

**HOSPITAL SERVICE DISTRICT NO. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Zachary, Louisiana

Audited Financial Statements

June 30, 2019 and 2018



Contents

| | |
|--|---------|
| Independent Auditor's Report | 1 - 2 |
| <hr/> | |
| Basic Financial Statements | |
| Statements of Net Position | 3 |
| Statements of Revenues, Expenses, and Changes in Net Position | 4 |
| Statements of Cash Flows | 5 - 6 |
| Notes to Basic Financial Statements | 7 - 37 |
| <hr/> | |
| Required Supplementary Information | |
| Schedule I - Schedule of Changes in Net Pension (Asset) Liability and Related Ratios | 39 |
| Schedule II - Schedule of Contributions | 40 - 41 |
| <hr/> | |
| 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> | 42 - 43 |
| Schedule of Findings and Responses | 44 |
| <hr/> | |
| Independent Auditor's Report on Supplementary Information | 45 |
| <hr/> | |
| Schedule of Compensation, Benefits, and Other Payments to Agency Head | 46 |
| Schedule of Board of Commissioners and Salaries | 47 |

Independent Auditor's Report

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Organization), a component unit of the City-Parish of Baton Rouge as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

LOUISIANA • TEXAS

An Independently Owned Member, RSM US Alliance
RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each is separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the net pension (asset) liability and related ratios and the schedule of contributions on pages 40 through 41 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Organization has elected to omit the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this omitted information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019, on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

A Professional Accounting Corporation



Metairie, LA
October 10, 2019

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Net Position
June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|-----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 3,833,200 | \$ 5,902,457 |
| Short-Term Investments | 23,399,602 | 27,996,433 |
| Assets Limited as to Use, Current Portion | 434,680 | 434,040 |
| Patient Accounts Receivable, Net of Allowances for Uncollectible Accounts of \$15,298,458 and \$11,596,363 in 2019 and 2018, Resepectively | 10,639,551 | 9,943,612 |
| Inventory | 2,009,591 | 1,481,595 |
| Prepaid Expenses | 857,940 | 982,246 |
| Other Current Assets | 11,124,410 | 2,956,635 |
| Total Current Assets | 52,298,974 | 49,697,018 |
| Assets Limited as to Use | | |
| Held by Trustee for Debt Service | 434,680 | 434,040 |
| Less: Portion Required for Current Liabilities | (434,680) | (434,040) |
| Total Assets Limited as to Use | - | - |
| Capital Assets, Net | 47,765,006 | 44,102,729 |
| Net Pension Asset | 2,320,125 | 2,604,427 |
| Other Assets | 479,286 | 493,272 |
| Total Assets | 102,863,391 | 96,897,446 |
| Deferred Outflows of Resources | | |
| Deferred Amounts Related to Pensions | 899,013 | 780,646 |
| Total Assets and Deferred Outflows of Resources | \$ 103,762,404 | \$ 97,678,092 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | \$ 13,642,463 | \$ 4,878,358 |
| Accrued Payroll and Other Expenses | 4,245,815 | 4,156,613 |
| Current Maturities of Long-Term Debt | 1,180,000 | 1,170,000 |
| Estimated Third-Party Payor Settlements | 687,511 | 1,135,045 |
| Total Current Liabilities | 19,755,789 | 11,340,016 |
| Long-Term Debt, Less Current Maturities | 16,280,000 | 17,460,000 |
| Total Liabilities | 36,035,789 | 28,800,016 |
| Deferred Inflows of Resources | | |
| Deferred Amounts Related to Pensions | 155,914 | 311,828 |
| Net Position | | |
| Net Investment in Capital Assets | 30,305,006 | 25,472,729 |
| Restricted | 434,680 | 524,620 |
| Unrestricted | 36,831,015 | 42,568,899 |
| Total Net Position | 67,570,701 | 68,566,248 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 103,762,404 | \$ 97,678,092 |

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

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Operating Revenues | | |
| Net Patient Service Revenue | \$ 69,194,280 | \$ 76,555,522 |
| Other Operating Revenue | 32,880,115 | 11,977,929 |
| Total Operating Revenues | 102,074,395 | 88,533,451 |
| Operating Expenses | | |
| Salaries | 33,256,463 | 33,544,138 |
| Contracted Services | 33,729,870 | 15,003,936 |
| Supplies | 14,489,661 | 16,890,904 |
| Fringe Benefits | 6,229,361 | 2,774,171 |
| Depreciation and Amortization | 5,231,346 | 5,617,537 |
| Professional Fees | 4,150,220 | 3,850,845 |
| Repairs and Maintenance | 2,865,426 | 2,776,804 |
| Other | 1,716,254 | 1,632,339 |
| Insurance | 1,302,918 | 1,520,814 |
| Utilities | 1,343,868 | 1,309,010 |
| Rents and Leases | 462,215 | 473,216 |
| Total Operating Expenses | 104,777,602 | 85,393,714 |
| Operating (Loss) Income | (2,703,207) | 3,139,737 |
| Non-Operating Revenue (Expenses) | | |
| Investment Income | 1,241,227 | 1,723,073 |
| Interest Expense | (572,880) | (612,440) |
| Other Non-Operating Revenue | 1,039,313 | 854,140 |
| Net Non-Operating Revenue | 1,707,660 | 1,964,773 |
| Change in Net Position | (995,547) | 5,104,510 |
| Net Position, Beginning of Year | 68,566,248 | 63,461,738 |
| Net Position, End of Year | \$ 67,570,701 | \$ 68,566,248 |

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

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Receipts from and on Behalf of Patients | \$ 84,330,853 | \$ 89,208,819 |
| Payments to Suppliers and Contractors | (39,386,601) | (40,532,594) |
| Payments to Employees | (43,120,170) | (40,934,981) |
| Net Cash Provided by Operating Activities | 1,824,082 | 7,741,244 |
| Cash Flows from Non-Capital Financing Activities | | |
| Other Non-Operating Revenues | 1,563,329 | 1,392,522 |
| Net Cash Provided by Non-Capital Financing Activities | 1,563,329 | 1,392,522 |
| Cash Flows from Capital and Related Financing Activities | | |
| Withdrawal of Assets Held by Trustee for Debt Service | (640) | 9,120 |
| Principal Paid on Long-Term Debt | (1,170,000) | (1,140,000) |
| Interest Paid on Long-Term Debt | (572,880) | (612,440) |
| Proceeds from Sale of Capital Assets | 30,370 | - |
| Purchase of Capital Assets | (8,921,221) | (4,086,539) |
| Net Cash Used in Capital and Related Financing Activities | (10,634,371) | (5,829,859) |
| Cash Flows from Investing Activities | | |
| Interest and Dividends on Investments | 19,835 | 37,781 |
| Capital Invested in Affiliated Entities | (136,339) | (169,500) |
| Purchase of Investments | (8,908,460) | (11,978,828) |
| Proceeds from Sale of Investments | 14,202,667 | 11,234,536 |
| Net Cash Provided by (Used in) Investing Activities | 5,177,703 | (876,011) |
| (Decrease) Increase in Cash and Cash Equivalents | (2,069,257) | 2,427,896 |
| Cash and Cash Equivalents, Beginning of Year | 5,902,457 | 3,474,561 |
| Cash and Cash Equivalents, End of Year | \$ 3,833,200 | \$ 5,902,457 |

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

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Reconciliation of Operating (Loss) Income to Net | | |
| Cash Provided by Operating Activities | | |
| Operating (Loss) Income | \$ (2,703,207) | \$ 3,171,193 |
| Adjustments to Reconcile Operating (Loss) Income to Net | | |
| Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 5,231,346 | 5,617,537 |
| Pension Expense | 10,021 | (4,070,230) |
| (Gain) Loss on Disposal of Property and Equipment | (2,772) | 9,955 |
| Provision for Bad Debts | 12,580,016 | 13,110,818 |
| Changes in: | | |
| Patient Accounts Receivable | (13,275,955) | (12,047,252) |
| Inventory, Prepaids, and Other Current Assets | (8,571,465) | 1,158,475 |
| Other Assets | 150,325 | 166,804 |
| Accounts Payable | 8,764,105 | 999,296 |
| Accrued Payroll and Other Expenses | 89,202 | 46,902 |
| Estimated Third-Party Payor Settlements | (447,534) | (422,254) |
| Net Cash Provided by Operating Activities | \$ 1,824,082 | \$ 7,741,244 |
| Supplemental Disclosures of Noncash Investing Activities | | |
| Increase in Fair Value of Investments | \$ 1,221,392 | \$ 1,685,292 |
| Equity in Net Loss of Associated Companies | \$ (150,325) | \$ (166,804) |

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

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 1. Nature of Business

Reporting Entity

Lane Regional Medical Center (the Hospital) is organized as Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana and is exempt from federal and state income taxes. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (the City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, operates an acute care facility and physician practices and owns certain medical office buildings, providing inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi. The Hospital is a component unit of East Baton Rouge Parish, Louisiana for financial reporting purposes and is included in the basic financial statements of East Baton Rouge Parish together with its component units, which are described below.

