MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL STATEMENTS

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

As of and for the Years Ended
June 30, 2020 and 2019
With Report of Independent Auditors

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INDEPENDENT AUDITOR'S REPORT

HORNE

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Horne LLP

Ridgeland, Mississippi
January 13, 2021

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

Required Financial Statements

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

District Statements of Net Position

A summary of the District's statements of net position for years June 30, 2020 through 2018 is presented in Table 1 below:

TABLE 1
Condensed Statements of Net Position

	June 30		
	2020	**2019**	**2018**
Total current assets	$ 239,442,057	$ 187,971,137	$ 151,623,000
Capital assets - net	202,986,008	209,535,244	221,228,187
Other assets, including board-designated investments	21,809,417	47,759,264	74,308,566
Total assets and deferred outflows	$ 464,237,482	$ 445,265,645	$ 447,159,753
Current liabilities	$ 71,911,785	$ 79,179,454	$ 75,408,124
Long-term debt outstanding and other long-term liabilities	171,020,995	177,624,460	184,055,347
Total liabilities	242,932,780	256,803,914	259,463,471
Net position:			
Net investment in capital assets	27,184,248	27,370,562	32,855,117
Restricted net position	22,563,522	22,349,330	21,819,549
Unrestricted net position	171,556,932	138,741,839	133,021,616
Total liabilities and net position	$ 464,237,482	$ 445,265,645	$ 447,159,753

Summary of District's Income

The following table contains a summary of income and changes in net position of the District for the years ended June 30, 2020 through 2018:

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

	Year Ended June 30		
	2020	2019	2018
Revenue:			
Net patient service revenue	$ 283,247,443	$ 271,711,476	$ 263,681,234
Other	69,791,067	58,939,145	61,754,080
Total operating revenue	353,038,510	330,650,621	325,435,314
Expenses:			
Salaries and employee benefits	219,020,583	208,891,267	208,176,493
Supplies, contract services, equipment, and fees	81,854,909	81,988,406	73,112,789
Other operating expenses	16,822,697	17,332,940	15,911,799
Depreciation	13,441,559	13,688,220	14,337,236
Interest	10,393,186	10,666,259	10,685,565
Total operating expenses	341,532,934	332,567,092	322,223,882
Operating income (loss)	11,505,576	(1,916,471)	3,211,432
Investment income	2,379,574	2,632,959	1,306,611
Other nonoperating income	18,957,821	48,961	603,522
Increase in net position	32,842,971	765,449	5,121,565
Net position at beginning of year	188,461,731	187,696,282	182,574,717
Net position at end of year	$ 221,304,702	$ 188,461,731	$ 187,696,282

Summary of District's Income (continued)

The District is located primarily in Hammond, Louisiana within the Parish of Tangipahoa. The approximate population of the Parish is 135,000. The District primarily serves Tangipahoa Parish and the surrounding areas. The District has a Level II Trauma Center. Future population growth is expected along the I-12 corridor where the facilities are located. The District includes North Oaks Medical Center, North Oaks Rehabilitation Hospital and the North Oaks Physician Group.

During 2019, the District captured about 62 percent of all PSA inpatient admissions. Our market share has trended expansionary for the last several years.

The District has focused on growth of its key service lines. Louisiana's acceptance of the Medicaid Expansion has been fruitful. The system has recorded a favorable payor shift with a decrease in self-pay and a corresponding increase in Medicaid, with only minimal cannibalization of other managed-care payors.

In fiscal year 2020, inpatient admissions and equivalent inpatient admissions remained strong throughout the year despite the effects of COVID-19 in the final quarter of the fiscal year. Outpatient volumes were materially reduced during the fourth quarter of fiscal year 2020 due to a government mandated shutdown of non-essential care.

Physician recruiting has continued to be successful and aggressive. Currently, the District is supported by a medical staff of 267 as of June 30, 2020.

Overview of the Financial Statements

Exceptionally strong operating results were experienced during fiscal year 2020. The District was able to successfully respond to COVID-19 pressures while building upon previous operational progress as well as further strengthening the balance sheet.

COVID-19 has disrupted health care providers worldwide. The United States and Louisiana in particular have been hit hard. As previously mentioned, the state government mandated a suspension of non-essential care. The result of this suspension was a significant decline in outpatient volumes; however, volumes quickly returned once the suspension was lifted in May 2020.

Fiscal year 2020 operating results improved significantly as the balance sheet was boosted by an increase in supplemental funding, as well as $27.3 million in Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and Paycheck Protection Program ("PPP") funding. The District did not elect to receive any Medicare Advance Payments under the CARES Act given its strong underlying liquidity. Excluding the stimulus funds, the District would have recorded a $11.5 million operating gain (3.3 percent margin). The improvements in operations and management initiatives as well as limited capital spending have driven balance sheet strength and provided some financial flexibility of the District going forward. The District expects performance to remain positive in the future.

The District has been focusing on strengthening the balance sheet for the last few fiscal years. As of the June 30, 2020, the District has $179.9 million in unrestricted cash reserves, up from $59.6 million in 2018, an increase of 190 percent. Days of cash on hand have moved up to 218 days from 145 in 2018. We expect to see continued improvements through fiscal year 2021 as only routine capital projects are being approved and we expect to see continued operational success.

Overview of the Financial Statements (continued)

On the liability side of the balance sheet, overall debt has declined by nearly $13 million over the past three years through amortization, totaling $175.8 million at year-end 2020. Unrestricted cash reserves cover total debt by 102.4 percent. The recent balance sheet growth is a result of initiatives to rebalance the investment portfolio as well as utilize additional free cash flow generated from improved operations. The investment portfolio is currently holding 31.5 percent as cash, pending reinvestment after market stabilization.

