

**MOREHOUSE PARISH HOSPITAL  
SERVICE DISTRICT NO. 1 d/b/a  
MOREHOUSE GENERAL HOSPITAL**

Audits of Financial Statements

May 31, 2014 and 2013



## Contents

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<b>Independent Auditor's Report</b>	1 - 2
<hr/>	
<b>Basic Financial Statements</b>	
Statements of Net Position	3 - 4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6 - 7
Notes to Basic Financial Statements	8 - 26
<hr/>	
<b>Other Supplementary Information</b>	
Independent Auditor's Report on Supplementary Information	27
Schedule of Board of Commissioners and Compensation	28
Schedule of Insurance Coverages	29 - 30
Schedule of Series 2010 Bond Resolution Fund Activity	31
<hr/>	
<b>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></b>	32 - 33
<hr/>	
<b>Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133</b>	34 - 36
<hr/>	
<b>Schedule of Expenditures of Federal Awards</b>	37
<hr/>	
<b>Notes to Schedule of Expenditures of Federal Awards</b>	38
<hr/>	
<b>Schedule of Findings and Questioned Costs</b>	39 - 41
<hr/>	
<b>Summary Schedule of Prior Audit Findings</b>	42 - 43



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

## Independent Auditor's Report

To the Board of Commissioners  
Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Bastrop, Louisiana

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the years ended May 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital'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 basic 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 basic 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 the 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 basic financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of May 31, 2014 and 2013, 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.

### **Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Management has not presented 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 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. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Hospital's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA  
November 20, 2014

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Statements of Net Position**  
**May 31, 2014 and 2013**

	2014	2013 (Restated)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,955,654	\$ 3,974,680
Patient accounts receivable, less allowance for uncollectible accounts of \$17,980,822 in 2014 and \$12,403,447 in 2013, respectively	4,845,115	4,029,080
Inventories	813,882	668,067
Assets limited as to use, current portion	405,173	135,171
Prepaid expenses and other assets	1,451,091	389,555
<b>Total current assets</b>	<b>9,470,915</b>	<b>9,196,553</b>
<b>Non-current assets</b>		
Assets limited as to use	736,053	2,721,915
Amounts due from physicians, net of allowance for uncollectible accounts of \$18,577 in 2014 and \$140,292 in 2013, respectively	43,299	-
Capital assets, net of accumulated depreciation of \$33,812,679 in 2014 and \$32,396,537 in 2013 respectively	12,309,399	10,610,487
<b>Total non-current assets</b>	<b>13,088,751</b>	<b>13,332,402</b>
<b>Total assets</b>	<b>\$ 22,559,666</b>	<b>\$ 22,528,955</b>

The accompanying notes are an integral part of these financial statements.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Statements of Net Position (Continued)**  
**May 31, 2014 and 2013**

	<b>2014</b>	<b>2013 (Restated)</b>
<b>Liabilities and net position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,026,267	\$ 1,831,618
Employee compensation and payroll tax liabilities	1,150,785	933,790
Other accrued liabilities	759,671	659,043
Estimated claims liability	347,061	347,061
Settlements due to third-party payors	594,150	310,922
Current portion of capital lease obligations	93,161	252,077
Current portion of long-term debt	682,423	1,155,837
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>5,653,518</b>	<b>5,490,348</b>
<b>Non-current liabilities</b>		
Estimated claims liability	258,757	-
Capital lease obligations, less current portion	20,937	129,035
Long-term debt, less current portion	13,063,909	13,876,589
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>13,343,603</b>	<b>14,005,624</b>
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>18,997,121</b>	<b>19,495,972</b>
<b>Net position</b>		
Invested in capital assets, net of related debt	3,089,934	2,515,343
Restricted	996,325	927,069
Unrestricted	(523,714)	(409,429)
	<hr/>	<hr/>
<b>Total net position</b>	<b>3,562,545</b>	<b>3,032,983</b>
	<hr/>	<hr/>
<b>Total liabilities and net position</b>	<b>\$ 22,559,666</b>	<b>\$ 22,528,955</b>
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The accompanying notes are an integral part of these financial statements.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended May 31, 2014 and 2013**

	2014	2013 (Restated)
<b>Operating revenues</b>		
Net patient service revenues, net of provision for bad debts of \$5,834,106 in 2014 and \$3,999,822 in 2013	\$ 24,802,635	\$ 26,095,254
Other operating revenue	1,764,242	2,658,733
<b>Total operating revenues</b>	<b>26,566,877</b>	<b>28,753,987</b>
<b>Operating expenses</b>		
Salaries and benefits	15,056,807	13,367,418
Outside services	3,627,888	4,619,842
Medical supplies and drugs	2,991,733	3,051,042
Other operating expenses	2,375,728	2,458,296
Other supplies	369,361	367,978
Depreciation and amortization	1,628,704	1,482,846
Insurance	821,140	492,522
<b>Total operating expenses</b>	<b>26,871,361</b>	<b>25,839,944</b>
<b>(Loss) income from operations</b>	<b>(304,484)</b>	<b>2,914,043</b>
<b>Non-operating revenues</b>		
Investment earnings	7,856	3,634
Ad Valorem tax revenue	1,058,050	1,040,594
Grant revenue	95,680	43,488
Contributions	975	17,000
Other Gains	336,610	7,100
Interest expense	(665,125)	(738,512)
<b>Total non-operating revenues</b>	<b>834,046</b>	<b>373,304</b>
<b>Change in net position</b>	<b>529,562</b>	<b>3,287,347</b>
<b>Net position, beginning of year as previously reported</b>	<b>3,032,983</b>	<b>35,919</b>
<b>Cumulative effect of change from adoption of accounting principle</b>	<b>-</b>	<b>(290,283)</b>
<b>Net position, beginning of year as restated</b>	<b>3,032,983</b>	<b>(254,364)</b>
<b>Net position, end of year</b>	<b>\$ 3,562,545</b>	<b>\$ 3,032,983</b>

The accompanying notes are an integral part of these financial statements.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Statements of Cash Flows**  
**For the Years Ended May 31, 2014 and 2013**

	2014	2013 (Restated)
<b>Cash flows from operating activities</b>		
Receipts from patients and third-party payors	\$ 26,034,070	\$ 28,737,079
Payments to employees and for employee-related costs	(14,839,812)	(13,354,129)
Payments for operating expenses	(10,133,175)	(11,066,764)
<b>Net cash provided by operating activities</b>	<b>1,061,083</b>	4,316,186
<b>Cash flows from capital and related financing activities</b>		
Purchases of property, building and equipment	(3,335,124)	(880,107)
Proceeds from sale of assets	-	7,100
Proceeds from hospital revenue bonds	-	2,248,449
Payments on capital lease obligations	(267,014)	(234,950)
Payments on bonds payable and long-term debt	(394,160)	(248,496)
Payments for debt issue costs	-	(74,643)
Interest paid	(322,731)	(408,513)
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(4,319,029)</b>	408,840
<b>Cash flows from non-capital financing activities</b>		
Ad Valorem taxes received	1,058,050	1,040,594
Payments on certificates of indebtedness	(832,149)	(1,331,477)
Payments on bonds payable and long-term debt	(59,785)	(54,117)
Grants received	95,680	43,488
Contributions received	975	17,000
Interest paid	(342,394)	(330,000)
<b>Net cash used in non-capital financing activities</b>	<b>(79,623)</b>	(614,512)
<b>Cash flows from investing activities</b>		
Change in assets limited as to use, principally restricted cash and equivalents	1,310,687	(1,739,824)
Investment income received	7,856	3,634
<b>Net cash provided by (used in) investing activities</b>	<b>1,318,543</b>	(1,736,190)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(2,019,026)</b>	2,374,324
<b>Cash and cash equivalents</b>		
Beginning of year	3,974,680	1,600,356
End of year	<b>\$ 1,955,654</b>	<b>\$ 3,974,680</b>

The accompanying notes are an integral part of these financial statements.