The component units discussed below are included because the nature and significance of their relationship to the Hospital are such that exclusion would cause the reporting entity's financial statements to be incomplete under criteria set forth by the Governmental Accounting Standards Board (GASB).

Blended Component Units

The following component units are legally separate organizations which the Hospital has determined should be presented as blended component units. The Hospital appoints the voting majority of the component units' Boards of Directors, and each has a specific benefit to the Hospital. Accordingly, these organizations are blended component units of the Hospital.

Lane RMC Service Corporation (the Corporation) is a not-for-profit entity established to operate exclusively for the support and benefit of the Hospital, to carry out the goals, objectives, and purposes of the Hospital, to develop and facilitate various health services activities, including joint venture activities, for the benefit of the Hospital, as expressly authorized by Louisiana statutes and regulations, and to engage in any lawful act or activity for which a corporation may be organized under Louisiana Non-Profit Corporation Law.

Lane RMC Foundation (the Foundation), a tax-exempt organization as of 2016, was formed to, among other things, sustain the healing work of the physicians and staff of Lane Regional Medical Center. The Board of the Foundation is self-perpetuating and consists primarily of citizens of East Baton Rouge Parish. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds are to be, or have been, contributed to the Hospital.

The Hospital, the Corporation, and the Foundation are collectively referred to as the Organization. There are no other organizations or agencies whose financial statements should be included and presented with these financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 1. Nature of Business (Continued)

Discretely Presented Component Unit

Discretely presented component units are involved in activities of an operational nature independent from the government. Their transactions are reported in separate identifiable tables in the financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As described in Note 2, the Organization's sole discretely presented component unit was derecognized upon implementation of a recently issued accounting pronouncement that provided clarification of which equity interests should be considered a discretely presented component unit

Note 2. Summary of Significant Accounting Policies

Accrual Basis of Accounting

The accrual basis of accounting is used by the Organization. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and liabilities associated with the operation of the Organization are included in the statements of net position.

Accounting Standards

These financial statements have been prepared in accordance with the GASB codification. The financial statements of the component units are also prepared in accordance with the GASB codification, as they are established for the direct benefit of the Hospital.

Accounting 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 assets, liabilities, and deferred outflows inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include all checking and depository accounts, and certain investments in highly liquid debt instruments with original maturities of three months or less. As of June 30, 2019 and 2018, the Organization's cash and cash equivalents were entirely insured or collateralized with securities or lines of credit held by its agent in the Organization's name.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party discounts are based on the estimated differences between the Organization's established rates and the actual amounts to be received under each contract or regulatory agreement. Changes in estimates by material amounts are reasonably possible in the near term.

Inventories

Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out method) or market.

Investments and Investment Income

Investments in debt and equity securities are reported at fair value. Short-term investments consist primarily of equity, fixed income securities, fixed income funds, and mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Investments Held by Trustees

The Organization has investments held by a trustee under a bond indenture agreement. These investments are held for future debt service.

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Capital Assets

The Organization's capital assets are reported at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's operations.

Compensated Absences

Organization policy is to compensate employees for absences due to earned vacation. Accumulated vacation is accrued at the balance sheet date because it is payable upon termination of employment.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position by the Organization that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Net Position

Net position consists of net investment in capital assets (property and equipment); restricted net position; and unrestricted net position. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets.

Restricted net position includes assets that are externally restricted by creditors, grantors, contributors (including those assets with the Foundation), or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of all other assets.

Operating Revenues and Expenses

The Organization's statements of revenues, expenses, and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Organization's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. Joint venture equity transactions, rental income, and interest and investment income are considered non-operating revenues.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Net patient service revenue is also reported net of provision for bad debts of \$12,580,016 and \$13,110,818 for the years ended June 30, 2019 and 2018, respectively. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. See Note 11.

Charity Care

The Organization, as part of its mission, routinely provides care to individuals regardless of their ability to pay. Historically, the Organization's charges were not pursued from patients who met certain criteria under its charity care policy and these forgone charges were excluded from revenue. With the effective date of the Affordable Care Act; and Medicaid Expansion, coverage has been made available to all individuals and, accordingly, the Organization pursues collection either under the applicable coverage or directly from the patient if no coverage has been obtained. Amounts billed to patients or third-party payors are posted to the allowance for uncollectible accounts if and when deemed uncollectible. As a result, charity care charges forgone for the years ended June 30, 2019 and 2018, were \$-0-.

Pension

For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Lane Regional Medical Center Retirement Plan (LRMCRP) and additions to/deductions from LRMCRP's fiduciary net position have been determined on the same basis as they are reported by LRMCRP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncement

In August 2018, GASB released Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments), or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of GASB 90 are effective for periods beginning after December 15, 2019 with early application encouraged. The requirements should be applied retroactively. The Organization elected to early-adopt GASB 90 for the year ended June 30, 2018, which resulted in the derecognition of the Surgery Center of Zachary, LLC (the Center) as a discretely presented component unit. The Organization applied this Statement retrospectively to the prior year financial statements.

In March 2018, GASB released Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to government financial statements related to debt. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. The Organization adopted this Statement during 2019 which did not result in a material effect on the Organization's financial statements.

The objective of GASB Statement No. 85, *Omnibus 2017*, is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. The Organization adopted this Statement during 2019 which did not result in a material effect on the Organization's financial statements.

Recently Issued Accounting Pronouncements

Government Accounting Standards Board Statement No. 84 (GASB 84)

The objective of GASB Statement No. 84, *Fiduciary Activities*, is to improve the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities and the criteria for reporting the fiduciary activity in the basic financial statements. Management is still evaluating the potential impact of adoption on the Organization's financial statements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)

Government Accounting Standards Board Statement No. 87 (GASB 87)

The objective of GASB Statement No. 87, *Leases*, is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Management is still evaluating the potential impact of adoption on the Organization's financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Government Accounting Standards Board Statement No. 89 (GASB 89)

The objectives of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, are to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Management is still evaluating the potential impact of adoption on the Organization's financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 3. Deposits and Investments

The Hospital's investments generally are reported at fair value, as discussed in Note 2. At June 30, 2019 and 2018, the Hospital had the following deposits and investments, all of which were held in the Hospital's name by a custodial bank or trust that is an agent of the Hospital:

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Cash and Cash Equivalents | \$ 3,833,200 | \$ 5,902,457 |
| Short-Term Investments | | |
| Equity | | |
| Common Stock | 9,991,501 | 12,056,897 |
| Equity Funds | 522,879 | 421,982 |
| Exchange Traded Funds | 443,011 | 539,106 |
| Fixed Income Securities | | |
| Government | 7,455,590 | 8,919,409 |
| Corporate | 4,985,433 | 5,582,392 |
| Foreign | - | 100,135 |
| Fixed Income Funds | | |
| Corporate and Governmental Daily Accrual Funds | 710 | 196,242 |
| Index and Other Daily Accrual Funds | 478 | 180,270 |
| Total Short-Term Investments | 23,399,602 | 27,996,433 |
| Investments Held by Trustee for Debt Service | 434,680 | 434,040 |
| Total | \$ 27,667,482 | \$ 34,332,930 |

Under Louisiana Revised Statutes 39:2957, 46:1073.1, and 11:263, the Hospital must follow the prudent-man rule to act with the care, skill, prudence, and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims for investing the Hospital's funds. The Hospital may not invest more than 55% of the total portfolio in equities unless not more than 65% of the total portfolio is invested in equities and at least 10% of the total equity portfolio is invested in one or more index funds which seek to replicate the performance of the chosen index or indices.

Louisiana statutes require that all of the Hospital's deposits be protected by insurance or collateral. The Hospital's bylaws require that all bank balances be insured or collateralized by U.S. government securities held by the pledging financial institution's trust department in the name of the Hospital.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 3. Deposits and Investments (Continued)

The Hospital's investment portfolio consisted of 46% equity investments and 53% fixed income investments included in short-term investments on the statement of net position, and 1% cash and cash equivalents included in cash and cash equivalents on the statement of net position at June 30, 2019. The Hospital's investment portfolio consisted of 46% equity investments and 52% fixed income investments included in short-term investments on the statement of net position and 2% cash and cash equivalents included in cash and cash equivalents on the statement of net position at June 30, 2018.