<u>Sources of Revenue</u>

Operating Revenue

During fiscal year 2020, the District derived the majority, approximately 80 percent, of its total revenue from patient service revenue. During fiscal years 2019 and 2018, approximately 82 and 81 percent, respectively, of the District's revenue was derived from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs, other third-party payors and patients. Reimbursement for the Medicare and Medicaid programs and other third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract rates is recognized as a contractual allowance.

Other Revenue

In 2020, other revenues increased to $69.8 million from $58.9 million in 2019. During the fiscal year, the District began a contract pharmacy program. With this program, the District has recognized approximately $3,289,000 in other operating revenue in fiscal year 2020. In addition, the District received approximately $7,255,000 in additional payments from the Managed Care Quality Incentive Program and other supplemental payment programs.

Investment Income

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

The District holds designated and restricted funds that are invested primarily in money market funds, certificates of deposit, securities issued by the U.S. Treasury and other federal agencies. These investments had a total return of approximately $2,380,000, $2,633,000 and $1,307,000 during fiscal years 2020, 2019 and 2018, respectively.

Other Nonoperating Income

In 2020, other nonoperating income increased to approximately $19 million from $49,000 in 2019 due to $18.9 million in provider relief funds received via the CARES Act. GASB presents CARES Act funds as other nonoperating income whereas Financial Accounting Standards Board ("FASB") presents these same funds as operating income.

Overview of the Financial Statements (continued)

Allowances and Expense

The following summarizes the District's statements of revenue, expenses and changes in net position between 2020 and 2019:

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

- In 2020, net patient service revenue increased to $283.2 million from $271.7 million in 2019 due to increases in inpatient and outpatient volumes.

- Salaries expense increased approximately $7,123,000 or 4 percent, to $176,223,000 in 2020 from $169,100,000 in 2019. During the fiscal year, the decision was made to begin a new nurse residency program comprised of 14 enrollees. In addition, the District provided employees with a COVID-19 relief package during the mandated suspension of outpatient care.

- As a percentage of salaries expense, employee benefit expense was approximately 24.3 and 23.5 percent for the fiscal years ended June 30, 2020 and 2019, respectively.

- Contract services, equipment and fees decreased approximately $808,000 or 2.5 percent, from the prior year. During the fiscal year, less locum tenens coverage was needed due to the new providers hired.

- Other operating expenses decreased approximately $468,000 or 2.7 percent, from the prior year.

- Depreciation expense decreased approximately $247,000 or 1.8 percent, from the prior year.

- Total operating expenses increased approximately $8,966,000 or 2.7 percent, for the year ended June 30, 2020, for the reasons discussed above. The District continues cost reduction measures to control expenses.

- Investment income consists of interest earnings on funds and realized and net unrealized gain or loss on fair market value adjustments. Total investment income decreased approximately $253,000 or 9.6 percent, from the prior year.

Overview of the Financial Statements (continued)

The following summarizes the District's statements of revenue, expenses and changes in net position between 2019 and 2018:

- An allowance for doubtful accounts is provided in an amount equal to the estimated losses to be incurred in collection of those receivables, and the related provision is reflected as a charge to net patient service revenue. The allowance is based on historical collection experiences and a review of the current status of the existing receivables. In response to increasing challenges in the collection of patient accounts receivable being experienced throughout the industry, as well as changes in the political and economic climate in the District's geographic market, management developed a more conservative reserving methodology that was applied to 2019 and going forward.

- Salaries expense increased approximately $899,000 or 0.5 percent, to $169,100,000 in 2019 from $168,201,000 in 2018. The District continued its efforts to recruit physicians and advanced practitioners to meet the medical needs of the community. Approximately $860,000 of this increase related to additional salaries expense associated with a one-time software conversion.

- Contract services, equipment and fees increased approximately $8,804,000 or 36.7 percent, from the prior year. The majority of this increase is related to implementation costs for the District's new software system.

Capital Assets

During fiscal years 2020, 2019 and 2018, the District invested approximately $6,985,000, $3,741,000 and $11,295,000, respectively, in a broad range of property and equipment included in Table 3 below.

TABLE 3
Capital Assets

	June 30		
	2020	**2019**	**2018**
Land	$ 7,457,774	$ 7,457,774	$ 7,457,774
Building and equipment	391,780,244	385,444,653	491,901,417
Subtotal	399,238,018	392,902,427	499,359,191
Less accumulated depreciation	197,059,645	183,618,144	281,975,479
Construction in progress	807,635	250,961	3,844,475
Net capital assets	$ 202,986,008	$ 209,535,244	$ 221,228,187

Overview of the Financial Statements (continued)

The District elected to change the capitalization policy for certain fixed assets. This change in policy resulted in expensing an aggregate 2019 impact of approximately $6 million in additions that previously would have been capitalized. This decision was made in relation to a change in estimate related to the future estimated useful life of the related assets. Additionally, during 2019, the District performed a review of their fixed assets and determined that fixed assets with a cost basis of approximately $112 million were no longer in use and should be retired. Substantially all of these assets were fully depreciated, thus having no significant impact to the District's net position at June 30, 2019 or the changes in net position for the year ended.

<u>Long-Term Debt</u>

At June 30, 2020, the District had approximately $175,802,000 in short-term and long-term debt. Total debt decreased by approximately $6,363,000 in fiscal year 2020 from $182,165,000 in fiscal year 2019 due to principal payments.

At June 30, 2019, the District had approximately $182,165,000 in short-term and long-term debt. Total debt decreased by approximately $6,208,000 in fiscal year 2019 from $188,373,000 in fiscal year 2018 due to principal payments.

