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

Audits of Financial Statements

May 31, 2015 and 2014

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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, 2015 and 2014, 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 of 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.

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, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As further detailed in Note 13 to the financial statements, the Hospital has issued requests for proposals to applicants seeking to either manage the operations of the Hospital or lease the Hospital's physical assets and assume the provision of healthcare services. 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 23, 2015, 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.

LaPorte

A Professional Accounting Corporation

Metairie, LA
November 23, 2015

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Net Position
May 31, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 1,907,295	$ 1,955,654
Patient accounts receivable, less allowance for uncollectible accounts of $12,260,147 in 2015 and $17,980,822 in 2014, respectively	3,846,064	4,845,115
Inventories	810,933	813,882
Assets limited as to use, current portion	489,685	405,173
Prepaid expenses and other assets	1,103,175	1,451,091
Total current assets	8,157,152	9,470,915
Non-current assets		
Assets limited as to use	704,418	736,053
Amounts due from physicians, net of allowance for uncollectible accounts of $18,557 in 2015 and $18,577 in 2014, respectively	3,868	43,299
Capital assets, net of accumulated depreciation of $35,343,884 in 2015 and $33,812,679 in 2014, respectively	11,491,737	12,309,399
Total non-current assets	12,200,023	13,088,751
Total assets	$ 20,357,175	$ 22,559,666

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, 2015 and 2014

	2015	2014
Liabilities and net position		
Current liabilities		
Accounts payable	$ 1,505,920	$ 2,026,267
Employee compensation and payroll tax liabilities	1,064,818	1,150,785
Other accrued liabilities	1,068,361	759,671
Estimated claims liability	400,764	347,061
Settlements due to third-party payors	1,018,085	594,150
Current portion of capital lease obligations	71,388	93,161
Current portion of long-term debt	758,545	682,423
Total current liabilities	5,887,881	5,653,518
Non-current liabilities		
Estimated claims liability	263,772	258,757
Capital lease obligations, less current portion	195,125	20,937
Long-term debt, less current portion	12,292,914	13,063,909
Total non-current liabilities	12,751,811	13,343,603
Total liabilities	18,639,692	18,997,121
Net position		
Invested in capital assets, net of related debt	2,658,135	3,089,934
Restricted	1,022,417	996,325
Unrestricted	(1,963,069)	(523,714)
Total net position	1,717,483	3,562,545
Total liabilities and net position	$ 20,357,175	$ 22,559,666

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, 2015 and 2014

	2015	2014
Operating revenues		
Net patient service revenues, net of provision for bad debts of $5,153,269 in 2015 and $5,834,106 in 2014	$ 24,310,204	$ 24,802,635
Other operating revenue	865,897	1,764,242
Total operating revenues	25,176,101	26,566,877
Operating expenses		
Salaries and benefits	15,765,909	15,056,807
Outside services	3,596,322	3,627,888
Medical supplies and drugs	2,742,986	2,991,733
Other operating expenses	2,379,958	2,375,728
Other supplies	754,606	369,361
Depreciation and amortization	1,721,202	1,628,704
Insurance	739,943	821,140
Total operating expenses	27,700,926	26,871,361
Loss from operations	(2,524,825)	(304,484)
Non-operating revenues		
Investment earnings	2,695	7,856
Ad Valorem tax revenue	1,065,401	1,058,050
Grant revenue	65,032	95,680
Contributions	5,907	975
Other gains	101,153	336,610
Interest expense	(560,425)	(665,125)
Total non-operating revenues	679,763	834,046
Change in net position	(1,845,062)	529,562
Net position		
Beginning of year	3,562,545	3,032,983
End of year	$ 1,717,483	$ 3,562,545