Investments held by trustee for debt service as of June 30, 2019 and 2018, consisted of cash and equivalents.

Credit risk: All fixed income securities and fixed income funds with ratings are rated between Aaa and Baa2 by Moody's. Credit ratings were not available for nine investments in the investment portfolio.

Concentration of credit risk: The Hospital limits the amount it may invest in any one issuer to no more than 5% of the market value of the investment portfolio with the following exceptions: holdings of direct obligations issued or guaranteed by the U.S. government or its agencies. There were no issuers comprising 5% or more of the Hospital's investments at June 30, 2019 or 2018.

Interest rate risk: In accordance with its investment policy, the Hospital manages its exposure to declines in fair values by limiting the weighted average maturity of the fixed income portion of its investment portfolio to within 20% of its stated index's weighted average portfolio. As a means of limiting its exposure to declines in fair values arising from rising interest rates, the Hospital's investment policy limits the mutual funds section of its investment portfolio to maturities of less than 397 days.

Interest income totaled \$19,835 and \$37,781, while investment gains and losses, net, on the investment portfolio totaled \$1,221,392 and \$1,685,292, for the years ended June 30, 2019 and 2018, respectively. Fluctuation in the investment gains and losses is related to market valuations throughout the course of the fiscal year.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 4. Investment in Affiliates

The Hospital holds an equity ownership interest in Surgery Center of Zachary, LLC (the Center). As of June 30, 2019 and 2018, the Hospital owned 60% of the Center. The Center was formed in accordance with the Louisiana Limited Liability Company Law on April 16, 2016 to operate an 8,300-square foot ambulatory care health facility performing ambulatory surgery procedures in Zachary, Louisiana. The Center provides same-day surgeries at a reasonable cost and savings to patients and private and commercial payors. The Center is fully licensed as a hospital by the Louisiana Department of Health. The Center is Medicare certified and provides inpatient and outpatient surgical services for the following specialties: gastroenterology, orthopedics, pain management, podiatry, and spine-related procedures.

The balance of its equity interest at June 30, 2019, totaled \$-0-, due to the recognition of an impairment in a prior year due to reoccurring losses, and is included in other assets on the statements of net position. For the year ended June 30, 2019, the Hospital recognized a loss, associated with its investment in the Center, of approximately \$-0- which is included in other non-operating revenue on the statement of revenues, expenses, and changes in net position.

For the years ended June 30, 2019 and 2018, the Hospital made a series of cash and noncash equity contributions of \$-0- and \$120,000, respectively.

Summarized financial information for the Surgery Center of Zachary, LLC is presented below:

| | As of and for the Year Ended | |
|-------------------|-------------------------------------|----------------------|
| | June 30, 2019 | June 30, 2018 |
| Total Assets | <u>\$ 1,096,207</u> | <u>\$ 1,200,416</u> |
| Total Liabilities | <u>\$ 325,416</u> | <u>\$ 303,156</u> |
| Members' Equity | <u>\$ 770,791</u> | <u>\$ 897,260</u> |
| Net Loss | <u>\$ (2,634)</u> | <u>\$ (343,008)</u> |

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 4. Investment in Affiliates (Continued)

The Hospital also holds an equity ownership interest in PCC of Zachary, LLC (PCC) which is a radiation oncology center that began operations in March 2014, serving residents of the Zachary area. As of June 30, 2019 and 2018, the Hospital owned 30% of PCC. The balance of its equity interest at June 30, 2019 and 2018, totaled \$479,286 and \$493,272, respectively, and is included in other assets on the statements of net position. For the years ended June 30, 2019 and 2018, the Hospital recognized a loss associated with its investment in PCC in the amount of \$150,325 and \$166,804, respectively. This loss is included in other non-operating revenue on the statements of revenues, expenses, and changes in net position. For the years ended June 30, 2019 and 2018, the Hospital made equity contributions of \$136,339 and \$169,500, respectively. PCC leases its operational space from the Hospital at an annual rental of approximately \$60,000, which is included in other non-operating revenue.

Summarized financial information for PCC of Zachary, LLC is presented below:

| | As of and for the Year Ended | |
|-------------------|-------------------------------------|----------------------|
| | June 30, 2019 | June 30, 2018 |
| Total Assets | \$ 1,733,957 | \$ 2,056,580 |
| Total Liabilities | \$ 136,339 | \$ 412,337 |
| Members' Equity | \$ 1,597,619 | \$ 1,644,243 |
| Net Loss | \$ (238,264) | \$ (344,207) |

Note 5. Capital Assets

Capital asset additions, retirements and transfers, and balances for the year ended June 30, 2019, were as follows:

| | Balance | | Retirements | Balance |
|--|----------------------|---------------------|----------------------|----------------------|
| | June 30, 2018 | Additions | and Transfers | June 30, 2019 |
| Capital Assets | | | | |
| Land and Land Improvements | \$ 5,599,591 | \$ - | \$ - | \$ 5,599,591 |
| Construction in Progress | 1,595,899 | 948,701 | (1,570,924) | 973,676 |
| Buildings | 64,261,792 | 1,179,180 | 456,059 | 65,897,031 |
| Movable and Other Equipment | 54,145,988 | 6,793,340 | 265,182 | 61,204,510 |
| Total Capital Assets | 125,603,270 | 8,921,221 | (849,683) | 133,674,808 |
| Less: Accumulated Depreciation for: | | | | |
| Land Improvements | 733,383 | 83,302 | - | 816,685 |
| Buildings | 33,872,930 | 2,221,692 | - | 36,094,622 |
| Movable and Other Equipment | 46,894,228 | 2,926,352 | (822,085) | 48,998,495 |
| Total Accumulated Depreciation | 81,500,541 | 5,231,346 | (822,085) | 85,909,802 |
| Total Capital Assets, Net | \$ 44,102,729 | \$ 3,689,875 | \$ (27,598) | \$ 47,765,006 |

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

Capital asset additions, retirements and transfers, and balances for the year ended June 30, 2018, were as follows:

| | Balance June 30, 2017 | Additions | Retirements and Transfers | Balance June 30, 2018 |
|--|--------------------------|-----------------------|------------------------------|--------------------------|
| Capital Assets | | | | |
| Land and Land Improvements | \$ 4,994,790 | \$ 604,801 | \$ - | \$ 5,599,591 |
| Construction in Progress | - | 1,595,899 | - | 1,595,899 |
| Buildings | 64,048,671 | 217,590 | (4,469) | 64,261,792 |
| Movable and Other Equipment | 52,952,997 | 1,668,249 | (475,258) | 54,145,988 |
| Total Capital Assets | 121,996,458 | 4,086,539 | (479,727) | 125,603,270 |
| Less: Accumulated Depreciation for: | | | | |
| Land Improvements | 647,488 | 85,895 | - | 733,383 |
| Buildings | 31,517,512 | 2,357,634 | (2,216) | 33,872,930 |
| Movable and Other Equipment | 44,187,776 | 3,174,018 | (467,566) | 46,894,228 |
| Total Accumulated Depreciation | 76,352,776 | 5,617,547 | (469,782) | 81,500,541 |
| Total Capital Assets, Net | \$ 45,643,682 | \$ (1,531,008) | \$ (9,945) | \$ 44,102,729 |

Note 6. Fair Value Measurement

The Hospital's investments measured and reported at fair value are classified according to the following hierarchy:

- Level 1 Investments reflect prices quoted in active markets.
- Level 2 Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt and equity investments classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 6. Fair Value Measurement (Continued)