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

<u>Earnings Before Interest, Taxes, Depreciation and Amortization</u>

Adjusted EBITDA is defined as income before depreciation and amortization, interest expense, losses (gains) on sales of facilities, losses on retirement of debt, and net income attributable to non-controlling interests. Adjusted EBITDA is commonly used as an analytical indicator within the health care industry and also serves as a measure of leverage capacity and debt service ability. Adjusted EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted EBITDA are significant components in understanding and assessing financial performance. Because adjusted EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

For the adjusted EBITDA numbers represented below, we are recognizing the CARES Act Funds received, in part, in order to assure comparability of the District's financial statements with industry competitors, who prepare financial statements according to "FASB" standards, rather than "GASB" as does the District.

Adjusted EBITDA as of the year ended June 30, 2020 was approximately $54,206,000 and increased $31,768,000 or 141.6 percent from 2019 EBITDA of approximately $22,438,000. The increase is due to the reasons noted above in the summary of the District's statements of revenue, expenses and changes in net position between 2020 and 2019. EBITDA for the year ended June 30, 2019 was approximately $22,438,000 and decreased approximately $5,796,000 or 21 percent from 2018 for the reasons noted above in the summary of the District's statements of revenue, expenses and changes in net position between 2019 and 2018.

Contacting the District's Financial Management

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

BASIC FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 12,518,183	$ 72,203,259
Current portion of designated cash and investments	6,443,021	6,572,965
Short-term investments	160,972,142	38,387,015
Patient accounts receivable, net of allowance for doubtful accounts of $34,366,802 and $36,814,991 in 2020 and 2019, respectively	31,165,706	37,338,963
Estimated third-party payor settlements	4,958,899	-
Inventories	7,448,760	7,327,611
Prepaid expenses and other current assets	15,935,346	26,141,324
Total current assets	239,442,057	187,971,137
Long-term investments	-	19,315,295
Designated cash and investments		
Under bond indenture agreement held by trustee	16,120,502	15,793,365
Capital assets, net	202,986,008	209,535,244
Prepaid bond issuance costs	3,495,893	3,708,787
Deferred compensation plan investments	1,819,235	1,814,778
Other long-term assets	324,017	7,066,411
Total assets	464,187,712	445,205,017
Deferred outflows of resources	49,770	60,628
Total assets and deferred outflows	$ 464,237,482	$ 445,265,645

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
LIABILITIES		
Current liabilities		
Accounts payable	$ 12,062,829	$ 11,897,813
Accrued salaries and payroll-related costs	16,232,108	13,294,206
Accrued interest payable	4,002,384	4,094,904
Accrued self-insurance claims	4,187,311	6,783,794
Estimated third-party payor settlements	255,981	92,754
Current maturities of long-term debt	6,600,000	6,355,000
Paycheck Protection Program loan	8,425,019	-
Deferred revenue	20,146,153	36,643,983
Deferred gain	-	17,000
Total current liabilities	71,911,785	79,179,454
Long-term debt and capital lease obligations, less current maturities	169,201,760	175,809,682
Deferred compensation plan obligations	1,819,235	1,814,778
Total liabilities	242,932,780	256,803,914
NET POSITION		
Net investment in capital assets	27,184,248	27,370,562
Restricted net position	22,563,522	22,349,330
Unrestricted net position	171,556,932	138,741,839
Total net position	221,304,702	188,461,731
Total liabilities and net position	$ 464,237,482	$ 445,265,645

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Revenue		
Net patient service revenue	$ 328,370,262	$ 307,588,248
Provision for doubtful accounts	(45,122,819)	(35,876,772)
Total net patient service revenue	283,247,443	271,711,476
Other revenues	69,791,067	58,939,145
Total operating revenue	353,038,510	330,650,621
Expenses		
Salaries and wages	176,223,455	169,099,784
Employee benefits	42,797,128	39,791,483
Supplies	49,880,406	49,206,030
Contract services, equipment and fees	31,974,503	32,782,376
Other operating expenses	16,822,697	17,332,940
Depreciation	13,441,559	13,688,220
Interest	10,393,186	10,666,259
Total expenses	341,532,934	332,567,092
Income (loss) from operations	11,505,576	(1,916,471)
Nonoperating revenues		
Investment income, net	2,379,574	2,632,959
Grants	91,832	48,961
CARES Act relief funding	18,865,989	-
Total nonoperating revenues	21,337,395	2,681,920
Increase in net position	32,842,971	765,449
Beginning net position	188,461,731	187,696,282
Ending net position	$ 221,304,702	$ 188,461,731

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Cash collected from patients and third-party payors	$ 297,687,319	$ 311,244,884
Cash payments to employees and for employee-related costs	(218,679,164)	(207,318,288)
Cash payments for supplies, services and other prepaid expenses	(81,291,934)	(109,386,147)
Cash received from supplemental programs	40,230,946	55,266,763
Net cash provided by operating activities	37,947,167	49,807,212
Cash flows from noncapital financing activities		
Noncapital grants and contributions	91,832	48,961
Proceeds from CARES Act relief funding	18,865,989	-
Net cash provided by noncapital financing activities	18,957,821	48,961
Cash flows from capital and related financing activities		
Purchases of capital assets	(6,246,602)	(4,518,521)
Principal payments on long-term debt incurred for capital purposes	(6,355,000)	(6,200,000)
Interest payments on long-term debt	(10,362,395)	(10,522,977)
Proceeds from issuance of Paycheck Protection Program loan	8,425,019	-
Net cash used in capital and related financing activities	(14,538,978)	(21,241,498)
Cash flows from investing activities		
Investment income	2,269,275	2,310,315
Purchases of designated cash and investments	(142,805,228)	(54,542,397)
Proceeds from sales and maturities of designated cash and investments	38,484,867	53,042,031
Net cash provided by (used in) investing activities	(102,051,086)	809,949
Net change in cash and cash equivalents	(59,685,076)	29,424,624
Cash and cash equivalents, beginning of year	72,203,259	42,778,635
Cash and cash equivalents, end of year	$ 12,518,183	$ 72,203,259