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, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 26,080,929	$ 26,034,070
Payments to employees and for employee-related costs	(15,851,876)	(14,839,812)
Payments for operating expenses	(9,471,312)	(10,133,175)
Net cash provided by operating activities	757,741	1,061,083
Cash flows from capital and related financing activities		
Purchases of property, building and equipment	(640,658)	(3,335,124)
Proceeds from sale of assets	130,000	-
Payments from hospital revenue bonds	(252,077)	-
Payments on capital lease obligations	(126,302)	(267,014)
Payments on bonds payable and long-term debt	(259,797)	(394,160)
Interest paid	(230,463)	(322,731)
Net cash used in capital and related financing activities	(1,379,297)	(4,319,029)
Cash flows from non-capital financing activities		
Ad Valorem taxes received	1,065,401	1,058,050
Payments on certificates of indebtedness	(85,908)	(832,149)
Payments on bonds payable and long-term debt	(97,091)	(59,785)
Grants received	65,032	95,680
Contributions received	5,907	975
Interest paid	(329,962)	(342,394)
Net cash provided by (used in) non-capital financing activities	623,379	(79,623)
Cash flows from investing activities		
Change in assets limited as to use, principally restricted cash and equivalents	(52,877)	1,310,687
Investment income received	2,695	7,856
Net cash (used in) provided by investing activities	(50,182)	1,318,543
Decrease in cash and cash equivalents	(48,359)	(2,019,026)
Cash and cash equivalents		
Beginning of year	1,955,654	3,974,680
End of year	$ 1,907,295	$ 1,955,654

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, 2015 and 2014

	2015	2014
Reconciliation of operating loss to net cash provided by operating activities		
Loss from operations	$ (2,524,825)	$ (304,484)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	1,721,202	1,628,704
Provision for uncollectible accounts	5,153,269	5,834,106
Other (losses) gains	(28,847)	336,610
Loss on disposal of capital assets	15,835	7,508
Changes in:		
Patient accounts receivable	(4,154,218)	(6,650,141)
Inventories, prepaid expenses and other assets	390,296	(845,477)
Third-party payor settlements	423,935	283,228
Accounts payable	(520,347)	194,649
Estimated claims liability	58,718	258,757
Employee compensation, payroll taxes, and other accrued liabilities	222,723	317,623
Net cash provided by operating activities	$ 757,741	$ 1,061,083

	2015	2014
Supplemental disclosure of non-cash financing and investing activities		
Capital lease obligations incurred for acquisition of equipment	$ 278,717	$ -

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

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 is 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.

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, 2015 and 2014, 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.

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 consists 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 $538,924 and $561,101, as of May 31, 2015 and 2014, respectively. These amounts are reported as a component of employee compensation and payroll tax liabilities on the Hospital's statements of net position.

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.

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 2015 and 2014.

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 ($800,293 in 2015, and $435,951 in 2014, respectively) for services and supplies furnished under its charity care policy.

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 funding of $425,662 and $1,012,845 were recognized for the years ending May 31, 2015 and 2014 and included as component of other operating revenue on the statement of revenues, expenses, and changes in net position.

Reclassifications

Certain amounts in the May 31, 2014 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, 2015 and 2014, approximately 67% 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.

Note 2. Net Patient Service Revenue (Continued)

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, 2013 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 a decrease in net patient service revenue of $492,943 in 2015, and an increase in net patient service revenue of $428,774 in 2014, 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.

The Hospital participates in a Medicaid Hospital Supplemental Payment Program, and a Physician's Supplemental Payment Program to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. The Hospital recognized $2,418,090 and $2,106,949, in revenues associated with these programs during the fiscal years ended May 31, 2015 and 2014, 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.

Note 3. Deposits and Investments (Continued)

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, 2015, 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.

Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer. At May 31, 2015, 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, 2015 and 2014, all of the Hospital's deposits and short-term investments were considered cash and cash equivalents and are included in the Hospital's statements of net position as follows for May 31st:

	2015	2014
Current assets		
Cash and cash equivalents	**$ 1,907,295**	$ 1,955,654
Assets limited as to use, current portion	**489,685**	405,173
Non-current assets		
Assets limited as to use	**704,418**	736,053
	$ 3,101,398	$ 3,096,880

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, 2015 and 2014, was as follows:

	2015	2014
Pledged by board for specific purposes		
Certificates of deposit	**$ 127,118**	$ 126,737
Project Account for LPFA/DNR Empower LA Flex Fund Program	**225,034**	284,538
Required by bond resolutions (principally interest bearing cash and certificates of deposits)		
Series 2010 reserve fund	**243,744**	201,489
Series 2010 contingencies fund	**245,941**	203,684
Litigation reserve fund	**52,203**	52,046
Short-lived asset depreciation reserve fund	**300,063**	272,732
	841,951	729,951
Total assets limited as to use	**1,194,103**	1,141,226
Less: current potion	**(489,685)**	(405,173)
Non-current assets limited as to use	**$ 704,418**	$ 736,053