The valuation of the Hospital's investments measured at fair value at June 30, 2019 and 2018, is as follows:

| June 30, 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|----------------------|---------------------|----------------|----------------------|
| Cash and Cash Equivalents | \$ 3,833,200 | \$ - | \$ - | \$ 3,833,200 |
| Short-Term Investments | | | | |
| Equity | | | | |
| Common Stock | 9,991,501 | - | - | 9,991,501 |
| Equity Funds | 522,879 | - | - | 522,879 |
| Exchange Traded Funds | 443,011 | - | - | 443,011 |
| Fixed Income Securities | | | | |
| Government | 6,164,981 | 1,290,609 | - | 7,455,590 |
| Corporate | 3,929,658 | 1,055,775 | - | 4,985,433 |
| Foreign | - | - | - | - |
| Fixed Income Funds | | | | |
| Corporate and Governmental Daily Accrual Funds | 710 | - | - | 710 |
| Index and Other Daily Accrual Funds | 478 | - | - | 478 |
| Total Short-Term Investments | 21,053,218 | 2,346,384 | - | 23,399,602 |
| Investments Held by Trustee for Debt Service | | | | |
| Cash and Cash Equivalents | 434,680 | - | - | 434,680 |
| Total | \$ 25,321,098 | \$ 2,346,384 | \$ - | \$ 27,667,482 |
| June 30, 2018 | Level 1 | Level 2 | Level 3 | Total |
| Cash and Cash Equivalents | \$ 5,436,084 | \$ 466,373 | \$ - | \$ 5,902,457 |
| Short-Term Investments | | | | |
| Equity | | | | |
| Common Stock | 12,056,897 | - | - | 12,056,897 |
| Equity Funds | 421,982 | - | - | 421,982 |
| Exchange Traded Funds | 539,106 | - | - | 539,106 |
| Fixed Income Securities | | | | |
| Government | 6,773,680 | 2,145,729 | - | 8,919,409 |
| Corporate | 5,122,043 | 460,349 | - | 5,582,392 |
| Foreign | 100,135 | - | - | 100,135 |
| Fixed Income Funds | | | | |
| Corporate and Governmental Daily Accrual Funds | 196,242 | - | - | 196,242 |
| Index and Other Daily Accrual Funds | 180,270 | - | - | 180,270 |
| Total Short-Term Investments | 25,390,355 | 2,606,078 | - | 27,996,433 |
| Investments Held by Trustee for Debt Service | | | | |
| Cash and Cash Equivalents | 434,040 | - | - | 434,040 |
| Total | \$ 31,260,479 | \$ 3,072,451 | \$ - | \$ 34,332,930 |

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 7. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2019 and 2018 follows:

| | Balance June 30, 2018 | Additions | Reductions | Balance June 30, 2019 | Amount Due Within One Year |
|-----------------------------|-----------------------------|-------------|---------------------|-----------------------------|----------------------------------|
| Bonds Payable | | | | | |
| Series 2013A | \$ 9,400,000 | \$ - | \$ 595,000 | \$ 8,805,000 | \$ 600,000 |
| Series 2013B | 9,230,000 | - | 575,000 | 8,655,000 | 580,000 |
| Total Long-Term Debt | \$ 18,630,000 | \$ - | \$ 1,170,000 | \$ 17,460,000 | \$ 1,180,000 |

| | Balance June 30, 2017 | Additions | Reductions | Balance June 30, 2018 | Amount Due Within One Year |
|-----------------------------|-----------------------------|-------------|---------------------|-----------------------------|----------------------------------|
| Bonds Payable | | | | | |
| Series 2013A | \$ 9,980,000 | \$ - | \$ 580,000 | \$ 9,400,000 | \$ 595,000 |
| Series 2013B | 9,790,000 | - | 560,000 | 9,230,000 | 575,000 |
| Total Long-Term Debt | \$ 19,770,000 | \$ - | \$ 1,140,000 | \$ 18,630,000 | \$ 1,170,000 |

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

- Hospital Revenue and Refunding Bonds (Series 2013A), with an original principal of \$12,155,000, a fixed interest rate of 3.2%, principal and interest payable quarterly effective October 1, 2013 through maturity of July 1, 2033, secured by operating revenues and property of the Hospital as defined in the trust indenture. These bonds were issued for the purpose of refunding the Series 2007 and Series 2010 bonds.
- Hospital Revenue Bonds (Series 2013B), with an original principal of \$10,770,000, a fixed interest rate of 3.2% payable quarterly effective October 1, 2013, principal payable quarterly effective October 1, 2015 through maturity on July 1, 2033, secured by operating revenues and property of the Hospital as defined in the trust indenture. The bonds were issued for the purpose of financing the costs of acquisition and construction of capital improvements and equipment of the Hospital and certain other healthcare facilities of the Organization, including, but not limited to, the expansion, renovation, improvement, and replacement of equipment in the Radiology Department and Cardiac Catheterization Laboratory of the Hospital.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 7. Long-Term Debt (Continued)

With the bond agreements, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with these covenants for the years ended June 30, 2019 and 2018.

The scheduled principal and interest repayments on long-term debt are as follows:

| Years Ended June 30, | Long-Term Debt | |
|-------------------------|----------------------|---------------------|
| | Principal | Interest |
| 2020 | \$ 1,180,000 | \$ 539,840 |
| 2021 | 1,180,000 | 502,080 |
| 2022 | 1,180,000 | 464,320 |
| 2023 | 1,180,000 | 426,560 |
| 2024 | 1,225,000 | 388,080 |
| 2025-2029 | 6,215,000 | 1,346,160 |
| 2030-2034 | 5,300,000 | 360,000 |
| Total | \$ 17,460,000 | \$ 4,027,040 |

Note 8. Insurance Programs

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employees' injuries and illnesses; natural disasters; and medical malpractice.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 8. Insurance Programs (Continued)

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs, including future medical costs. The Fund provides coverage on an occurrence basis for claims over \$100,000, and up to \$500,000. In addition, the Hospital is a participant in the Louisiana Hospital Association Malpractice and General Liability Trust (the Trust). As a participant in the Trust, the Hospital is fully insured against professional liability and general liability claims, with specific loss and aggregate loss limits of \$9,500,000 for professional liability claims and \$4,500,000 for general liability claims, subject to a \$50,000 per claim deductible.

The Hospital participates in the Louisiana Hospital Association Workers' Compensation Inter-Local Risk Management Agency. As a participant, the Hospital is insured for workers' compensation claims, subject to a \$50,000 per claim deductible.

The Hospital is also self-insured for medical and dental claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying basic financial statements as other current liabilities on the statements of net position.

The claims liabilities, which are included in accrued payroll and other expenses on the statements of net position at June 30, 2019 and 2018, are reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the years ended June 30, 2019 and 2018 are reflected below:

| | 2019 | 2018 |
|--|--------------------|-------------------|
| Claims Liability, Beginning of Year | \$ 392,226 | \$ 327,401 |
| Current Year Claims and Changes in Estimates | 3,122,253 | 3,846,344 |
| Current Year Claims Payments | (3,150,197) | (3,781,519) |
| Total | \$ 364,282 | \$ 392,226 |

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 9. Pension Plan

The Hospital sponsors the Lane Regional Medical Center Retirement Plan (LRMCRP), a contributory defined benefit pension plan. During 2002, the Board of Commissioners approved an amendment to freeze the plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved amending the vesting schedule to provide for full vesting at five years, as well as to fully vest employees who may be included in any reduction in workforce. During 2017, the Board of Commissioners approved an amendment to freeze accrual of all benefits under the plan as of midnight June 30, 2017.

Plan Description

Eligibility - Prior to July 1, 2002, all employees, classified as part-time or full-time, who had at least two years of continuous service and have worked an average of 20 or more hours a week were eligible to join the plan on its next anniversary date. Employees classified as PRN or SNAP were not eligible to participate, effective January 1, 1999.

As of June 30, 2019 and 2018, pension plan membership consisted of the following:

| | 2019 | 2018 |
|--|------------|------------|
| Inactive Plan Members or Beneficiaries Currently | | |
| Receiving Benefits | 90 | 85 |
| Inactive Plan Members Entitled to but not yet | | |
| Receiving Benefits | 79 | 81 |
| Active Plan Members | 0 | 83 |
| Active Frozen Plan Members | 106 | 30 |
| Total | 275 | 279 |

Benefits Provided - The plan provides retirement, termination, and death benefits.

Normal Retirement:

Date: Age 62 and the completion of 10 years of continuous service.

Benefit: 1.5% of Average monthly earnings times credited service.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 9. Pension Plan (Continued)

Plan Description (Continued)

Early Retirement:

Eligibility: Age 55 and the completion of 15 years of continuous service.

Benefit: Accrued benefit reduced 4.0% for each year prior to age 62.

Vesting:

Eligibility: Effective July 1, 2002, participants terminating prior to retirement with 5 years of service will be vested in their accrued benefits.

Benefit Amount: Accrued benefit at normal (unreduced basis) retirement date.

Death Benefits:

Pre-Retirement: The greater of: (a) 60 monthly payments of the participant's projected normal retirement benefit, assuming continued service and no increase in monthly earnings to age 62, or (b) the actuarial present value of the participant's vested accrued benefit on the date of death.

Post-Retirement: Benefits payable to beneficiary in accordance with option selected at retirement. Sum of benefits paid are subject to a minimum equal to the participant's contribution account.

Funding - Prior to January 1, 2013, participants were required to contribute three percent (3%) of their monthly earnings. Effective January 1, 2013, participants are required to contribute six percent (6%) of their monthly earnings. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent (150%), determined as of the beginning of the plan year.