**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended May 31, 2014 and 2013**

	<b>2014</b>	2013 (Restated)
<b>Reconciliation of operating gain (loss) to net cash provided by operating activities</b>		
(Loss) income from operations	\$ (304,484)	\$ 2,914,043
Adjustments to reconcile (loss) income from operations to net cash provided by operating activities		
Depreciation and amortization	1,628,704	1,482,846
Provision for uncollectible accounts	5,834,106	3,999,822
Other Gains	336,610	-
Loss on disposal of capital assets	7,508	713
Changes in:		
Patient accounts receivable	(6,650,141)	(4,138,493)
Inventories, prepaid expenses and other assets	(845,477)	2,777,250
Third-party payor settlements	283,228	121,763
Accounts payable	194,649	(1,468,095)
Estimated claims liability	258,757	347,061
Employee compensation, payroll taxes, and other accrued liabilities	317,623	(1,720,724)
<b>Net cash provided by operating activities</b>	<b>\$ 1,061,083</b>	<b>\$ 4,316,186</b>

The accompanying notes are an integral part of these financial statements.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies**

**Reporting Entity**

Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) was organized on December 17, 1982, under powers granted to parish police juries by the State of Louisiana. The geographical boundaries of the Hospital coincide with those of Morehouse Parish. All corporate powers are vested in a Board of Commissioners appointed by the Morehouse Parish Police Jury. The Hospital is exempt from income taxes as a political subdivision of the State of Louisiana under Section 115 of the Internal Revenue Code. The Hospital is also exempt from federal income tax under Section 501(a) as a hospital organization described in Section 501(c)(3). The federal income tax exemptions also extend to state income taxes.

**Basis of Accounting and Presentation**

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles used in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Capital Assets**

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Costs associated with capital asset acquisitions under \$1,000 are generally expensed as incurred. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land Improvements	15 to 20 Years
Buildings and Improvements	20 to 40 Years
Equipment, Computers, and Furniture	3 to 7 Years

Assets held under capital lease obligations are included in equipment. These assets have been recorded at the present value of the minimum lease payments, which approximates the fair market value of the leased assets (see Note 6). Amortization of leased assets is provided for using the straight-line method over the term of the related lease and is included in depreciation expense.

**Cost of Borrowing**

Except for capital assets acquired through gifts, contributions, or capital grants, 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. Capitalized interest costs allocated to building and construction in progress were not significant for the years ended May 31, 2014 and 2013, respectively.

**Grants and Contributions**

From time to time, the Hospital receives grants from the State of Louisiana, 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. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Restricted Resources**

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

---

**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Patient Accounts Receivable**

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. 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.

**Net Position**

Net position of the Hospital is classified into three components. Net position invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is non-capital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 6. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

**Operating Revenues and Expenses**

The Hospital's Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity.

Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues, when present. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Compensated Absences**

The Hospital's employees earn paid time off (PTO) at varying rates depending upon length of service and other factors. Amounts earned, but not yet used totaled \$561,101 and \$493,552, as of May 31, 2014 and 2013, respectively. These amounts are reported as a component of employee compensation and payroll tax liabilities on the Hospital's balance sheets.

**Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. See Note 8 for further details.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Designated Cash and Investments**

Assets limited as to use include cash, cash equivalents, and investments. These assets are designated as such in the accompanying statements of net position as they are held by bond trustees under related indenture agreements or designated as such by the Board of Commissioners.

Amounts classified as current assets represent amounts to be used to meet certain debt service requirements and other obligations classified as current liabilities.

Investments in debt and equity securities, when present, are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenue when earned. Unrealized gains (losses) reflected in investment income were not significant in 2014 and 2013.

Investments in associated companies, when present, are accounted for by the equity method of accounting under which the Hospital's share of the net income of the associated companies is recognized as income in the Hospital's statements of revenue, expenses and changes in net position and are added to the investment account.

**Inventories**

Inventories are valued at the latest invoice price, which approximates the lower of cost (first-in, first-out method) or market.

**Net Patient Service Revenue**

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. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reported net of provision for bad debts.

**Charity Care**

The Hospital provides care without charge or at amounts less than established rates, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone (\$435,951 in 2014, and \$449,189 in 2013, respectively) for services and supplies furnished under its charity care policy.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the 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. EHR amounts of \$1,012,845 and \$1,889,520 were recognized for the years ending May 31, 2014 and 2013 and included as component of other operating revenue on the statement or revenues, expenses, and changes in net position.

**Impact of Recently Issued Accounting Principles**

**Recently Issued and Adopted Accounting Pronouncements**

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). Additionally, GASB evaluated debt issue costs and concluded that, with the exception of prepaid insurance, the costs relate to services provided in the current period and thus they should be expensed in the current period. This is a significant change from current practice which is to record these assets and amortize them over the life of the related debt issue. The provisions of the statement are effective for the periods beginning after December 15, 2012. During 2014, the Hospital adopted the statement and applied the provisions retrospectively by restating the Hospital's prior years' net position and changes in net position related to (1) bond issuance costs that had previously been capitalized and amortized, but are no longer recognized as assets and (2) to reflect deferred bond defeasance costs as a deferred outflow of resources. Due to the adoption of GASB 65, the beginning net position as of May 31, 2013 decreased by \$290,283, reported amortization decreased by \$10,216, other operating expenses increased by \$74,644, and other assets decreased by \$354,711.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Reclassifications**

Certain amounts in the May 31, 2013 financial statements have been reclassified to conform to the current year presentation.

**Note 2. Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Hospital's provision for bad debts is classified as a reduction to net patient service revenue. During the years ended May 31, 2014 and 2013, approximately 67% and 69%, respectively, of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

The Hospital is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Hospital.

Retroactive settlements are provided for in some of the government payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from these programs in the accompanying financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made.

As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Settlements through May 31, 2011 and 2012, for the Medicare and Medicaid programs, respectively, have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates. These adjustments resulted in an increase in net patient service revenue of \$428,774 in 2014, and an increase in net patient service revenue of \$37,564 in 2013, respectively. The effect of any adjustments that might be made to cost reports still subject to review will be reported in the Hospital's financial position or results of operations as such determinations are made.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 2. Net Patient Service Revenue (Continued)**

The Hospital received payments from the Louisiana State Department of Health and Hospitals for Medicaid and self-pay uncompensated care service costs. The Hospital received interim amounts each October that were appropriated in the State's current fiscal year based on an estimate utilizing the facility's costs incurred in the previous fiscal year. During 2012 DHH eliminated these "Disproportionate Share Hospital" payments to rural providers. In response the Hospital began participation in Medicaid Hospital Supplemental Payment Program, and a Physician's Supplemental Payment Program. The Hospital recognized \$2,106,949 and \$4,684,449, in revenues associated with these programs during the fiscal years ended May 31, 2014 and 2013, respectively, which are included as a component of net patient service revenue.