Note 5. Capital Assets

Capital assets activity as of and for the year ended May 31, 2015, is as follows:

	May 31, 2014	Additions	Disposals	Transfers	May 31, 2015
Capital assets, not being depreciated					
Land	$ 341,296	$ -	$ -	$ -	$ 341,296
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated	341,296	-	-	-	341,296
Capital assets, being depreciated					
Land improvements	625,500	-	-	-	625,500
Buildings	21,089,487	142,684	-	-	21,232,171
Equipment	24,065,795	776,691	(205,832)	-	24,636,654
Total capital assets, being depreciated	45,780,782	919,375	(205,832)	-	46,494,325
Less: accumulated depreciation	(33,812,679)	(1,721,202)	189,997	-	(35,343,884)
Total capital assets, being depreciated, net	11,968,103	(801,827)	(15,835)	-	11,150,441
Hospital capital assets, net	$ 12,309,399	$ (801,827)	$ (15,835)	$ -	$ 11,491,737

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)	-
Total capital assets, not being depreciated	508,649	-	-	(167,353)	341,296
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
Total capital assets, being depreciated	42,498,375	3,335,124	(220,070)	167,353	45,780,782
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
Hospital capital assets, net	$ 10,610,487	$ 1,706,420	$ (7,508)	$ -	$ 12,309,399

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.

Note 6. Long-Term Debt and Other Noncurrent Liabilities

Noncurrent liability activity as of and for the years ended May 31, 2015 and 2014, was as follows:

	May 31, 2014	Additions	Reductions	May 31, 2015	Due Within One Year	Long-Term Portion
Bonds payable and capital leases						
Hospital revenue bonds,						
Series 2008A	**$ 4,356,427**	**$ -**	**$ (97,091)**	**$ 4,259,336**	**$ 131,734**	**$ 4,127,602**
Series 2010	**6,875,082**	**-**	**(259,797)**	**6,615,285**	**278,179**	**6,337,106**
Series 2012	**2,248,449**	**-**	**(252,077)**	**1,996,372**	**259,873**	**1,736,499**
Certificate of indebtedness,						
Series 2012B	**266,374**	**-**	**(85,908)**	**180,466**	**88,760**	**91,706**
Capital lease obligations	**114,098**	**278,717**	**(126,302)**	**266,513**	**71,387**	**195,126**
Total bonds payable and capital leases	**$ 13,860,430**	**$ 278,717**	**$ (821,175)**	**$ 13,317,972**	**$ 829,933**	**$ 12,488,039**

	May 31, 2013	Additions	Reductions	May 31, 2014	Due Within One Year	Long-Term Portion
Bonds payable and capital leases						
Hospital revenue bonds,						
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
Certificate of indebtedness,						
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
Total bonds payable and capital leases	$ 15,413,538	$ -	$ (1,553,108)	$ 13,860,430	$ 775,584	$ 13,084,846

Long-term debt and capital lease obligations as of May 31, 2015 and 2014 consisted of the following:

		2015	2014
Hospital revenue bonds, Series 2008A	(A)	**$ 4,259,336**	$ 4,356,427
Hospital revenue bonds, Series 2010	(B)	**6,615,285**	6,875,082
Hospital revenue bonds, Series 2012A	(C)	**1,996,372**	2,248,449
Certificate of indebtedness, Series 2012B	(D)	**180,466**	266,374
Capital lease obligations	(E)	**266,513**	114,098
		13,317,972	13,860,430
Less: current maturities		**(829,933)**	(775,584)
		$ 12,488,039	$ 13,084,846

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

Long-Term Debt and Capital Lease 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.

The Hospital is required to make monthly payments of $32,767 beginning October 1, 2008 and continuing on the first day of each month thereafter through the scheduled maturity date of September 26, 2037. Payments would be applied first to accrued interest, and then to principal. The bond is scheduled to bear interest at a fixed rate of 7.5% through October 1, 2014. Beginning October 2, 2014, the interest rate will be a variable rate equal to the prevailing prime rate as published in the Wall Street Journal (WSJ) on the first business day of each calendar quarter (January 1, April 1, July 1, October 1). The amount of monthly payments was adjusted to $22,508 per month to accommodate the 3.25% interest rate as of May 31, 2015.