Contributions - Contributions are established based upon an actuarially determined rate recommended by an independent actuary. The Annual Required Contribution (ARC) is equal to the sponsor normal cost plus an amount sufficient to amortize the unfunded actuarial accrued liability (UAAL) over 20 years. The required amount is adjusted for interest according to the timing of sponsor contributions during the year. The Hospital is required to contribute the difference between the actuarially determined rate and the contribution rate of the employees.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 9. Pension Plan (Continued)

Plan Description (Continued)

Contribution Refunds - In the event an employee's employment is terminated for any reason other than retirement, the employee is entitled to a refund of his employee contributions plus interest at 3% per annum. Once an employee terminates and withdraws his employee contributions, he forfeits any right to the accrued benefit derived from employer contributions

Net Pension Asset - The Hospital's net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Actuarial Methods and Assumptions

The total pension liability is based on the pure unit credit actuarial cost method as described in GASB Statements 67 and 68. Calculations were made as of June 30, 2018 and were based on July 1, 2018 data. The current year actuarial assumptions utilized are based on the assumptions used in the July 1, 2018 actuarial funding valuation which was based on the results of an actuarial experience study for the period 2005 - 2014. All assumptions selected were determined to be reasonable and represent expectations of future experience for the pension.

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|---|-------|
| Inflation: | 2.50% |
| Salary Increases, Including Inflation and Merit Increases: | 3.50% |
| Investment Rate of Return (Discount Rate): | 7.25% |
| Municipal Bond Rate: | N/A |

Mortality Rates - The mortality tables used are from the RP 2000 Combined Healthy (sex distinct) table projected to 2018 using scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 9. Pension Plan (Continued)

Actuarial Methods and Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|----------------------------|---|
| Domestic Equity | 6.90% |
| International Equity | 7.60% |
| Domestic Fixed Income | 2.90% |
| International Fixed Income | 4.56% |

Discount Rate - The discount rate used to measure the total pension liability was 7.25% percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The components of the net pension (asset) liability reported in the Organization's statements of net position as of June 30, 2019 and 2018, are as follows:

| | 2019 | 2018 |
|---|-----------------------|----------------|
| Total Pension Liability | \$ 23,721,903 | \$ 23,500,994 |
| Plan Fiduciary Net Position | 26,042,028 | 26,105,421 |
| Net Pension (Asset) Liability | \$ (2,320,125) | \$ (2,604,427) |
| Plan Fiduciary Net Position as a Total Percentage of the Total Pension Liability | 109.78% | 111.08% |

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 9. Pension Plan (Continued)

Changes in Net Pension (Asset) Liability

The change in the net pension (asset) liability is as follows:

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension (Asset) Liability (a) - (b) |
| Balances at June 30, 2017 | \$ 23,500,994 | \$ 26,105,421 | \$ (2,604,427) |
| Changes for the Year | | | |
| Service Cost | 165,735 | - | 165,735 |
| Interest | 1,658,781 | - | 1,658,781 |
| Changes of Benefit Terms | - | - | - |
| Differences Between Expected and Actual Experience | (29,635) | - | (29,635) |
| Contributions - Employer | - | - | - |
| Contributions - Employee | - | - | - |
| Net Investment Income | - | 1,544,579 | (1,544,579) |
| Benefit Payments, Including Refunds of Employee Contributions | (1,573,972) | (1,573,972) | - |
| Administrative Expense | - | (34,000) | 34,000 |
| New Changes | 220,909 | (63,393) | 284,302 |
| Balances at June 30, 2018 | \$ 23,721,903 | \$ 26,042,028 | \$ (2,320,125) |

Sensitivity to Changes in the Discount Rate

The following presents the net pension asset of the Hospital calculated using the discount rate of 7.25%, as well as what the Hospital's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (assuming all other assumptions remain unchanged):

| | Current | | |
|-------------------------------|----------------------|------------------------|----------------------|
| | 1% Decrease 6.25% | Discount Rate 7.25% | 1% Increase 8.25% |
| Net Pension (Asset) Liability | \$ 84,243 | \$ (2,320,125) | \$ (4,385,507) |

The plan issues an annual publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Lane Regional Medical Center, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 9. Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the Hospital recognized a pension expense of \$10,021. On June 30, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences Between Expected and Actual Experience | \$ - | \$ 155,914 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | <u>899,013</u> | <u>-</u> |
| Total | <u>\$ 899,013</u> | <u>\$ 155,914</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Amount |
|---------------------------------|---------------|
| 2020 | \$ 406,800 |
| 2021 | 346,372 |
| 2022 | (68,028) |
| 2023 | 57,955 |

Payable to the Plan - There was no payable at June 30, 2019 and 2018.

Other Plans

The Hospital maintains qualified defined contribution retirement and deferred compensation plans which provide benefits for eligible employees. Beginning in 2014, the Hospital reinstated plans previously established for all full-time employees.

The Hospital may make discretionary employer matches to the executive defined contribution plan. Vesting in the Hospital's contribution is based on years of service. Employees vest 20% per year for the first five years until fully vested.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 9. Pension Plan (Continued)

Other Plans (Continued)

The Hospital may make discretionary employer contributions equal to 50% of the pre-tax contributions up to 5% of eligible compensation. Vesting in the Hospital's contribution is based on years of service. After 60 months of service, the employee is 100% vested. Prior to that time, the employee is 0% vested.

During the years ended June 30, 2019 and 2018, the Hospital made required contributions to the plans of \$590,650 and \$548,576, respectively.

Note 10. Business and Credit Concentrations

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies).

The mix of net receivables from patients and third-party payors at June 30, 2019 and 2018, was as follows:

| | 2019 | 2018 |
|--|-------------|------|
| Medicare | 38% | 31% |
| Medicaid | 13% | 12% |
| Commercial Insurance Companies, Health Maintenance Organizations, and Other | 37% | 43% |
| Self-Pay Patients | 12% | 14% |
| Total | 100% | 100% |

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 11. Net Patient Service Revenue and Accounts Receivable

As discussed in Note 2, patient service revenue is reported net of contractual adjustments arising from various third-party arrangements. A summary of the basis of reimbursement with third-party payors follows:

Medicare

The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with the Hospital to perform such reviews.

Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital, and audits thereof by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2016.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital, and an audit thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary through June 30, 2013.

Revenue from the Medicare and Medicaid programs accounted for approximately 59% and 53% of the Hospital's net patient revenue for the years ended June 30, 2019 and 2018, respectively. The laws and regulations under which Medicare and Medicaid programs operated are complex, and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 11. Net Patient Service Revenue and Accounts Receivable (Continued)

Other

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

Note 12. Other Operating Revenue

Other operating revenue recognized during the years ended June 30, 2019 and 2018, consists of the following:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Collaboration and Cooperative Endeavor | | |
| Agreement Distributions | \$ 31,428,717 | \$ 9,697,925 |
| Pharmacy 340B Program Revenues | 478,385 | 1,272,617 |
| EHR Incentive Payments | 1,079 | 21,870 |
| Cafeteria Revenues | 618,699 | 693,240 |
| Other | 353,235 | 292,277 |
| | <hr/> | <hr/> |
| Total Other Operating Revenues | \$ 32,880,115 | \$ 11,977,929 |

Note 13. Commitments and Contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital.

Recovery Audit Contractors

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis no later than 2010.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 13. Commitments and Contingencies (Continued)

Recovery Audit Contractors (Continued)

The programs use RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to healthcare providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year prior but not longer than three years. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated. Management's experience has determined that RAC and MIC assessments have been insignificant to date.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program (EHR), enacted as part of the American Recovery and Reinvestment Act of 2009, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified health records technology. Payments under both programs are contingent upon a hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. As disclosed in Note 12, the Hospital recognized revenue of \$182,954 and \$21,870 related to attesting to meeting meaningful use in its 2019 and 2018 fiscal years.

Note 14. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. The reclassifications have no effect on previously reported net income.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 15. Louisiana Medicaid Collaboration and Cooperative Endeavor Agreements

To improve or expand allowable healthcare services for Medicaid beneficiaries or low-income, uninsured patients, during the fiscal years ended June 30, 2019 and 2018, the Hospital entered into a series of collaborative agreements and cooperative endeavors designed to allow additional Medicaid funds for providing these services in the community.