See accompanying notes.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF TANGIPAHOA, STATE OF LOUISIANA
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Income (loss) from operations	$ 11,505,576	$ (1,916,471)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities		
Depreciation	13,441,559	13,688,220
Provision for doubtful accounts	45,122,819	35,876,772
Disposal of property and equipment	-	1,745,980
Amortization of prepaid bond insurance costs	212,894	212,894
Amortization of premium on long-term debt	(7,922)	(8,386)
Amortization of deferred outflows of resources	10,858	10,859
Interest expense on long-term debt and capital lease obligations	10,269,875	10,450,893
Changes in operating assets and liabilities		
Patient accounts receivable	(38,949,562)	(19,851,869)
Inventories and prepaid expenses	10,084,829	(6,947,966)
Estimated third-party payor settlements	(4,795,672)	12,297,128
Deferred revenue	(16,514,830)	5,793,014
Accounts payable and accrued expenses	(139,286)	(1,420,092)
Other assets and liabilities	7,706,029	(123,764)
Net cash provided by operating activities	$ 37,947,167	$ 49,807,212

See accompanying notes.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

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

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

The System completed a restructuring in 2012 that resulted in the formation of the following subsidiaries: (i) North Oaks Medical Center, L.L.C. ("NOMC"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's acute-care hospital known as North Oaks Medical Center pursuant to a Management Services Agreement between the District and the NOMC Affiliate; North Oaks Medical Center is currently licensed for 330 beds; (ii) North Oaks Rehabilitation Hospital, L.L.C. ("NORH"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's comprehensive medical rehabilitation hospital known as North Oaks Rehabilitation Hospital pursuant to a Management Services Agreement between the District and the NORH Affiliate; North Oaks Rehabilitation Hospital is currently licensed for 27 beds; and (iii) North Oaks Physician Group, L.L.C. ("NOPG"), a wholly-owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's network of multispecialty physician clinics known as North Oaks Physicians Group pursuant to a Management Services Agreement between the District and the NOPG Affiliate. NOPG currently has 17 active clinics. On June 25, 2018, 18 on-campus clinics were licensed as provider-based clinics and became outpatient clinics of NOMC. Additionally, in 2009 in connection with the acquisition of the North Oaks Surgery Center, the System formed Gold Leaf Holdings, L.L.C. ("GLH"), a wholly-owned subsidiary of the System whose members are the District and Gold Leaf Holdings II, L.L.C. Each of the Affiliated Entities is governed by a separate Board of Managers that is subject to the power of the Board of Commissioners of the District and whose members are appointed by the Board of Commissioners of the District.

Basis of Accounting

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

Cash and Cash Equivalents

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

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Investments

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

Investment income is reported as nonoperating revenues.

Inventories

Inventories are valued at the lower of cost or market.

Capital Assets

The District records all capital asset acquisitions at cost except for assets donated to the District. Donated assets are recorded at appraised value at the date of donation. The District provides for depreciation of its capital assets using the straight-line method based on the estimated useful lives of the assets as suggested by the American Hospital Association.

Self-Insurance Claims

Accrued self-insurance claims represent the District's best estimate of incurred but unpaid expenses for professional and general liability, workers' compensation and employees' health insurance expense.

Net Position

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

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

Statements of Revenue, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are included in operating revenue or expenses; this includes subsidies received from the U.S. Department of Treasury, per the terms of the 2009 bond

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

agreement, to reduce interest payments for the 2009A Build America Bonds, see Note 8. All peripheral transactions are reported as a component of nonoperating revenues.

Other nonoperating revenues include revenue recognized related to relief funds received from the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). More information is included in Note 16.

Net Patient Service Revenue and Related Receivables

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

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors and others for services rendered. Settlements under reimbursement agreements with Medicare are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final cost report settlements are determined. These adjustments resulted in an increase to net patient service revenue of approximately $764,000 in 2020 and a decrease to net patient service revenue of approximately $741,000 in 2019.

The District recorded Full Medicaid Payout ("FMP") revenue for Physician Supplemental payments of approximately $14,327,000 and District Upper Payment Limit ("UPL") revenue of approximately $21,688,000 during the year ended June 30, 2020. These amounts were recorded as other operating revenue on the accompanying statements of revenue, expenses and changes in net position. Deferred revenue is recognized over the term of the supplemental payment program. In fiscal year 2020, the District also received approximately $26,000 for a Medicaid NICU outlier, which offset Medicaid contractual adjustments.

The District recorded FMP revenue for Physician Supplemental payments of approximately $14,151,000 and District UPL revenue of approximately $16,926,000 during the year ended June 30, 2019. These amounts were recorded as other operating revenue on the accompanying statements of revenue, expenses and changes in net position. In fiscal year 2019, the District also received $13,000 for a Medicaid NICU outlier, which offset Medicaid contractual adjustments.