**Note 3. Deposits and Investments**

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

In 2006, the Hospital adopted GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, which requires additional disclosures of investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Hospital are reflected below.

**Interest Rate Risk**

The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. However, the Hospital currently invests only in short-term cash equivalents whose fair value approximates cost.

**Credit Risk**

Louisiana's statutes also require that all the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's bank deposits consist of demand deposit accounts and certificates of deposit. These bank deposits are included in cash and cash equivalents and designated cash, and, as of May 31, 2014, the Hospital's deposits were fully insured or collateralized with securities held by the agent of the pledging banks in the Hospital's name. Statutes authorize the Hospital to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and bankers' acceptances.



**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

**Note 3. Deposits and Investments (Continued)**

**Concentration of Credit Risk**

The Hospital places no limit on the amount it may invest in any one issuer. At May 31, 2014, the Hospital's invested funds consisted of certificates of deposit included in cash and cash equivalents. The Hospital maintained deposits in one financial institution in excess of FDIC insurance limits, however, as discussed above, the funds were covered by collateral held by the financial institution in the Hospital's name.

As of May 31, 2014 and 2013, all of the Hospital's deposits and short-term investments were considered cash and cash equivalents and are included in the Hospital's balance sheets as follows for May 31<sup>st</sup>:

	2014	2013
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,955,654	\$ 3,974,680
Assets limited as to use, current portion	405,173	135,171
<b>Non-current assets</b>		
Assets limited as to use	736,053	2,721,915
	<u>\$ 3,096,880</u>	<u>\$ 6,831,766</u>

**Note 4. Assets Limited as to Use**

The terms of the Hospital's Revenue Bonds require funds to be maintained on deposit in certain accounts with the trustee (see Note 6). The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the bond resolution. In addition, the Hospital's Board of Commissioners has certain assets to be used for future expansion and equipment additions. The composition of assets whose use is limited as of May 31, 2014 and 2013, was as follows:

	2014	2013
Pledged by board for specific purposes		
Certificates of deposit	\$ 126,737	\$ 126,358
Unspent proceeds held by bondholder (U.S.D.A)	-	135,171
Project Account for LPFA/DNR Empower LA Flex Fund Program	284,538	2,018,011
Required by bond resolutions (principally interest bearing cash and certificates of deposits)		
Series 2010 reserve fund	201,489	155,425
Series 2010 contingencies fund	203,684	157,619
Litigation reserve fund	52,046	51,890
Short-lived asset depreciation reserve fund	272,732	212,612
	<u>729,951</u>	<u>577,546</u>
<b>Total assets limited as to use</b>	1,141,226	2,857,086
<b>Less: current portion</b>	(405,173)	(135,171)
<b>Non-current assets limited as to use</b>	<u>\$ 736,053</u>	<u>\$ 2,721,915</u>

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

**Note 5. Capital Assets**

Capital assets activity as of and for the year ended May 31, 2014, is as follows:

	May 31, 2013	Additions	Disposals	Transfers	May 31, 2014
Capital assets, not being depreciated					
Land	\$ 341,296	\$ -	\$ -	\$ -	\$ 341,296
Construction in progress	167,353	-	-	(167,353)	-
<b>Total capital assets, not being depreciated</b>	<b>508,649</b>	<b>-</b>	<b>-</b>	<b>(167,353)</b>	<b>341,296</b>
Capital assets, being depreciated					
Land improvements	625,500	-	-	-	625,500
Buildings	18,649,853	2,272,281	-	167,353	21,089,487
Equipment	23,223,022	1,062,843	(220,070)	-	24,065,795
<b>Total capital assets, being depreciated</b>	<b>42,498,375</b>	<b>3,335,124</b>	<b>(220,070)</b>	<b>167,353</b>	<b>45,780,782</b>
Less: accumulated depreciation	(32,396,537)	(1,628,704)	212,562	-	(33,812,679)
Total capital assets, being depreciated, net	10,101,838	1,706,420	(7,508)	167,353	11,968,103
<b>Hospital capital assets, net</b>	<b>\$ 10,610,487</b>	<b>\$ 1,706,420</b>	<b>\$ (7,508)</b>	<b>\$ -</b>	<b>\$ 12,309,399</b>

Capital assets activity as of and for the year ended May 31, 2013, is as follows:

	May 31, 2012	Additions	Disposals	Transfers	May 31, 2013
Capital assets, not being depreciated					
Land	\$ 341,296	\$ -	\$ -	\$ -	\$ 341,296
Construction in progress	26,298	576,419	-	(435,364)	167,353
<b>Total capital assets, not being depreciated</b>	<b>367,594</b>	<b>576,419</b>	<b>-</b>	<b>(435,364)</b>	<b>508,649</b>
Capital assets, being depreciated					
Land improvements	625,500	-	-	-	625,500
Buildings	18,624,921	24,932	-	-	18,649,853
Equipment	23,056,713	278,756	(547,811)	435,364	23,223,022
<b>Total capital assets, being depreciated</b>	<b>42,307,134</b>	<b>303,688</b>	<b>(547,811)</b>	<b>435,364</b>	<b>42,498,375</b>
Less: accumulated depreciation	(31,460,789)	(1,482,846)	547,098	-	(32,396,537)
Total capital assets, being depreciated, net	10,846,345	(1,179,158)	(713)	435,364	10,101,838
<b>Hospital capital assets, net</b>	<b>\$ 11,213,939</b>	<b>\$ (602,739)</b>	<b>\$ (713)</b>	<b>\$ -</b>	<b>\$ 10,610,487</b>

The Hospital leases certain major movable and other immovable equipment under operating leases and capital leases. Refer to Note 6 for amounts relating to these leases.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

**Note 6. Long-Term Debt and Other Noncurrent Liabilities**

Noncurrent liability activity as of and for the years ended May 31, 2014 and 2013, was as follows:

	May 31, 2013	Additions	Reductions	May 31, 2014	Due Within One Year	Long-Term Portion
<b>Bonds payable and capital leases</b>						
<b>Hospital revenue bonds,</b>						
Series 2008A	\$ 4,416,212	\$ -	\$ (59,785)	\$ 4,356,427	\$ 70,671	\$ 4,285,756
Series 2010	7,269,242	-	(394,160)	6,875,082	273,767	6,601,315
Series 2012	2,248,449	-	-	2,248,449	252,077	1,996,372
<b>Certificate of indebtedness,</b>						
Series 2012A	749,000	-	(749,000)	-	-	-
Series 2012B	349,523	-	(83,149)	266,374	85,908	180,466
Capital lease obligations	381,112	-	(267,014)	114,098	93,161	20,937
<b>Total bonds payable and capital leases</b>	<b>\$ 15,413,538</b>	<b>\$ -</b>	<b>\$ (1,553,108)</b>	<b>\$ 13,860,430</b>	<b>\$ 775,584</b>	<b>\$ 13,084,846</b>