These agreements are detailed below:

East Jefferson General Hospital Cooperative Endeavor Agreement: The Hospital entered into a cooperative endeavor agreement with East Jefferson General Hospital (EJGH) (a Louisiana hospital service district) and other participating hospital service districts (HSDs). The Centers for Medicare & Medicaid Services has previously approved Medicaid State Plan Amendments (SPAs), submitted by the Louisiana Department of Health (LDH), which provide for reimbursement to non-rural, non-state public hospitals up to the Medicare inpatient upper payment limits.

Under this agreement, EJGH has agreed to cooperate in the establishment of a funding program by contributing a portion of the upper payment limit (UPL) payments that result from SPAs to the other HSDs, including Lane Regional Medical Center, for the purpose of ensuring adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens and medically underserved non-rural populations in Louisiana in a manner defined in the agreement. Funding for each participating hospital service district is based upon a formula utilizing each districts' reported Medicaid patient days. The term of this agreement is one year with automatic renewals for additional terms of one year unless earlier terminated.

Low Income and Needy Care Collaboration Agreement: Under the terms of this agreement with a private healthcare provider, the Hospital agreed to use public funds for purposes of funding Medicaid supplemental payments authorized under Medicaid State Plan Amendments LA 09-5S and LA 09-56. In exchange, the private healthcare provider agrees to work cooperatively with Lane Regional Medical Center to improve access to health care for low income and needy persons. The agreement may be terminated by either party with thirty days written notice.

Physicians' UPL Agreement with the Louisiana Department of Health and Hospitals (LDH): The Hospital entered into an agreement with LDH which was approved by CMS. Under the program LDH began making payments under the Physician's Supplemental Payment Program for non-state-owned public hospitals (HSDs). The purpose of this program is to enhance payments to physicians employed or contracted by the public hospitals. Lane Regional Medical Center agreed to transfer funds to LDH to be used as Medicaid matching funds for the purpose of making physician supplemental payments and providing the State with additional resources to assist in the medical costs to the state.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

**Note 15. Louisiana Medicaid Collaboration and Cooperative Endeavor Agreements
(Continued)**

These matching funds are comprised of (1) an amount to be utilized as the "non-federal share" of the supplemental payments for services provided by the identified physician, and other healthcare professionals and (2) the "state retention amount," which is fifteen percent of the "non-federal share", for the State to utilize in delivering healthcare services. In turn, LDH agrees to make supplemental Medicaid payments to the Hospital. The supplemental payments include the "non-federal share" and the "federal funds" generated by the "non-federal share" payments. The total amount of the supplemental payments is intended to represent the difference between the Medicaid payments otherwise made to these qualifying providers and the Average Community Rate for these services.

Summary: During the fiscal year ended June 30, 2019, in accordance with the funding provisions of the above agreements, the Organization recognized \$31,428,717 as other operating revenue, of which approximately \$11,000,000 is included as a receivable in other current assets on the Organization's statement of net position at June 30, 2019. Payments to LDH in conjunction with the Low Income and Needy Care Collaboration Agreement during fiscal year 2019 totaled \$1,845,820 which is being amortized monthly over the effective term of the agreement. A total of \$2,374,837 was recognized as operating expenses during fiscal year 2018. There was \$529,017 in amounts payable on the Organization's statement of net position as of June 30, 2019. The Organization also recognized \$22,078,482 as operating expenses for funds paid or payable to LDH under the terms of the UPL agreements during fiscal year 2019, as income was recognized from the Medicaid supplemental payments, of which approximately \$7,000,000 is included as a payable in accounts payable on the Organization's statement of net position at June 30, 2019.

Summary: During the fiscal year ended June 30, 2018, in accordance with the funding provisions of the above agreements, the Organization recognized \$9,699,125 as other operating revenue, of which approximately \$2,700,000 is included as a receivable in other current assets on the Organization's statement of net position at June 30, 2018. Payments to LDH in conjunction with the Low Income and Needy Care Collaboration Agreement during fiscal year 2018 totaled \$1,835,000, which is being amortized monthly over the effective term of the agreement. A total of \$1,835,000 was recognized as operating expenses during fiscal year 2018. There were no remaining amounts included in prepaid expenses on the Organization's statement of net position as of June 30, 2018. The Organization also recognized \$3,494,960 as operating expenses, funds paid or payable to LDH under the terms of the UPL agreements during fiscal year 2018, as income was recognized from the Medicaid supplemental payments, of which approximately \$600,000 is included as a payable in accounts payable on the Organization's statement of net position at June 30, 2018.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 16. Blended Component Unit Condensed Financial Information

GASB 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and 34*, requires certain financial information about blended component units to be presented. The Organization's financial statements, which include the Hospital, Lane RMC Service Corporation, and Lane RMC Foundation, are presented in a blended format.

The table below individually discloses the net position and changes in net position for each blended entity as of and for the year ended June 30, 2019. Material inter-entity transactions are eliminated in the presentation below:

| | 2019 | | | | |
|---|-----------------------|--------------------------|------------------------|--------------|-----------------------|
| | The Hospital | Lane RMC Service Corp | Lane RMC Foundation | Eliminations | Total |
| Current Assets | \$ 52,213,154 | \$ 16,518 | \$ 69,302 | \$ - | \$ 52,298,974 |
| Capital Assets, Net | 47,765,006 | - | - | - | 47,765,006 |
| Other Assets | 2,799,411 | - | - | - | 2,799,411 |
| Deferred Outflows of Resources | 899,013 | - | - | - | 899,013 |
| Total Assets and Deferred Outflows of Resources | <u>\$ 103,676,584</u> | <u>\$ 16,518</u> | <u>\$ 69,302</u> | <u>\$ -</u> | <u>\$ 103,762,404</u> |
| Current Liabilities | \$ 19,630,060 | \$ 10,495 | \$ 115,234 | \$ - | \$ 19,755,789 |
| Long-Term Liabilities | 16,280,000 | - | - | - | 16,280,000 |
| Deferred Inflows of Resources | 155,914 | - | - | - | 155,914 |
| Net Position | 67,610,610 | 6,023 | (45,932) | - | 67,570,701 |
| Total Liabilities Deferred Inflows of Resources and Net Position | <u>\$ 103,676,584</u> | <u>\$ 16,518</u> | <u>\$ 69,302</u> | <u>\$ -</u> | <u>\$ 103,762,404</u> |

| | 2019 | | | | |
|--|---------------------|--------------------------|------------------------|--------------|---------------------|
| | The Hospital | Lane RMC Service Corp | Lane RMC Foundation | Eliminations | Total |
| Operating Revenues | \$ 101,964,333 | \$ 28,023 | \$ 82,039 | \$ - | \$ 102,074,395 |
| Depreciation | 5,231,346 | - | - | - | 5,231,346 |
| Other Operating Expenses | 99,256,886 | 70,819 | 218,551 | - | 99,546,256 |
| Operating Income | (2,523,899) | (42,796) | (136,512) | - | (2,703,207) |
| Non-Operating Revenues | 1,707,660 | - | - | - | 1,707,660 |
| Excess (Deficiency) of Revenues Over Expenses | (816,239) | (42,796) | (136,512) | - | (995,547) |
| Capital Contributions | - | - | - | - | - |
| Change in Net Position | <u>\$ (816,239)</u> | <u>\$ (42,796)</u> | <u>\$ (136,512)</u> | <u>\$ -</u> | <u>\$ (995,547)</u> |

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 16. Blended Component Unit Condensed Financial Information (Continued)

The table below individually discloses the net position and changes in net position for each blended entity as of and for the year ended June 30, 2018. Material inter-entity transactions are eliminated in the presentation below:

| | 2018 | | | | |
|---|----------------------|--------------------------|------------------------|--------------|----------------------|
| | The Hospital | Lane RMC Service Corp | Lane RMC Foundation | Eliminations | Total |
| Current Assets | \$ 49,539,706 | \$ 52,863 | \$ 104,449 | \$ - | \$ 49,697,018 |
| Capital Assets, Net | 44,102,729 | - | - | - | 44,102,729 |
| Other Assets | 3,097,699 | - | - | - | 3,097,699 |
| Deferred Outflows of Resources | 780,646 | - | - | - | 780,646 |
| Total Assets and Deferred Outflows of Resources | <u>\$ 97,520,780</u> | <u>\$ 52,863</u> | <u>\$ 104,449</u> | <u>\$ -</u> | <u>\$ 97,678,092</u> |
| Current Liabilities | \$ 11,322,103 | \$ 4,044 | \$ 13,869 | \$ - | \$ 11,340,016 |
| Long-Term Liabilities | 17,460,000 | - | - | - | 17,460,000 |
| Deferred Inflows of Resources | 311,828 | - | - | - | 311,828 |
| Net Position | 68,426,849 | 48,819 | 90,580 | - | 68,566,248 |
| Total Liabilities Deferred Inflows of Resources and Net Position | <u>\$ 97,520,780</u> | <u>\$ 52,863</u> | <u>\$ 104,449</u> | <u>\$ -</u> | <u>\$ 97,678,092</u> |