To provide for accounts receivable that could be uncollectible in the future, the District establishes an allowance for doubtful accounts to reduce the carrying value of patient receivables to their estimated net realizable value. The primary uncertainty related to collection is related to uninsured patient receivables, insured patient deductibles and co-payments and other amounts due from individual patients. There are various factors that can affect collection trends, such as economic changes, which can affect unemployment rates and the number of uninsured and underinsured patients, the volume of emergency room visits, high deductible plans and business practices related to collection efforts. These factors are monitored continuously and can affect collection trends and the estimation process. The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based on these trends. The results in this

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

review are then used to make any modifications to the provision for bad debts and to establish an appropriate estimate allowance for uncollectible accounts.

The District's allowance for doubtful accounts for self-pay patients increased from 96 percent of self-pay accounts receivable at June 30, 2019, to 99 percent of self-pay accounts receivable at June 30, 2020. The District has not changed its charity care or uninsured discount policies during fiscal years 2020 or 2019.

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

The composition of net patient service revenue as of June 30 includes:

	2020	2019
Gross patient service revenue	$ 1,911,050,374	$ 1,955,485,456
Less provision for contractual and doubtful accounts	1,627,802,931	1,683,773,980
Net patient service revenue	$ 283,247,443	$ 271,711,476

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Records of charges forgone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

Grants and Contributions

From time-to-time, the District receives grants from other governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Non-exchange transactions, incidental transactions or transactions not considered to be central to providing healthcare services, regardless of whether the amounts are unrestricted or restricted to a specific operating purpose, are reported as nonoperating revenues. Amounts restricted to capital acquisition are reported after nonoperating revenue and expenses

Uncompensated Care

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

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

District is not adequately covered by the payments. The Balanced Budget Refinement Act ("BBRA") requires that short-term acute care hospitals submit the uncompensated care cost data on the District's cost reports each year.

The District estimated uncompensated care cost amounts to $34,742,000 and $30,891,000 in 2020 and 2019, respectively.

Medicare and Medicaid Reimbursement

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

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

Medicaid outpatient services such as laboratory, outpatient surgery and rehabilitation are reimbursed under fee schedule payment methodology, while other outpatient services are reimbursed based on an average of 84.51 percent and 74.56 percent of total cost for 2020 and 2019, respectively.

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

The District's percentage of gross patient revenue derived from Medicare and Medicaid program beneficiaries was 76 percent and 77 percent for the years ended June 30, 2020 and 2019, respectively.

Income Taxes

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

Use of Estimates

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

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates related to these programs will change by a material amount in the near term.

Reclassification

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. The reclassifications had no effect on net position or changes in net position.

New Accounting Standards Adopted

Governmental Accounting Standards Board Statement No. 95 ("GASB 95")

The District adopted GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in fiscal year 2020. This statement postpones by one year the effective dates of certain GASB pronouncements, including GASB 84 and 89, to fiscal years 2021 and 2022, respectively. This statement also postpones the effective date of GASB 87 by 18 months to fiscal year 2022.

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 84 ("GASB 84")

The District will adopt GASB 84, *Fiduciary Activities*, in fiscal year 2021 with any changes applied retroactively. This statement is meant to provide guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. Fiduciary activities meeting certain criteria (i.e., pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds) will now be reported in a fiduciary fund as part of the basic financial statements.

Governmental Accounting Standards Board Statement No. 87 ("GASB 87")

The District will adopt GASB 87, *Leases*, in fiscal year 2021 with any changes applied retroactively. This statement will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. Under this statement, all leases are required to be recognized as assets and liabilities with associated deferred inflows and outflows of resources on the financial statements. Furthermore, the statement defines a lease and details the considerations for determining the lease term.

Governmental Accounting Standards Board Statement No. 89 ("GASB 89")

The District will adopt GASB 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, in fiscal year 2021. This statement will improve financial reporting by (1) enhancing the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) simplifying accounting for interest cost incurred before the end of a construction period. This statement will supersede GASB 62, requiring that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost was incurred.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

The District is currently assessing the impact of adopting of these GASB statements and their effects on the District's financial position or results of operations.

Note 2. Cash, Investments and Designated Cash and Investments

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

	Maturity	Fair Value
2020		
Securities type:		
U.S. Government-backed obligations	2020-2023	$ 40,209,431
Fixed income		18,236,785
Equity securities		25,705,297
Cash and cash equivalents, certificates of deposit and accrued interest receivable		111,902,335
		$ 196,053,848
2019		
Securities type:		
U.S. Government-backed obligations	2019-2022	$ 23,561,596
Fixed income		1,438,275
Equity securities		2,856,461
Cash and cash equivalents, certificates of deposit and accrued interest receivable		124,415,567
		$ 152,271,899

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

	Statement of Net Position Classification				
	Cash and Equivalents	Current Designated Investments	Short-Term Investments	Long-Term Designated Investments	Total
2020					
U.S. Government-backed obligations	$ -	$ 6,443,021	$ 17,645,908	$ 16,120,502	$ 40,209,431
Fixed income	-	-	18,236,785	-	18,236,785
Equity securities	-	-	25,705,297	-	25,705,297
Cash and cash equivalents, certificates of deposit and accrued interest receivable	12,518,183	-	99,384,152	-	111,902,335
	$ 12,518,183	$ 6,443,021	$ 160,972,142	$ 16,120,502	$ 196,053,848

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Continued

	Statement of Net Position Classification					
	Cash and Equivalents	Current Designated Investments	Short-Term Investments	Long-Term Investments	Long-Term Designated Investments	Total
2019						
U.S. Government-backed obligations	$ -	$ 6,572,965	$ 1,195,266	$ -	$ 15,793,365	$ 23,561,596
Fixed income	-	-	1,438,275	-	-	1,438,275
Equity securities	-	-	2,856,461	-	-	2,856,461
Cash and cash equivalents, certificates of deposit and accrued interest receivable	72,203,259	-	32,897,013	19,315,295	-	124,415,567
	$ 72,203,259	$ 6,572,965	$ 38,387,015	$ 19,315,295	$ 15,793,365	$ 152,271,899