	May 31, 2012	Additions	Reductions	May 31, 2013	Due Within One Year	Long-Term Portion
<b>Bonds payable and capital leases</b>						
<b>Hospital revenue bonds,</b>						
Series 2008A	\$ 4,470,329	\$ -	\$ (54,117)	\$ 4,416,212	\$ 65,580	\$ 4,350,632
Series 2010	7,517,738	-	(248,496)	7,269,242	258,109	7,011,133
Series 2012	-	2,248,449	-	2,248,449	-	2,248,449
<b>Certificate of indebtedness,</b>						
Series 2012A	2,000,000	-	(1,251,000)	749,000	749,000	-
Series 2012B	430,000	-	(80,477)	349,523	83,148	266,375
Capital lease obligations	616,062	-	(234,950)	381,112	252,077	129,035
<b>Total bonds payable and capital leases</b>	<b>\$ 15,034,129</b>	<b>\$ 2,248,449</b>	<b>\$ (1,869,040)</b>	<b>\$ 15,413,538</b>	<b>\$ 1,407,914</b>	<b>\$ 14,005,624</b>

Long-term debt as of May 31, 2014 and 2013 consisted of the following:

	2014	2013
Hospital revenue bonds, Series 2008A	(A) \$ 4,356,427	\$ 4,416,212
Hospital revenue bonds, Series 2010	(B) 6,875,082	7,269,242
Hospital revenue bonds, Series 2012	(C) 2,248,449	2,248,449
Certificate of indebtedness, Series 2012A	(D) -	749,000
Certificate of indebtedness, Series 2012B	(E) 266,374	349,523
Capital lease obligations	(F) 114,098	381,112
	<b>13,860,430</b>	<b>15,413,538</b>
Less: current maturities	<b>(775,584)</b>	<b>(1,407,914)</b>
	<b>\$ 13,084,846</b>	<b>\$ 14,005,624</b>

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 6. Long-Term Debt and Other Noncurrent Liabilities (Continued)**

Long-Term Debt Details

- (A) As a component of its plan for physical plant improvements, other capital assets acquisition, and overall financial restructuring, on September 26, 2008, the Hospital issued a Taxable Hospital Revenue Bond (USDA-90% Guaranteed), Series 2008A in the amount of \$4,643,050 as authorized by a resolution enacted September 24, 2008. Currently the bond requires 348 payments of \$32,766.94 through maturity on September 26, 2037. The payments may be revised upon notice from the holder to accommodate future interest rate variability. The bond is secured by (i) an irrevocable pledge and assignment of the net revenues (as defined in the bond resolution) of the Hospital; (ii) a first mortgage on the Hospital; and (iii) a first security interest in equipment (as defined in the Bond Resolution). The pledge of net revenues was subject to the lien of the existing outstanding debt obligations detailed above prior to the refunding of those obligations in November 2009. The bond is guaranteed by the United States Department of Agriculture-Rural Development-Business and Cooperative Programs at a rate of 90% of the principal and interest of any loss that might occur, subject to stipulated conditions. The proceeds from the issuance were utilized to settle certain existing accounts payable, accrued expenses and capital lease obligations of the Hospital. Terms of scheduled repayment require a total of 348 payments due on the first of each month. Payments began October 1, 2008 and are currently scheduled in the amount of \$32,767. The issue bears interest at a fixed rate of 7.5% through October 1, 2014. Beginning October 2, 2014, the interest rate will switch to a variable rate and the amount of the monthly payments will be adjusted as required. The Bond is subject to optional redemption by the Hospital at redemption processes and dates as defined in the bond resolution.
- (B) The Hospital board had passed resolutions to issue Bond Anticipation Notes, Series 2009A (the Notes) to provide interim financing prior to the issuance of the Series 2010 Bonds described in the subsequent paragraph. Upon issue on November 3, 2009, these Notes were utilized for the purposes of constructing and acquiring improvements, extensions and replacements to facilities and the advance refunding of existing long-term debt obligations, and bore interest at a variable rate of (WSJ prime +0.50). These interim obligations in anticipation of the Series 2010 issuance were issued on parity with the Series 2008A issue. The outstanding principal balance of notes plus accrued interest was repaid with the issuance of the Series 2010 Bonds on November 3, 2010.

On November 3, 2010 the Hospital issued \$7,874,000 of additional parity bonds (Series 2010 Bonds) which were purchased directly by the United States Department of Agriculture in conjunction with its Rural Development - Community Facilities Program. The Series 2010 bonds were issued by Hospital under the authority of the Supplemental and Restated Bond Resolution. The proceeds of the bond issue were utilized to repay the Series 2009A Bond Anticipation Notes in the amount of \$5,880,083 (principal) and \$148,893 (accrued interest). The balance of the proceeds was disbursed to the Hospital for the purposes authorized in the Supplemental and Restated Bond Resolution.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 6. Long-Term Debt and Other Noncurrent Liabilities (Continued)**

Long-Term Debt Details (Continued)

The Series 2010 Bonds are secured by the income and revenues of the Hospital, and the Multiple Indebtedness Mortgage and Security Agreement previously filed in connection with the issuance of the Series 2008A bonds discussed above.

Restrictive Covenant Considerations:

The supplemental and restated bond resolution relative to the Hospital's Series 2008 and 2010 bond issuances contains multiple covenants and conditions including a 1.2 to 1.0 current ratio, and a debt to tangible net worth requirement not to exceed 9.0 to 1.0 ratio as determined in accordance of Generally Accepted Accounting Principles and a provision for acceleration of maturity if an "event of default", as described in the resolution occurs.

The Hospital was in compliance with these covenants as of May 31, 2014 and 2013 and the balance of the debt issues was reflected at their scheduled maturities.

- (C) On June 21, 2012, the Hospital issued \$2,248,489 of Hospital Revenue Bonds, Series 2012A bearing interest at a rate of 0.00% for the purpose of funding an energy efficient retrofit to the physical plant of the Hospital, including acquisition, construction, and installation of improvements in connection with the project, and to pay costs of issuance of the related financing. The Bonds require a servicing fee at an annual rate of 0.5% to be paid to the holder on April 30 of each year. The bond is subject to mandatory amortized redemption in annual installments beginning May 30, 2015 through maturity on May 30, 2022. The Bonds are issued in accordance with the terms of a Loan and Security Agreement as of June 1, 2012, by and between the Hospital and the Louisiana Public Facilities Authority (the "LPFA"). The LPFA is purchasing the Bonds with funds from the Louisiana Department of Natural Resources (the "LDNR") Empower Louisiana Flex Fund Revolving Loan Program. In connection with the Loan Agreement, the Hospital has entered into a Disbursement Agreement to which the proceeds of the Bonds will be deposited with a local bank as "Escrow Agent" and disbursed pursuant to requisitions made by the Hospital and approved by LDNR to ensure compliance with the Program.

As of May 31, 2014 the balance of proceeds deposited within the LDNR Project Account with the Escrow Agent totals \$284,538 and is included as non-current assets limited as to use on the statements of net position.