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 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.

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

Long-Term Debt and Capital Lease Details (Continued)

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.

The Hospital is required to make monthly payments of $43,859 beginning December 3, 2010 and continuing on the same day of each month thereafter through the scheduled maturity date of November 3, 2032. Payments would be applied first to accrued interest, and then to principal. The bond is scheduled to bear interest at a fixed rate of 3.75% through maturity.

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, 2015 and 2014 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.

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

Long-Term Debt and Capital Lease Details (Continued)

Annual principal payments range from $252,077 to $311,810. 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, 2015 the balance of proceeds deposited within the LDNR Project Account with the Escrow Agent totals $225,034 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.

(D) 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 Hospital is required to make monthly payments of $7,778 beginning June 15, 2012 and continuing on the same date of each month thereafter through the scheduled maturity date of 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.

The Certificates are subject to optional redemption by the Issuer in whole or in part on any date, without penalty.

(E) The Hospital entered into capital leases for various types of equipment. Under the terms of the leasing arrangements, the Hospital is obligated to pay monthly rental payments ranging from $1,656 to $5,290 over the remaining years of the leases. Current lease obligations extend through December 15, 2019.

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 statements of net position. The supplemental and restated bond resolution relative to the Hospital's Series 2008A and 2010 bond issuances also places limits on the incurrence of additional borrowings.

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

Long-Term Debt and Capital Lease 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, 2015:

	Long-Term Debt		Capital Lease Obligations	
Year ending May 31:	Principal	Interest	Principal	Interest
2016	$ 758,546	$ 391,070	$ 71,387	$ 9,067
2017	784,131	373,514	52,405	6,708
2018	716,253	356,323	54,482	4,631
2019	740,902	340,192	56,653	2,460
2020	766,072	323,796	31,586	401
2021-2025	3,251,821	1,344,470	-	-
2026-2030	3,158,255	823,765	-	-
2031-2035	2,270,920	261,776	-	-
2036-2040	604,559	25,337	-	-
Total	$ 13,051,459	$ 4,240,243	$ 266,513	$ 23,267

The cost of all leased assets included under the equipment caption on the statement of net position totaled $612,169 and $1,220,958 at May 31, 2015 and 2014, respectively. The related accumulated amortization was $338,375 and $1,058,651 at May 31, 2015 and 2014, respectively.

Expenses resulting from amortization of assets recorded under capital leases is included with depreciation expense.

The Hospital has also entered into various cancelable operating leases for equipment. Operating lease expense was approximately $213,588 and $180,898, for the years ended May 31, 2015 and 2014, respectively.

Note 7. Employee Retirement Plans

Hospital service districts are authorized under Louisiana R.S. 46:1068 to establish and maintain pension and retirement systems making contributions from hospital service district funds. The Hospital sponsors two defined contribution retirement plans as follows:

Morehouse General Hospital Money Purchase Pension Plan & Trust
Under the provisions of the plan documents, the Hospital is required to contribute 7.5% of a plan participant’s annual compensation. The plan provides 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.

Note 7. Employee Retirement Plans (Continued)

The Hospital's contribution payable to the plan of $993,660 and $569,364,at May 31, 2015 and 2014, respectively, is included in accounts payable and accrued expenses on the accompanying statements of net position. The changes in the Hospital's contribution payable to the plan were as follows for the fiscal years ended May 31, 2015 and 2014:

	Contributions Payable Beg. of Year	Contribution Expense Recognized	Remittance to Plan	Contributions Payable End of Year
2014	$ 604,088	$ 853,158	$ (887,882)	$ 569,364
2015	$ 569,364	$ 880,590	$ (456,294)	$ 993,660

The contribution expense recognized (net of forfeitures), as reflected in the table above, is included as a component of salaries and benefits in the accompanying statements of revenues, expenses, and changes in net assets, for the years ended May 31, 2015 and 2014, respectively.

Total payroll for all employees was $13,295,903 and $12,680,417, for the years ended May 31, 2015 and 2014, respectively. Substantially all employees of the Hospital are covered by the plan discussed above.