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

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

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

	Desired Percentage Range of Overall Portfolio
Asset class	
Cash	0% to 10%
Fixed income	35% to 55%
Equities	45% to 65%

Credit Risk – Investments

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

Concentration of Credit Risk

As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3* ("GASB 40"), concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5 percent of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Continued

excludes investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments from the disclosure requirement. At June 30, 2020 and 2019, the District had no investments requiring concentration of credit risk disclosure.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. Louisiana State Statutes require that all of the deposits of the District be protected by Federal Deposit Insurance Corporation ("FDIC") insurance or collateral. The fair value of the collateral pledged must equal 100 percent of the deposits not covered by FDIC insurance. As of June 30, 2020, $30,629,380 of the District's bank balances of $31,629,380 were collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured. The remaining balance was protected by FDIC insurance.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2020 and 2019, the District was not exposed to custodial credit risk for its investments, as all were registered in the name of the District.

Interest Rate Risk - Investments

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

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of June 30, 2020 and 2019:

		Years		
Investment Type	Fair Value	< 1	1–5	> 5
2020				
U.S. Government-backed obligations	$ 40,209,431	$ 27,018,016	$ 5,724,698	$ 7,466,717
2019				
U.S. Government-backed obligations	$ 23,561,596	$ 12,508,540	$ 10,297,260	$ 755,796

NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Continued

The District's group purchasing organization, Premier Healthcare Solutions, Inc. ("PHSI"), completed an initial public offering on September 26, 2013. This resulted in the District's 9,518 shares of PHSI stock being converted into 225,090 shares of Class B units in the public company. The District's initial ownership interest in PHSI was recorded as an equity-based investment of $75,000 at June 30, 2013. In conjunction with the offering, PHSI sold 35,985 shares of the District's stock at $25.38 per share. This resulted in the District recognizing a realized gain of approximately $844,000 in October 2013. The remaining 189,105 shares were converted into Class B common shares. These shares are exchangeable pro rata over seven years into Class A common shares or to retain as Class B shares. The carrying value of the Premier investment was approximately $6,644,000 as of June 30, 2020 and, due to the completion of vesting, is included in short-term investments. The carrying value of the Premier investment was approximately $5,676,000 as of June 30, 2019 and is included in other long-term assets.

Note 3. Concentration of Credit Risk

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

	2020	2019
Medicare	29%	33%
Medicaid	11	9
Self-pay	1	1
Other (managed care, commercial)	59	57
	100%	100%

The relative percentages of gross charges billed for patient services by payor at June 30 was as follows:

	2020	2019
Medicare	49%	51%
Medicaid	27	26
Managed care	17	17
Commercial insurance	5	4
Uninsured	2	2
Total patient revenues	100%	100%

NOTES TO BASIC FINANCIAL STATEMENTS

Note 4. Designated Cash and Investments

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

	2020	2019
Bond principal account	$ 2,673,570	$ 2,704,645
Bond interest account	3,769,450	3,832,521
Reserve accounts and other	16,120,502	15,829,164
	$ 22,563,522	$ 22,366,330

Note 5. Capital Assets

The District's investment in capital assets consisted of the following as of June 30, 2020:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	$ 7,458,000	$ -	$ -	$ -	$ 7,458,000
Buildings and fixed equipment	287,187,000	152,000	812,000	-	288,151,000
Equipment	98,258,000	5,301,000	70,000	-	103,629,000
Construction in progress	251,000	1,532,000	(882,000)	(93,000)	808,000
	393,154,000	6,985,000	-	(93,000)	400,046,000
Less accumulated depreciation	183,618,000	13,442,000	-	-	197,060,000
Capital assets, net	$ 209,536,000	$ (6,457,000)	$ -	$ (93,000)	$ 202,986,000

The District's investment in capital assets consisted of the following as of June 30, 2019:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	$ 7,458,000	$ -	$ -	$ -	$ 7,458,000
Buildings and fixed equipment	316,856,000	725,000	1,013,000	(31,407,000)	287,187,000
Equipment	175,045,000	2,532,000	1,344,000	(80,663,000)	98,258,000
Construction in progress	3,845,000	484,000	(2,357,000)	(1,721,000)	251,000
	503,204,000	3,741,000	-	(113,791,000)	393,154,000
Less accumulated depreciation	281,975,000	13,688,000	-	(112,045,000)	183,618,000
Capital assets, net	$ 221,229,000	$ (9,947,000)	$ -	$ (1,746,000)	$ 209,536,000

NOTES TO BASIC FINANCIAL STATEMENTS

Note 5. Continued

During 2019, the District performed a review of their fixed assets and determined that fixed assets with cost basis of $112,070,000 were no longer in use and should be retired. Of this amount, $112,045,000 were fully depreciated.

Note 6. Employee Retirement Plan

The District has a defined contribution plan for employees. Under the plan, the District is required to contribute a specified percentage of eligible employees' salaries based on years of service. Participants may contribute up to the maximum level allowed by the Internal Revenue Code ("IRC") or 25 percent of gross salary, whichever is less. The participants vest immediately in all participant contributions and vest 100 percent over a five-year cliff vesting schedule in all District contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59.5, severe financial hardship or death. Retirement expense included in employee benefit expense was approximately $4,931,000 and $4,636,000 in 2020 and 2019, respectively, representing the required contributions in both years.