The 2012A Series Bonds are secured by the income and revenues of the Hospital all equipment acquired from proceeds of the Bonds and installed in the Hospital facility in connection with the energy efficient retrofit project.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 6. Long-Term Debt and Other Noncurrent Liabilities (Continued)**

Long-Term Debt Details (Continued)

(D) In June 2011, the Hospital issued a Certificate of Indebtedness, Series 2012A, for \$2,000,000 which bore a fixed interest rate of 5%. The balance was due November 15, 2013. The issuance will be used for the purpose of paying the Hospital's current expenses including cost of operations and maintenance. In June 2011, the Hospital drew on the entire \$2,000,000 balance. The Certificate is subject to optional redemption by the Issuer in whole or in part on any date, without penalty. The Certificate is secured by and payable solely from a pledge and dedication in favor of the Owner, the excess of all annual revenues above statutory, necessary and usual charges in each of the fiscal years during which the Certificate is outstanding (collectively, "Revenues"). The Certificate is secured on a parity with the USDA Obligations referred to above only with respect to the Revenues. All covenants and agreements set forth in this Resolution with respect to any portion of the Revenues pledged under the USDA Obligations are subject to the lien thereof. The Certificates are not secured by any lien on the Hospital facilities, and the holder of the Certificates will have no rights or interest in the Prior Mortgage.

This loan was paid off during the year ended May 31, 2014.

(E) In May 2012, the Hospital issued a Certificate of Indebtedness, Series 2012B, for \$430,000 which bears a fixed interest rate of 3.25%. The balance is due May 15, 2017. The issuance will be used for the purpose of paying expenses related to the purchase and acquisition of electronic medical records, equipment and software, and to pay costs of issuance of the related financing.

(F) The Hospital entered into capital leases for various types of equipment. Under the terms of the leasing arrangements, the Hospital is obligated to pay a monthly rental payment over the primary terms of the leases, which initially ranged from three to seven years.

Under the terms of the obligations referred to in (A) and (B) above, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the balance sheet. The supplemental and restated bond resolution relative to the Hospital's Series 2008 and 2010 bond issuances also places limits on the incurrence of additional borrowings.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 6. Long-Term Debt and Other Noncurrent Liabilities (Continued)**

Long-Term Debt Details (Continued)

Scheduled principal and interest payments on long-term debt and future minimum rental commitments payable on capital lease obligations prior to the reclassification of defaulted long-term debt to current are as follows as of May 31, 2014:

Year ending May 31:	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 682,423	\$ 588,314	\$ 93,161	\$ 16,074
2016	702,970	569,753	20,937	372
2017	730,471	550,281	-	-
2018	664,423	531,260	-	-
2019	691,246	512,956	-	-
2020-2024	2,636,846	2,254,174	-	-
2025-2029	3,276,709	1,623,348	-	-
2030-2034	3,155,310	817,030	-	-
2035-2039	1,205,934	161,559	-	-
<b>Total</b>	<b>\$ 13,746,332</b>	<b>\$ 7,608,675</b>	<b>\$ 114,098</b>	<b>\$ 16,446</b>

The cost of all leased assets included under the equipment caption on the balance sheet totaled \$1,220,958 at May 31, 2014 and 2013. The related accumulated amortization was \$1,058,651 and \$727,426 at May 31, 2014 and 2013, respectively.

The Hospital has also entered into various cancelable operating leases for equipment. Operating lease expense was approximately \$180,898 and \$140,547, for the years ended May 31, 2014 and 2013, respectively.

**Note 7. Employee Retirement Plans**

The Hospital sponsors two pension plans. Under the provisions of the Hospital's pension plan documents, the Hospital is required to contribute 7.5% of the eligible employee's salary and 7.5% of the non-eligible employee's salary annually. The plans provide for the contributions (and interest allocated to the employee's account) to become partially vested after three years of continuous employment and fully vested after seven years of continuous employment.

The unvested portion of an account of an employee who terminates employment before becoming fully vested is used to reduce the Hospital's current year contribution. The Hospital's required contribution was \$569,364 for 2014, and \$604,088 for 2013.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 7. Employee Retirement Plans (Continued)**

Contributions made during the periods for the plans discussed above were \$887,882 and \$1,527,205, in 2014 and 2013, respectively. The Hospital's contribution payable related to the plan of \$569,364 and \$604,088, at May 31, 2014 and 2013, respectively, is included in accounts payable and accrued expenses on the accompanying statements of net position. Total payroll for all employees was \$12,680,417 and \$11,540,048, for the years ended May 31, 2014 and 2013, respectively. Substantially all employees of the Hospital are covered by the plan discussed above.

The Hospital established the Morehouse General Hospital Tax Deferred Savings Plan. This plan, which qualifies as a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code, covers all employees who elect to participate. The plan allows participants to defer a portion of their annual compensation. The amount of annual contributions to the plan by participants is subject to certain limitations as defined in the plan agreement. The participants vest 100% immediately in their contributions and investment earnings of the plan. The plan agreement allows discretionary employer contributions to be made to the plan. No employer contributions were made during the years ended May 31, 2014 and 2013.

Retirement expense, net of forfeitures, related to the above plans included in salaries and benefits in the accompanying statements of revenues, expenses, and changes in net assets was \$853,158 and \$533,856, for the years ended May 31, 2014 and 2013, respectively.

**Note 8. Commitments and Contingencies**

In August of 2012 the Hospital was notified of a judgment by an appellate court in favor of the plaintiff relative to a long standing litigation matter. Management has recorded a liability in the amount \$347,061, which represents the full amount of the settlement of this matter. The Hospital is a defendant in a number of other legal actions arising in the ordinary course of business. Since November 1, 2002, the Hospital has been self-insured for individual medical malpractice claims up to \$100,000.

For individual malpractice claims in excess of \$100,000, the Hospital participates in the State of Louisiana Patient Compensation Fund (the "Fund"). The Fund provides malpractice insurance coverage on a claims-made basis for claims up to the statutory maximum exposure of \$500,000, which currently exists under Louisiana law, plus interest and future medical costs. The Hospital has purchased additional malpractice insurance providing coverage up to \$2,500,000 in the aggregate.

The Hospital is self-insured for the general liability claims up to \$50,000. The Hospital has purchased commercial insurance that provides first-dollar coverage for workers' compensation claims and health insurance claims.



**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 8. Commitments and Contingencies (Continued)**

A rollforward of the Hospitals estimated liability for litigation and self-insurance claims is as follows:

Year ended May 31,	Total Liability at Beg. of Year	New Claims and Changes in Estimates	Claim Payments	Total Liability at End of Year	Estimated Amount due within One year
<b>2014</b>	<b>\$ 347,061</b>	<b>\$ 258,757</b>	<b>\$ -</b>	<b>\$ 605,818</b>	<b>\$ 347,061</b>
2013	\$ -	\$ 347,061	\$ -	\$ 347,061	\$ 347,061

**Recovery Audit Contractors**

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

The program uses RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year 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 of notice received until such time that estimates of net amounts due can be reasonably estimated. Continued RAC and MIC assessments are anticipated; however, the outcome of any such assessments is unknown and cannot be reasonably estimated. Management's experience has determined that RAC and MIC assessments have been immaterial to date.

**Note 9. Government Regulations**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years.

Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, 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.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 9. Government Regulations (Continued)**

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Hospital. Federal health care reform legislation proposals debated in Congress in recent years have included significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or captivated payment arrangements with many, if not all, of the Hospital's principal payors.

