, accurate estimate of net patient service revenue will be available and allow them to report accurate financial operating results on a more timely basis. Management will further discuss this recommendation with the Board.

Updated Management Response (2013): In August of 2013, the District contracted with a new third party vendor to take over the billing/collection function, effective October 2013. The District has experienced significant improvements in cash collections, however, continues to experience system limitations that delay the billing and ultimate collections net patient service revenue. Of the \$10,778,010 in net patient accounts receivables at December 31, 2013, the District has collected approximately 48% or \$5,201,000 in 2014. In July 2014, management issued a request for proposal for an electronic medical records (EMR) and patient billing system. A review of respondents resulted in the selection of McKesson as the vendor meeting the criteria outlined in the bid process. On September 18, 2014, the Louisiana State Bond Commission approved a \$7,800,000 bond issuance, a portion of the proceeds will be used to acquire and implement a new EMR system that will interface with a billing system.

**HOSPITAL SERVICE DISTRICT OF THE
PARISH OF ST. BERNARD, STATE OF LOUISIANA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section II – Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*

MATERIAL WEAKNESS

2012-01 – Patient Revenue Cycle System Implementation

Condition: The failure of the system implementation of the patient revenue cycle application from a third party vendor, Healthland, during 2012 created a material weakness in internal controls over financial reporting related to the inability of the District to appropriately capture and estimate net patient service revenue in its financial reporting systems as well as generate bills on 2012 charges on a timely basis.

The District implemented the Healthland patient billing system which experienced significant issues relating to the clinical component inclusive of registration through charge capture and bill generation. Among other issues, the electronic medical records (EMR) component failed to function and there were multiple interface issues from the ancillary departments (e.g. emergency department, pharmacy, radiology) which did not allow the charges to drop in order to generate bills in the system.

Effect: The effective capturing of revenue generated by hospital services and the timely conversion into cash is critical to sustaining profitable operations and generating funding for future capital expenditures.

Recommendation: Management has continued to make changes to remediate the revenue cycle process system issues over the last several months. We recommend that management engage a consultant to independently assess and evaluate revenue cycle operations, including patient registration, medical records, utilization management and business office services. The Board should provide oversight to ensure that these remedial activities are executed timely.

Management Response: The Healthland system computed revenues of approximately \$8.3 million in unbilled gross charges from September 14, 2012 to December 31, 2012. In November 2012, the District retained an outside company, Axcension, to extract the revenue from the Healthland system and scan all the medical records into their system (Prevalent) in order to generate bills. Once this information was uploaded, the revised gross charges were \$11.7 million. Effective May 15, 2013, the Hospital converted the clinical application of the revenue cycle system to Icharts (an electronic medical records application) which directly interfaces with Prevalent. As of the end of June, the turnaround time to drop a patient bill from discharge date has been reduced significantly. The hospital has established a goal of an average of five days from discharge and is managing toward that goal. The District is in the process of establishing and tracking historical patterns of actual collection activity by payor. Once this is achieved, management believes that a more timely, accurate estimate of net patient service revenue will be available and allow them to report accurate financial operating results on a more timely basis. Management will further discuss this recommendation with the Board. See update in current year finding.