| | 2018 | | | | |
|--|---------------------|--------------------------|------------------------|--------------|---------------------|
| | The Hospital | Lane RMC Service Corp | Lane RMC Foundation | Eliminations | Total |
| Operating Revenues | \$ 88,392,113 | \$ 48,703 | \$ 92,635 | \$ - | \$ 88,533,451 |
| Depreciation | 5,617,537 | - | - | - | 5,617,537 |
| Other Operating Expenses | 79,647,699 | - | 128,478 | - | 79,776,177 |
| Operating Income | 3,126,877 | 48,703 | (35,843) | - | 3,139,737 |
| Non-Operating Revenues | 1,964,773 | - | - | - | 1,964,773 |
| Excess (Deficiency) of Revenues Over Expenses | 5,091,650 | 48,703 | (35,843) | - | 5,104,510 |
| Capital Contributions | - | - | - | - | - |
| Change in Net Position | <u>\$ 5,091,650</u> | <u>\$ 48,703</u> | <u>\$ (35,843)</u> | <u>\$ -</u> | <u>\$ 5,104,510</u> |

Cash flows generated by the aggregate blended components separately from the Hospital were not material and are not presented.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

Note 17. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 10, 2019, and determined that no events occurred that required disclosure. No events occurring after the date above have been evaluated for inclusion in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Required Supplementary Information
Schedule of Changes in Net Pension (Asset) Liability and Related Ratios
June 30, 2018, 2017, 2016, 2015, and 2014**

Schedule I

| | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|-----------------------|-----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | | |
| Service Cost | \$ 165,735 | \$ 177,889 | \$ 263,541 | \$ 302,320 | \$ 281,883 |
| Interest | 1,658,781 | 1,646,656 | 1,877,100 | 1,731,263 | 1,708,315 |
| Changes of Benefit Terms | - | (3,875,840) | - | - | - |
| Differences Between Expected and Actual Experience | (29,635) | (241,157) | (302,113) | - | - |
| Changes of Assumptions | - | - | - | - | - |
| Benefit Payments, Including Refund of Employee Contributions | (1,573,972) | (1,233,991) | (877,170) | (795,012) | (887,539) |
| Other | - | - | - | - | - |
| Net Change in Total Pension Liability | 220,909 | (3,526,443) | 961,358 | 1,238,571 | 1,102,659 |
| Total Pension Liability - Beginning | 23,500,994 | 27,027,437 | 26,066,079 | 24,827,508 | 23,724,849 |
| Total Pension Liability - Ending (a) | \$ 23,721,903 | \$ 23,500,994 | \$ 27,027,437 | \$ 26,066,079 | \$ 24,827,508 |
| Plan Fiduciary Net Position | | | | | |
| Contributions - Member | \$ - | \$ - | \$ - | \$ - | \$ 435,251 |
| Contributions - Employer | - | 261,111 | 286,162 | 330,784 | 359,293 |
| Net Investment Income (Loss) | 1,544,579 | 2,386,303 | (231,606) | 684,951 | 3,549,170 |
| Benefit Payments, Including Refund of Employee Contributions | (1,573,972) | (1,233,991) | (877,170) | (795,012) | (887,539) |
| Administrative Expenses | (34,000) | (41,024) | (21,250) | - | - |
| Other | - | - | (113,975) | - | - |
| Net Change in Plan Fiduciary Net Position | (63,393) | 1,372,399 | (957,839) | 220,723 | 3,456,175 |
| Plan Fiduciary Net Position - Beginning | 26,105,421 | 24,733,022 | 25,690,861 | 25,470,138 | 22,013,963 |
| Plan Fiduciary Net Position - Ending (b) | \$ 26,042,028 | \$ 26,105,421 | \$ 24,733,022 | \$ 25,690,861 | \$ 25,470,138 |
| Net Pension (Asset) Liability Ending (a-b) | \$ (2,320,125) | \$ (2,604,427) | \$ 2,294,415 | \$ 375,218 | \$ (642,630) |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 109.78% | 111.08% | 91.51% | 98.56% | 102.59% |
| Covered-Employee Payroll | \$ 4,280,358 | \$ 4,280,358 | \$ 4,542,786 | \$ 5,104,694 | \$ 6,061,360 |
| Net Pension (Asset) Liability as a Percentage of Covered-Employee Payroll | -54.20% | -60.85% | 50.51% | 7.35% | -10.60% |

Note to Schedule

This schedule is required to show information for 10 years. However, until a full 10-year trend is compiled, information is presented only for those years for which information is available as indicated by Governmental Accounting Standards Board Statement No. 68.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Required Supplementary Information
Schedule of Contributions**

Schedule II

| | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---------------|---------------|---------------|---------------|---------------|
| Actuarially Determined Contribution (Determined as of the Prior Fiscal Year) | \$ - | \$ - | \$ - | \$ - | \$ 435,251 |
| Contributions in Relation to the Actuarially Determined Contribution | - | - | - | - | 435,251 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-Employee Payroll | \$ 4,280,358 | \$ 4,280,358 | \$ 4,542,786 | \$ 5,104,694 | \$ 6,061,360 |
| Contributions as a Percentage of Covered- Employee Payroll | 0.00% | 0.00% | 0.00% | 0.00% | 7.18% |

Notes to Schedule

This schedule is required to show information for 10 years. However, until a full 10-year trend is compiled, information is presented only for those years for which information is available as indicated by Governmental Accounting Standards Board Statement No. 68. There were no contributions for the year ended June 30, 2018.

Valuation Date: July 1, 2015
Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method: The Pure Unit Credit Method

Amortization Method: Level Dollar

Remaining Amortization Period: 19 Years (as of July 1, 2015)

Asset Valuation Method: All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by the actual market value investment return against expected market value investment return) over a five-year period.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Required Supplementary Information
Schedule of Contributions (Continued)**

Schedule II

Notes to Schedule (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued)

Actuarial Assumptions:

Salary Increases: 3.50% per year until the assumed retirement age.

Administrative Expenses: Less than 0.2% of plan assets.

Interest Rate: 7.25% per year compounded annually, net of investment-related expenses.

Marital Status: 100% of active participants are assumed to be married at benefit commencement. Males are assumed to be 3 years older than females.

Payment Form: 20% of active participants are assumed to elect lumpsum benefits at retirement.

| | | |
|-------------------|---------------------|---------------------------|
| Retirement Rates: | <u>Attained Age</u> | <u>Rate of Retirement</u> |
| | 55 - 61 | 8% |
| | 62 | 25% |
| | 63 | 25% |
| | 64 | 50% |
| | 65 | 100% |

| | | |
|--------------------|---------------------|---------------------------|
| Termination Rates: | <u>Attained Age</u> | <u>Rate of Retirement</u> |
| | All Ages | 4.00% |

Mortality: RP 2000 Combined Healthy (sex distinct), Projected to 2018 using scale AA.

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

Independent Auditor's Report

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Regional Medical Center
Zachary, 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 financial statements of the business-type activities of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Organization), a component unit of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



A Professional Accounting Corporation

Metairie, LA
October 10, 2019

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Schedule of Findings and Responses
For the Year Ended June 30, 2019**

Part I - Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued Unmodified

Internal Control Over Financial Reporting:

| | |
|---|---------------|
| Material weakness (es) identified? | No |
| Significant deficiency (ies) identified? | None Reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards Section - Not Applicable

Part II - Internal Control over Financial Reporting

None.

Part III - Compliance and Other Matters

None.

Independent Auditor's Report on Supplementary Information

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

We have audited the financial statements of the business-type activities of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Organization), a component unit of the City-Parish of Baton Rouge, and have issued our report thereon, dated October 10, 2019, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming and opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 10, 2019.