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. PPACA results in sweeping changes across the health care industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation was to extend health coverage to approximately 32 million uninsured legal U S residents through a combination of public program expansion and private sector health insurance reforms. The reform legislation makes a number of other changes to Medicare and Medicaid, such as reductions to the annual market basket update for federal fiscal years continuing through 2019, and reduction of the disproportionate share payments. The various provisions in the legislation that directly or indirectly affect reimbursement are scheduled to become effective over a number of years.

The Hospital is unable to fully predict the impact of PPACA on its operations and financial results.

**Note 10. Significant Estimates and Concentrations**

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables due from patients and third-party payors was as follows for May 31<sup>st</sup>:

	<b>2014</b>	<b>2013</b>
Medicare	<b>15%</b>	16%
Medicaid	<b>10</b>	11
Managed Care	<b>6</b>	6
Self-Pay	<b>69</b>	67
	<b><u>100%</u></b>	<b><u>100%</u></b>

**Current Economic Conditions**

The current protracted economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 10. Significant Estimates and Concentrations (Continued)**

Current economic conditions, including rising unemployment rates, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

**Note 11. Physician's UPL Agreement with the Louisiana Department of Health and Hospitals (DHH)**

The Hospital entered in to an agreement with DHH which was approved by CMS. Under the program DHH began making payments under the Physician's Supplemental Payment Program for non-state owned public hospitals (HSD's) for dates of service effective July 1, 2010. The purpose of this program is to enhance payments to physicians employed or contracted by the public hospitals. Morehouse agreed to transfer funds to DHH 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.

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, DHH 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 payment is intended to represent the difference between the Medicaid payments otherwise made to these qualifying providers and the Average Community Rate for these services.

During 2014 and 2013, in accordance with the funding provisions of the above agreements, the Hospital recognized \$862,851 and \$3,153,356 in net patient service revenue, respectively. The Hospital recognized \$342,236 and \$1,120,456 as outside services expense, funds paid or payable to DHH under the terms of the Physicians' UPL agreement during 2014 and 2013, respectively, concurrent with the income recognition from the Medicaid Supplemental Payments.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Basic Financial Statements**

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**Note 12. Ad Valorem Tax Revenue**

In October 2007, the voters of Morehouse Parish, Louisiana approved a five year, five-millage property tax to be levied on the 2007 tax roll on all property subject to taxation by the Morehouse Parish Hospital Service District. The voters approved to increase the millage to eight mills in November 2012 for a term of ten years.

During fiscal year 2014 and 2013, the Hospital received property tax revenues in the amount of \$1,058,050 and \$1,040,594, respectively.

**Note 13. Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued. Management has deemed the following subsequent events necessary for disclosure:

During the year ended May 31, 2014, the Hospital formulated plans to issue bonds for the purposes of providing funds to 1.) currently refund all of the currently outstanding Taxable Revenue Bonds (USDA-BI 90% Guaranteed), Series 2008A, and the currently outstanding Hospital Revenue Bonds, Series 2010, 2.) fund a debt service reserve fund, and 3.) pay the costs of issuance. A preliminary official statement was produced on September 9, 2014 in anticipation of the issuance. As of the date of these financial statements, the proposed Series 2014 Bonds had not yet been issued.

Security for the proposed issue would be by a pledge of all revenues, subject only to the payment of reasonable and necessary expenses of operating and maintaining the Hospital, on a complete parity with any additional bonds and any other obligations issued on a parity with respect to the revenues pursuant to the terms of the trust indenture.



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

## Independent Auditor's Report on Supplementary Information

To the Board of Commissioners  
Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Bastrop, Louisiana

We have audited the financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the years ended May 31, 2014 and 2013, and have issued our report thereon, dated November 20, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information shown on pages 28-31 is presented for purposes of additional analysis 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. 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  
November 20, 2014

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**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Schedule of Board of Commissioners and Compensation**  
**For the Year Ended May 31, 2014**

<b>Commissioner</b>	<b>Total Paid</b>
Mike Wooden (Chairman)	\$ 440
Bobby Nugent	440
Dorothy Thomas	440
Nicolette Releford	440
John Yeldell	<u>440</u>
<b>Total</b>	<b><u><u>\$ 2,200</u></u></b>

See independent auditor's report on supplementary information.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Schedule of Insurance Coverages**  
**For the Year Ended May 31, 2014**

<b>COVERAGE</b>	<b>MAJOR LIMITS OF LIABILITY</b>	<b>DEDUCTIBLE</b>	<b>POLICY PERIOD</b>	<b>INSURANCE CARRIER</b>	<b>POLICY NUMBER</b>
<b><u>Professional / General Liability</u></b>					
Each Occurrence Limit	\$2,500,000	\$500,000	11/01/13-11/01/14	Louisiana Hospital Association	HPL-0390-2013
Annual Aggregate Limit	\$2,500,000	\$500,000		Malpractice & General Liability Trust	
Personal & Advertising Injury Limit	\$500,000	\$50,000			
Bodily Injury	\$500,000	\$50,000			
Property Damage	\$500,000	\$50,000			
Employee Benefits Liability	\$500,000	\$50,000			
Pollution, Wrongful Termination					
Per Occurrence	\$250,000	\$50,000			
Annual Aggregate	\$250,000	\$50,000			
Applicable to All Other Coverages	\$2,000,000	\$50,000			
<b><u>Umbrella Coverage</u></b>					
Professional Per Incident	\$2,500,000				
Professional Aggregate Loss Limit	\$2,500,000				
Retro Date: 11/1/2005					
General Liability Per Occurrence	\$2,500,000				
General Liability Aggregate Loss Limit	\$2,500,000				
Excess of \$1M Underlying Auto Liability	\$2,500,000/\$2,500,000				
<b>Physicians:</b>					
Dr. Janos Gouth Retro Date: 11/01/08	\$1,000,000/\$3,000,000	\$25,000	11/01/13-11/01/14	Louisiana Hospital The Physicians Trust	PPG000109
Dr. Martin Young, Retro Date: 10/1/12	\$1,000,000/\$3,000,000	\$25,000			
Dr. Joseph A. Walters, Jr., Retro Date: 12/3/12	\$1,000,000/\$3,000,000	\$25,000			
Dr. Curtis L. Sanders, Retro Date: 11/1/12	\$1,000,000/\$3,000,000	\$25,000			
<b><u>Excess Professional Liability</u></b>					
Each Occurrence Limit	N/A				
Annual Aggregate Limit					
<b><u>Umbrella Policy</u></b>					
Excess Professional / General Liability, Auto and Employers' Liability	N/A				
Retroactive Date:					
<b><u>Directors &amp; Officers Liability</u></b>					
Liability Limit (A & B)	\$2,000,000	\$0/\$25,000	05/31/14 to 05/31/2015	Travelers Casualty & Surety Company of America	104426170I
Entity Coverage (C)	Included	\$25,000			
Employment Practice Liability	\$2,000,000	\$50,000			
EMTALA Coverage	\$250,000				
Excess Benefit Transaction Tax	\$50,000				
Regulatory Action: 25% Co-Ins/P&P, Lit Date: 5/31/2005	\$250,000	\$100,000			
Pending & Prior Proceeding Date: 5/31/2003					
Continuity Date: 5/31/2003					
<b><u>Directors &amp; Officers Liability continued</u></b>					
HIPAA Violation Coverage	\$50,000				
Third Party Coverage	EXCLUDED	EXCLUDED			
Internal Revenue Code Violation	\$100,000				
Anti-Trust 25% co-ins.	\$2,000,000	\$100,000			
<b><u>Property Damage</u></b>					
Blanket Real & Personal Property and Business Interruption	\$69,893,415	\$5,000	03/01/14-03/01/15	Fireman's Fund Insurance Company	DZJ80954559
Extra Expense Sublimit	\$10,000,000	\$5,000			
Earthquake	\$50,000,000	\$25,000			
Flood	\$50,000,000	\$25,000			