The District also sponsors deferred compensation plans 415(m) and 457 of the IRC. The District reports the plan assets and a corresponding liability in the accompanying basic financial statements. Accordingly, the District has recorded an asset and a corresponding liability of approximately $1,819,000 and $1,815,000 for the fair market value of the plans' combined assets as of June 30, 2020 and 2019, respectively.

Note 7. Risk Management

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

The District is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the District and are currently in various stages of litigation. The District accrued approximately $3,161,000 and $5,700,000 as of June 30, 2020 and 2019, respectively, for the estimated losses and expenses related to general and malpractice liability claims for which the District is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the District arising from services provided to patients. The District has made an accrual on estimates for these claims.

The District is self-insured for its workers' compensation and employee health claims. The District has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The District accrued approximately $1,026,000 and $1,084,000 at June 30, 2020 and 2019, respectively, for employee health insurance and workers' compensation claims.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 7. Continued

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

Year Ended June 30	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2020	$ 6,784,000	$ 24,889,000	$ (27,486,000)	$ 4,187,000
2019	$ 6,329,000	$ 30,737,000	$ (30,282,000)	$ 6,784,000

Note 8. Long-Term Debt

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

	June 30 2020	June 30 2019
Hospital Revenue Bonds, Series 2003A	$ 21,825,000	$ 21,825,000
Hospital Revenue Bonds, Series 2003B	16,200,000	16,800,000
Hospital Revenue Bonds, Series 2009A	99,000,000	99,000,000
Bonds, Series 2011	14,310,000	16,035,000
Bonds, Series 2013	17,335,000	20,615,000
Bonds, Series 2015	7,100,000	7,850,000
Total	175,770,000	182,125,000
Plus unamortized bond premium on 2004, 2003, and 2013 bonds	31,760	39,682
	175,801,760	182,164,682
Less current maturities	6,600,000	6,355,000
Long-term debt, less current maturities	$ 169,201,760	$ 175,809,682

On July 2, 2003, the District issued $70,000,000 of Hospital Revenue and Refunding Bonds, Series 2003A (Series 2003A Bonds). Approximately $50,000,000 of the Series 2003A Bonds proceeds were used to repay a portion of previously issued bonds. In December 2013, the District issued Series 2013 Bonds totaling $36,240,000, primarily for the payoff of a portion of the Series 2003A Bonds. The Series 2003A Bonds mature annually starting in 2025, bearing interest at 5 percent. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2020.

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

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Continued

On September 10, 2009, the District entered into a transaction with a financial institution to purchase the Series 2003B Bonds with the outstanding principal amount of $19,000,000. The financial institution chose not to remarket the bonds in 2014, the first fifth-year period. The financial institution has the option to tender the bond every fifth year. In addition, the interest rate was modified to be a variable rate based on 65 percent of the London Interbank Offered Rate (LIBOR) plus 2.5 percent with a LIBOR floor of 2 percent. On May 1, 2013, the variable interest rate was renegotiated to 65 percent of LIBOR plus 2.25 percent. In April 2015, the District renegotiated with the financial institution to change the remaining mandatory sinking fund payment schedule and extend the right to remarket the bond to February 2024, which will be the only remarket option for the remaining bank years. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2020.

On October 7, 2009, the District issued $99,000,000 of Hospital Revenue Bonds, Series 2009 (Series 2009A Bonds), which are insured, taxable Build America Bonds with a coupon interest rate of 7.2 percent. These bonds qualify for a 32 percent interest payment subsidy from the U.S. Department of the Treasury. The subsidy was reduced from 35 percent to 32 percent in July 2013 due to a federal sequestration reduction. During 2020 and 2019, the District received approximately $2,347,000 and $2,340,000 of subsidies, respectively, which have been recorded as operating revenue in the statements of revenue, expenses and changes in net position. These bonds funded a major expansion program on the NOMC campus. These bonds mature annually in amounts ranging from $1,170,000 in 2030 to $12,390,000 in 2042. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2020.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

Note 8. Continued

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2020, were as follows:

	Principal	Interest
2021	$ 6,600,000	$ 9,929,857
2022	6,830,000	9,721,730
2023	7,065,000	9,499,975
2024	7,295,000	9,264,683
2025	7,560,000	9,018,844
2026-2030	35,930,000	40,436,058
2031-2035	28,575,000	33,290,280
2036-2040	51,690,000	20,226,240
2041-2042	24,225,000	2,636,280
	$ 175,770,000	$ 144,023,947

Included in the estimated interest payments in the table above is approximately $43,080,000 of interest for the Series 2009 Build America Bonds that is estimated to be received by the District as a subsidy from U.S. Department of the Treasury over the remaining term of the bonds.

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

Year Ended June 30	Beginning of Fiscal Year Long-Term Debt	Additions	Principal Payments	Balance at Fiscal Year-End
2020	$ 182,125,000	$ -	$ 6,355,000	$ 175,770,000
2019	$ 188,325,000	$ -	$ 6,200,000	$ 182,125,000

Note 9. Paycheck Protection Program Loan

On March 27, 2020, the CARES Act was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the Coronavirus ("COVID-19") pandemic. Using outside legal counsel, management determined that three subsidiaries qualified under the Paycheck Protection Program ("PPP") within the CARES Act and on May 11, 2020, the aggregate received by the District under the PPP Loan approximated $8,425,000. The PPP Loan is subject to a 1 percent interest rate, which will only be applied if the loan is not forgiven. Accrued interest associated with the PPP Loan has not been recorded, as management has determined it to be immaterial to the financial statements for 2020.