The accompanying supplementary information is presented for the purpose of additional analysis, as required by Louisiana Revised Statutes, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



A Professional Accounting Corporation

Metairie, LA
October 10, 2019

**HOSPITAL SERVICE DISTRICT NO. 1
 OF EAST BATON ROUGE PARISH, LOUISIANA
 d/b/a LANE REGIONAL MEDICAL CENTER
 Schedule of Compensation, Benefits, and Other Payments
 to Agency Head
 For the Year Ended June 30, 2019**

Agency Head
 Lawrence R. Meese, Chief Executive Officer

| Purpose | Amount |
|--|---------------|
| Salary | \$422,999 |
| Benefits - Insurance | \$20,817 |
| Benefits - Retirement | \$70,000 |
| Benefits - Other | \$0 |
| Car Allowance | \$0 |
| Vehicle Provided by Government | \$0 |
| Per Diem | \$0 |
| Reimbursements | \$2,709 |
| Travel | \$0 |
| Registration Fees | \$0 |
| Conference Travel | \$0 |
| Continuing Professional Education Fees | \$0 |
| Housing | \$0 |
| Unvouchered Expenses | \$0 |
| Special Meals | \$0 |
| Incentive Payments | \$0 |

See independent auditor's report on supplementary information.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Schedule of Board of Commissioners and Salaries
For the Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|----------------------|-----------------|-----------------|
| C. Jordan Charlet | \$ 250 | \$ 225 |
| Thomas Scott | 250 | 50 |
| Donna Kline | 250 | 250 |
| Doze Butler | 225 | 50 |
| Gaynell Young | 200 | 250 |
| Mark Thompson | 200 | 200 |
| Reagan Elkins | 200 | 150 |
| Patricia D. Gauthier | 200 | 225 |
| Darnell Waites | 175 | 75 |
| Harold Rideau | 25 | 250 |
| Jimmy Jackson | - | 200 |
| Total | \$ 1,975 | \$ 1,925 |

See independent auditor's report on supplementary information.



LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

To the Board of Commissioners and
Members of Management
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

In planning and performing our audit of the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Medical Center) as of and for the year ended June 30, 2019, 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, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

During our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The items below summarize our comments and suggestions regarding those matters. We communicated to you about the Medical Center's 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* in a separate report dated October 10, 2019. This letter does not affect our report dated October 10, 2019, on the financial statements of the Medical Center.

M2019-001 Investment in Surgery Center Measurement

Condition - The Medical Center holds a 60% interest in the Surgery Center of Zachary LLC (the Surgery Center). The investment account on the Medical Center's statement of net position is measured under the equity method of accounting, whereby it is increased for the Medical Center's share of capital contributions and gains and is decreased for its share of capital distributions and losses. It was observed that the underlying books and records of the Surgery Center were not reconciled at a consistent level expected for the Medical Center to rely on for measuring its investment.

Criteria - The accounts of the Surgery Center should be maintained in accordance with generally accepted accounting principles.

Cause - During 2017, the contract under which accounting services were provided by the previous owners ceased and a series of spreadsheets were then used to account for the Surgery Center's activity. During this time the Surgery Center also experienced turnover.

Effect or Potential Effect - While the implications of the underlying records of the Surgery Center were not deemed to result in a significant misstatement of the Medical Center's recorded investment, the lack of necessary reconciliations creates a weakness where there is potential for such misstatement.

LOUISIANA • TEXAS

An Independently Owned Member, RSM US Alliance

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each is separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

Recommendation - Since the Medical Center provides assistance to the Surgery Center with its bookkeeping in the period since the previous contract terminated, we recommend that the Medical Center management either set up a complete general ledger system with standard account numbers in the Surgery Center's QuickBooks® system, or have the Surgery Center contract with others to provide the needed services.

Management Response - Management continues to evaluate its association with the Surgery Center and believes that its investment in the Surgery Center is appropriately reflected.

M2019-002 Upper Payment Limit Revenue and Expense Classification

Condition - During the audit, we noted that currently upper payment limit (UPL) receipts and intergovernmental transfer payments are reflected as a net amount in other operating revenue, and UPL receivables and payables are netted in other receivables.

Criteria - U.S. generally accepted accounting principals require that revenue, expenses, receivables, and payables, be appropriately classified to show actual activity that occurs.

Cause - Amounts are shown net on internally prepared financial statements and are reclassified in the audited GAAP presentation of the financial statements.

Effect or Potential Effect - Monthly internal financial reporting does not show the true cash receipt and cash intergovernmental transfer payment activity related to UPLs. While there is no impact on total operating income, the revenue and expense totals in the audited financial statements reflect this reporting difference from the classifications shown on the internal financial statements.

Recommendation - We recommend that the Medical Center consider adjusting its accrual processes over UPL activity to reflect transactions on a gross basis, rather than a net basis.

Management Response - Management recognizes the need to adhere to a GAAP basis presentation, but feels that its presentation of the amounts on a net basis is most responsive for internal reporting needs.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Medical Center personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management and the Board of Commissioners, and is not intended to be, and should not be, used by anyone other than these specified parties.



A Professional Accounting Corporation

Metairie, LA
October 10, 2019

M2018-001 Investment in Surgery Center Measurement

Not resolved. See M2019-001

M2018-002 Charge Card Misappropriation

Resolved.

M2018-003 Approval of Disbursement of Patient Refunds

Resolved.

AGREED-UPON PROCEDURES REPORT

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center

Independent Accountant's Report
On Applying Agreed-Upon Procedures

For the Period July 1, 2018 - June 30, 2019

To the Board of Commissioners of
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center and
the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal year July 1, 2018 through June 30, 2019. The Hospital's management is responsible for those C/C areas identified in the SAUPs.

The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated results are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

- c) **Disbursements**, including processing, reviewing, and approving.
- d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).
- h) **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- k) **Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

Results: The Hospital's policy on purchasing, receipts/collections, payroll/personnel, contracting, and travel & reimbursement addressed the elements listed above. The Hospital's policy on budgeting did not address amending the budget. The Hospital's policy on disbursements did not include language on the processing, review, and approval process for manual checks, but did address the other elements listed above for other payment types. The Hospital's policy on credit cards did not address required approvers of statements, but did address the other elements listed above. The Hospital's policy on ethics did not address actions to be taken if an ethics violation takes place, but did address the other elements listed above. The Hospital's policy on debt service did not address debt reserve requirements and debt service requirements, but did address the other elements listed above. The Hospital's policy on disaster recovery/business continuity did not address the use of antivirus software on all systems and the timely application of all available system and software patches/updates but did address the other elements listed above.

Management's Response: In response to the results of the Written Policies and Procedures section, the management will adopt policies and procedures for: amending the budget, the approval process for manual checks, who is required to approve the credit card statements, actions to be taken if an ethics violations takes place, the debt reserve and debt service requirements, use of antivirus software on all systems, and timely application of all available system and software patches/updates.

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

2. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Results: Obtained the listing of all active cards and management's representation that the listing is complete.

3. Using the listing prepared by management, randomly select five cards (or all cards if less than five) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
 - a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) were reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.

Results: For the sample selected, statements were reviewed and approved, in writing, by someone other than the cardholder. Observed that finance charges and late fees were assessed on one of the statements tested.

4. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e., each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

Results: For the randomly selected transactions on each monthly statement, observed that each was supported by the items listed in 1) through 3) above.

Payroll and Personnel

5. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select five employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Results: Obtained listing of employees employed during the fiscal period and management's representation that the listing is complete. Agreed the paid salaries to authorized rates in the employee files for the five randomly selected employees without exception.

6. Randomly select one pay period during the fiscal period. For the five employees/officials selected under #5 above, obtain attendance records and leave documentation for the pay period, and:
 - a. Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
 - b. Observe that supervisors approved the attendance and leave of the selected employees/officials.
 - c. Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Results: Randomly selected one pay period for the five employees selected under #5 above, and observed the items listed in a) through c) above without exception.

7. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours, and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

Results: Obtained the listing of employees that received termination payments during the fiscal year and management's representation that the list is complete. For the two randomly selected employees, agreed the payments to the supporting documentation without exception.

8. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Results: Obtained management's representation that the employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to perform, and did not perform, an examination or review, the objective of which would be the expression of an opinion or conclusion. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document. Management has elected not to include responses or corrective actions to matters included in this document.

A handwritten signature in cursive script that reads "LaPorte".

A Professional Accounting Corporation

Metairie, LA
October 10, 2019



October 21, 2019

Mr. Daryl Purpera
Louisiana Legislative Auditor
1600 N 3rd St.
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Statewide Agreed-upon Procedures

The management of the Lane Regional Medical Center wishes to provide the following responses relative to the results of the Year 3 Statewide agreed-upon procedures engagement:

1. In response to the results of the Written Policies and Procedures section, the Medical Center has adopted written policies procedures during the year ended June 30, 2019. LRMC will amend the respective policies to include all missing items noted in the AUP.
2. In response to the results of the Credit, Debt , Fuel, and P cards section, item 12b, management will continue to monitor payment activity to help ensure that finance charges and late fees are not assessed on the credit card statements.

Sincerely,

Phil Hacker
Chief Financial Officer

PH/gb