See independent auditor's report on supplementary information.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Schedule of Insurance Coverages (Continued)**  
**For the Year Ended May 31, 2014**

<b>COVERAGE</b>	<b>MAJOR LIMITS OF LIABILITY</b>	<b>DEDUCTIBLE</b>	<b>POLICY PERIOD</b>	<b>INSURANCE CARRIER</b>	<b>POLICY NUMBER</b>
<b>Boiler &amp; Machinery</b> <b>(Equipment Breakdown)</b> Direct Damage / Real and Personal Property  Business Interruption / Extra Expense/Service Interruption  Perishable Stock Hazardous Substance Expediting Expense Data Restoration	\$69,893,415  Included  \$10,000,000 \$250,000 Follows the Property Limit \$250,000	\$10,000  24 hrs after time of loss or 24 hrs before notice to company, whichever is later	03/01/14-03/01/15	Fireman's Fund Insurance Company	DZJ80954559
<b>Flood</b> Building Address: Main Hospital 323 W. Walnut Avenue, Bastrop, LA 71220 Building Contents	\$500,000 \$500,000	\$1,000 \$1,000	8/26/14-8/26/15	Fidelity Flood (Wright)	17 1150843317 02
<b>Automobile Liability</b> Liability Limit Hired and Non-Owned Liability Medical Payments Uninsured Motorist	\$1,000,000 CSL \$1,000,000 CSL \$5,000 \$1,000,000 CSL	N/A	03/04/14-03/04/15	The First Liberty Insurance Corp	AS6-Z51-291063-014
<b>Automobile and/or Physical Damage</b> Comprehensive Collision Non-Owned / Hired Car Physical Damage	ACV	\$500 \$500 \$1,000/\$1,000	03/04/14-03/04/15	The First Liberty Insurance Corp	AS6-Z51-291063-014
<b>Excess Automobile Liability</b> Liability Limit					
<b>Crime</b> Employee Theft - A1 Third Party Liability - A3 Forgery of Alteration - B On-Premises - C In-Transit - D Money Orders & Counterfeit Currency - E Computer Fraud - F1 Funds Transfer Fraud - G Claims Expense - I	\$750,000 Not Covered \$750,000 \$750,000 \$750,000 Not Covered \$750,000 \$750,000 \$750,000 \$5,000	\$10,000  \$10,000 \$10,000 \$10,000  \$10,000 \$10,000 \$ -	11/11/11-11/11/14	Travelers Casualty & Surety Company of America	105706915
<b>Fiduciary Liability</b> Liability Limit Settlement Program Limit of Liability HIPAA Limit of Liability	\$1,000,000 \$100,000 \$25,000	\$ - \$ - \$ -	11/11/11-11/11/14	Travelers Casualty & Surety Co of America	105706915
<b>ERISA Fidelity Bond - A2</b> Liability Limit	\$500,000	\$ -	11/11/11-11/11/14	Travelers Casualty & Surety Co of America	105706915
<b>Resident Fund Bond</b> Liability Limit	N/A				
<b>Tax Free Alcohol User Bond</b> Liability Limit	N/A				
<b>Workers' Compensation &amp; Employers' Liability</b> Employers' Liability Each Employee Each Accident Policy Limit Experience Mod. - .7800	\$1,000,000 \$1,000,000 \$1,000,000	\$ - \$ - \$ -	01/01/14-01/01/15	LCTA	WC-1-019926-114

See independent auditor's report on supplementary information.



**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Schedule of Series 2010 Bond Resolution Fund Activity**  
**For the Year Ended May 31, 2014**

	Beginning Balance May 31, 2013	Deposits	Earnings	Withdrawals	Transfers	Ending Balance May 31, 2014
Trusted funds (principally interest bearing cash and certificates of deposits):						
Series 2010 reserve fund	\$ 155,425	\$ 45,976	\$ 88	\$ -	\$ -	\$ 201,489
Series 2010 contingencies fund	157,619	45,976	89	-	-	203,684
Litigation reserve fund	51,890	-	156	-	-	52,046
Short-lived asset depreciation reserve fund	212,612	60,000	120	-	-	272,732
<b>Total 2010 Bond Series Fund Activity:</b>	<b>\$ 577,546</b>	<b>\$ 151,952</b>	<b>\$ 453</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 729,951</b>

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  
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**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  
Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Bastrop, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated November 20, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Hospital'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 Hospital'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 the 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 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. We did identify certain deficiencies in internal control, described as 2014-001 and 2014-002 in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

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### **Compliance and Other Matters**

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

### **Hospital's Response to Findings**

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Hospital'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 report is intended for the information of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

A handwritten signature in cursive script that reads "LaPorte". The signature is written in black ink on a white background.

A Professional Accounting Corporation

Metairie, LA  
November 20, 2014



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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Bastrop, Louisiana

**Report on Compliance for Each Major Federal Program**

We have audited Morehouse Parish Hospital Service District No. 1's (d/b/a Morehouse General Hospital) (the Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended May 31, 2014. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Hospital's compliance.

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### **Opinion on Each Major Federal Program**

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2014.

### **Report on Internal Control Over Compliance**

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Hospital as of and for the year ended May 31, 2014, and have issued our report thereon dated November 20, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, 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 audit 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. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



A Professional Accounting Corporation

Metairie, LA  
November 20, 2014

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**  
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended May 31, 2014**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant I.D. Number	Pass-Through Entity No.	Federal Revenue/ Expenditures Recognized
<b>U.S. Department of Energy</b>				
Passed-through the State of Louisiana Department of Natural Resources				
ARRA - State Energy Program	81.041	DE-EE 0000 124	NA	<u>\$ 1,965,345</u>
<b>Total U.S. Department of Energy</b>				<u>1,965,345</u>
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 1,965,345</u></u>

CFDA = Catalog of Federal Domestic Assistance

See accompanying notes to schedule of expenditures of federal awards.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Notes to Schedule of Expenditures of Federal Awards**

---

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Morehouse Parish Hospital Service District No. 1 (the Hospital) under programs of the federal government for the year ended May 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hospital.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting and the cost accounting principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for loan disbursements are recognized when paid.

**Note 3. Subrecipients**

There were no payments to subrecipients for the fiscal year ended May 31, 2014.



**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Schedule of Findings and Questioned Costs  
For the Year Ended May 31, 2014**

---

**I. Summary of Independent Auditor's Results  
*Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified?            Yes       X       No
- Significant deficiency identified that is not considered to be a material weakness?       X       Yes            None Reported

Noncompliance material to financial statements noted?