Current rules stipulate that some or all of the PPP Loan will be forgiven if the sum of payments made during the covered period (either the eight week or 24 week period after the distribution date) for payroll, building rents and utilities, and state taxes, equal or exceed the PPP Loan amount. The District tracks all costs associated with the published forgiveness criteria and will submit a loan

NOTES TO BASIC FINANCIAL STATEMENTS

Note 9. Continued

forgiveness application after the covered period is complete. As of June 30, 2020, the total PPP Loan is included in current liabilities on the accompanying statements of net position.

Note 10. Charity Care

The estimated cost of total uncompensated care for the years ended June 30, 2020 and 2019 is approximately $71,000 and $379,000, respectively. This estimate is based on the cost-to-charge ratio of patient care costs, including salaries and benefits, supplies, other operating expenses and depreciation to gross patient charges.

Note 11. Governmental Regulations

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

Note 12. Operating Leases

The District leases various equipment and facilities under operating leases expiring at various dates through 2024. Total rental expense for the years ended June 30, 2020 and 2019, for all operating leases was approximately $2,624,000 and $2,832,000, respectively.

The following is a schedule by year of approximate future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Year Ending June 30	Amount
2021	$ 1,740,964
2022	1,056,331
2023	567,101
2024	26,452
Total	$ 3,390,848

NOTES TO BASIC FINANCIAL STATEMENTS

Note 13. Commitments

At June 30, 2020 and 2019, the District had various commitments totaling approximately $3,164,000 and 2,127,000, respectively. These commitments relate to various capital equipment purchases.

Note 14. Louisiana Medicaid Supplemental Payment Programs

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

East Jefferson General Hospital Cooperative Endeavor Agreement

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

For this agreement, the District recognized total revenue of approximately $21,688,000 and $16,926,000 in 2020 and 2019, respectively. The revenue earned from this agreement is included as a component of other operating revenue in the accompanying statements of revenue, expenses and changes in net position.

Physician Rate Enhancement Agreement

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

For this agreement, the District recognized total revenue of approximately $14,327,000 and $14,151,000 in 2020 and 2019, respectively. The revenue earned from this agreement is included as a component of other operating revenue in the accompanying statements of revenue, expenses and changes in net position.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 14. Continued

Professional Services Agreement

NOPG and NOMC entered into agreements with a private healthcare provider. Under the terms of this agreement, the private healthcare provider agrees to work cooperatively with the NOPG and NOMC to improve access to healthcare for low-income and/or indigent citizens. The agreement may be terminated by either party with 30 days' written notice.

The District recorded approximately $20,038,000 and $36,538,000 as deferred revenues as of June 30, 2020 and 2019, respectively. The District also recorded $36,538,000 and $30,801,000 as of June 30, 2020 and 2019, respectively, as other operating revenue on the accompanying statements of revenue, expenses and changes in net position.

Note 15. Fair Value Measurement

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

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

The District has the following recurring fair value measurements:

- Fixed income and equity securities of $43,942,082 and $4,294,736 as of June 30, 2020 and 2019, respectively, are valued using prices quoted in active markets for those securities (Level 1 inputs).
- Government agency bond obligations of $40,209,431 and $23,561,596 as of June 30, 2020 and 2019, respectively, are valued using significant other observable inputs for those securities (Level 2 inputs).

Note 16. Coronavirus Aid, Relief, and Economic Security Act

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus, and actions taken to mitigate the spread of it, have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District operates.

Note 16. Continued

In response to the COVID-19 pandemic, Congress passed multiple bills that included funding and operational relief for affected hospitals. The U.S. Department of Health and Human Services ("HHS"), the Centers for Medicare and Medicaid Services and other providers, and the Health Resources and Services Administration all issued various waivers of regulations governing coverage of specific services and conditions of program participation. The Public Health and Social Services Emergency Fund (the "Provider Relief Fund") was among the provisions of the CARES Act, which was signed into law on March 27, 2020. On April 22, 2020, HHS announced a distribution methodology for the $100 billion Provider Relief Fund appropriated as part of the CARES Act. Furthermore, HHS provided $75 billion in addition to the $100 billion provided under the CARES Act. As a condition to receiving distributions, providers had to agree to certain terms and conditions, including, among other things, that the funds would be used for lost operating revenues and COVID-19 related costs. As of June 30, 2020, the District received and recognized approximately $19 million from the Provider Relief Fund in nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. The District recognizes the Provider Relief Fund payments as income when there is reasonable assurance of compliance with the conditions associated with the grant.

The laws and regulations related to the funds provided via the CARES Act are complex and subject to interpretation, as well as frequent changes. Due to the uncertainty, there is a possibility that government authorities may review the District's compliance, which may result in adjustments to funds previously received. The District's management will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the District's revenues and expenses.

HORNE

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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District"), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 13, 2021.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Horne LLP

Ridgeland, Mississippi
January 13, 2021

HORNE

Independent Auditor's Report on Other Supplementary Information

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

We have audited the statement of net position of the Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the "District"), as of June 30, 2020 and 2019, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and have issued our report thereon dated January 13, 2021. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Horne LLP

Ridgeland, Mississippi
January 13, 2021

Hospital Service District No. 1 of the
Parish of Tangipahoa, State of Louisiana
Year Ended June 30, 2020

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

Agency Head:
Chief Executive Officer

Purpose		Amount
Salary	$	670,087
Benefits-insurance		14,342
Benefits-retirement		117,901
Benefits-other		103,366
Car allowance		-
Vehicle provided by government		-
Per diem		-
Reimbursements		-
Travel		-
Registration fees		6,125
Conference travel		-
Continuing professional education fees		-
Housing		-
Unvouchered expenses		-
Special meals		-
	$	911,821

See Independent Auditor's Report on Supplementary Information.