           Yes       X       No

***Federal Awards***

Internal control over major programs:

- Material weakness identified?            Yes       X       No
- Significant deficiency identified that is not considered to be a material weakness?            Yes       X       None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

           Yes       X       No

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
81.041	United States Department of Energy ARRA - State Energy Program

Dollar threshold used to distinguish between Type A and Type B programs

           \$       300,000      

Auditee qualified as low-risk auditee?

           Yes       X       No

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended May 31, 2014**

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**II. Findings Related to the Basic Financial Statements**

**Findings and Corrective Actions**

**2014-001 Patient Accounts Receivable Maintenance**

**Condition:** As we noted in prior years, there has been continued substantial growth in the volume of patient accounts carried on the Hospital's subsidiary ledger in excess of 180 and 365 days requiring an increased allowance balance to properly reflect collectability on the financial statements.

**Cause:** The Hospital has experienced turnover and restaffing in the business office which appears to have created a difficulty in keeping up with the daily account maintenance, and when required, the write-off of uncollectible balances.

**Effect:** The condition results in a weakness in the Hospital's internal controls over financial reporting. Management of the Hospital has had to calculate and assess an ever increasing allowance for doubtful accounts to correctly estimate the net realizable value of its patient account receivable. This calculation becomes subject to a greater range of estimate when a predefined write-off policy is not consistently followed in the business office, since past write-off history utilized in the estimation process becomes distorted. Unresolved credit balances in patient accounts receivable can also affect this calculation, as well as mask potential liabilities if determined that they represent actual amounts refundable to third-party or private payors.

**Recommendation:** We recommend that the Hospital take this opportunity to revisit its existing write off policy and write off approval process and that this process be adhered to on a monthly basis. A monthly download of the accounts receivable subsidiary in a sortable format should be reviewed each month to monitor progress with write-offs and resolution of credit balances. We encourage the Hospital to make an assessment of whether the daily duties of business office staff will allow for the additional time necessary affect the existing write-offs needed, or if outside or third-party assistance will be needed.

**Management Response and Corrective Action:** The Director of Patient Financial Services is now querying the AR monthly to write-off accounts that are deemed uncollectible:

**Action Taken to Date:**

- In the month of October 2014 wrote off high dollar accounts greater than 730 days totaling \$1,100,003.
- In the month of November 2014 currently reviewing 514 accounts greater than 730 days totaling \$1,826,860.

We are implementing a new policy for receivable accounts deemed uncollectible after 180 days:

- 1st Monthly Statement - Approximately 30 days - send statement.
- 2nd Monthly Statement - Approximately 60 days - send statement with appropriate message.
- Account is sent to Early Out Collection Agency.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended May 31, 2014**

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- The Early Out program will work the account for 60 days. If Early Out is unsuccessful in setting up an acceptable payment plan, the account will be presented back to the hospital for approval of collection write-off.
- Accounts listed for Collection Write-Off - The report lists the patient's account number, name, date of write-off, and amount of write-off. Must be approved by Director Patient Financial Services and Chief Financial Officer.

**Status:** In Process

**2014-002 Prior Year Items Included in Accounts Payable**

**Condition:** As was noted in prior years' comments, the Hospital has accounts included in its payables that pertain to prior years. These amounts are primarily comprised of balances that originally represented overpayments on patient accounts, or more specifically, balances due to third party payors and, in some instances, the former patient. While these amounts are correctly reflected as liabilities of the Hospital they remain unsettled and represent a significant portion of the payables balance.

**Cause:** Undetermined.

**Effect:** The condition results in a weakness in the Hospital's internal controls over financial reporting.

**Recommendation:** We noted last year that management has taken measures to compile a singular listing of all amounts that comprise this balance to indentify the combined total amount due to each payor or former patient. Because of the current age of the items involved, the Hospital may wish to seek legal interpretation of related contractual matters and possible consideration of the statute of limitations. If any portion of the balance is deemed to be due to patients or other payors that cannot be located, State laws require those amounts be remitted to the Louisiana Department of the Treasury's Unclaimed Property Division after efforts to locate the intended recipients have proved unsuccessful, and after the passage of time as required.

**Management Response and Corrective Action:** Management compiled a singular listing of the amounts involved by calendar year and consulted with legal counsel and determined that the portion that such balances in excess of 10 years old, with no activity during the course of those last ten years were considered prescribed under state law in Louisiana. This resulted in a substantial reduction of the overall balance. We are currently formulating plans to address the remaining portion of these balances and whether any or all of the remaining items would be subject to Louisiana's three year prescription period.

**Status:** In Process

**III. Findings and Questioned Costs for Federal Awards**

None.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Summary Schedule of Prior Year Findings and Questioned Costs**

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There were no audit findings relative to federal award programs for the fiscal year ended May 31, 2013 or prior years.

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**Prior Year Findings Related to the Basic Financial Statements and Status:**

**2013 – 01 Patient Accounts Receivable Maintenance**

**Condition:** As we first noted last year, there has been continued substantial growth in the volume of patient accounts carried on the Hospital's subsidiary ledger in excess of 180 and 365 days requiring an increased allowance balance to properly reflect collectability on the financial statements. Additionally, the volume and dollar amount of patient accounts with credit balances included in these totals has more than doubled from the prior year.

**Recommendation:** We recommended that the Hospital take this opportunity to revisit its existing write off policy and approval process and that this process be adhered to on a monthly basis. A monthly download of the accounts receivable subsidiary in a sortable format should be reviewed each month to monitor progress with write-offs and resolution of credit balances. Credit balances in particular are a routine occurrence for larger healthcare providers and usually require a fairly significant amount of time to resolve while prior payment posting and billings are researched for duplicates or errors. We encouraged the Hospital to make an assessment of whether the daily duties of business office staff will allow for the additional time necessary affect the existing write-offs needed and resolve existing credit balance accounts, or if outside or third-party assistance will be needed.

**Current Status:** See updated finding reported as 2014-001. Management agreed with the recommendation and some progress was made with the reduction of credit balances. However, limited resources appear to have impeded progress with the write-off of older balances.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(d/b/a MOREHOUSE GENERAL HOSPITAL)**

**Schedule of Prior Audit Findings (Continued)**

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**2013 – 02 Prior Year Items Included in Accounts Payable**

**Condition:** We noted that the Hospital had accounts included in its payables that pertain to prior years. These amounts are primarily comprised of balances representing overpayments on patient accounts, or more specifically, balances originally due principally to third party payors. While these amounts were correctly reflected as liabilities of the Hospital they remain unsettled and represent a significant portion of the payables balance.

**Recommendation:** We noted that management had taken measures to compile a singular listing of all amounts that comprised this balance to indentify the combined total amount due to each payor or former patient. Because of the current age of the items involved, the Hospital may wish to seek legal interpretation of related contractual matters and possible consideration of the statute of limitations. State laws require that amounts due to patients or other payors that ultimately cannot be located be remitted to the Louisiana Department of the Treasury's Unclaimed Property Division after efforts to locate the intended recipients have proved unsuccessful, and after the passage of time as prescribed.

**Current Status:** See Updated Finding reported as 2014-002. Management agreed with the recommendation.