<u>Morehouse General Hospital Tax Deferred Savings Plan</u>
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 document. Plan participants vest 100% immediately in their contributions and investment earnings thereon. The plan document allows for discretionary employer contributions to be made to the plan. The Hospital did not elect to make discretionary employer contributions for the years ended May 31, 2015 and 2014 and, accordingly, no contribution expense was recognized.

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. As of May 31, 2015, the Hospital has accrued $53,703 in interest in connection with the settlement liability. 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.

Note 8. Commitments and Contingencies (Continued)

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.

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

Year Ended May 31,	Total Liability at Beginning of Year	New Claims and and Changes in Estimates	Claim Payments	Total Liability at End of Year	Estimated Amount due within One Year
2015	**$ 605,818**	**$ 58,718**	**$ -**	**$ 664,536**	**$ 400,764**
2014	$ 347,061	$ 258,757	$ -	$ 605,818	$ 347,061

<u>Recovery Audit Contractors</u>
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.

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) were 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 US 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 31st:

	2015	2014
Medicare	**16%**	15%
Medicaid	**10**	10
Managed Care	**6**	6
Self-Pay	**68**	69
	100%	100%

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.

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 Medicaid Upper Payment Limit 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.

Note 11. Physician's Medicaid Upper Payment Limit Agreement with the Louisiana Department of Health and Hospitals (DHH) (Continued)

These matching funds are comprised of (1) an amount to be utilized as the "non-federal share" of the supplemental payments for services provided by the identified physician; and other healthcare professionals and (2) the "state retention amount," which is fifteen percent of the "non-federal share", for the State to utilize in delivering healthcare services. In turn, 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 2015 and 2014, in accordance with the funding provisions of the above agreements, the Hospital recognized $936,220 and $862,851 in net patient service revenue, respectively. The Hospital recognized $407,944 and $342,236 as outside services expense, funds paid or payable to DHH under the terms of the Physicians' UPL agreement during 2015 and 2014, respectively, concurrent with the income recognition from the Medicaid Supplemental Payments.

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 2015 and 2014, the Hospital received property tax revenues in the amount of $1,065,401 and $1,058,050, respectively.

Note 13. Operations and Financial Performance

Rural hospital service districts in Louisiana continue to face economic challenges in their mission to provide quality health care access to area residents regardless of their ability to pay. Rising costs, increased federal regulation, cuts to Medicaid supplemental payment funding and competition for physicians and insured patients, have created budgetary obstacles that are increasingly difficult for these facilities to overcome. The business of healthcare in the current economic, legislative and regulatory environment remains volatile. Any of the above factors, along with others both currently in existence and/or which may arise in the future, could have a material adverse impact on the Hospital's financial position and operating results. During the fiscal year ended May 31, 2015 the Hospital experienced a loss from operations of $2,524,825 and an overall decrease in net position of $1,845,062.

Note 13. Operations and Financial Performance (Continued)

In response to these factors, management engaged consultants to develop an assessment and turnaround plan with the goal of strengthening the Hospital's performance and helping to maintain long-term viability. This multi-faceted plan is in the process of being implemented by management which include in-part the following measures:

- Revenue cycle improvement measures

- Expense reductions via:
    - staffing cuts
    - reductions to supply costs
    - contract negotiations
    - clinic realignment and/or consolidation
    - increased utilization of the pharmacy 340b program

- In October 2015 management was able to secure a $2,800,000 certificate of indebtedness with the intent of providing short-term funding while the cost saving measures and revenue enhancements take affect. (See Note 14.)

- Management was also successful in getting a proposition on the ballot for an additional five mill tax on all property subject to taxation in the district. The voters of Morehouse Parish voted on November 21, 2015 to approve the additional millage. This assessment is estimated to generate $758,730 per year over its 10-year period. The tax would be assessed starting in 2016 and would continue until 2025 and would be used for the purpose of operating, maintaining and improving hospital facilities.

- The Board of Commissioners of the Hospital voted to issue a pair of requests for proposals (RFPs) to form a collaborative relationship similar to many other such relationships established by healthcare providers nationwide. The RFPs seek qualified applicants to either assume management of the Hospital facilities via a long-term management agreement, or an assumption of operations of the facilities via a long-term lease. As of the date of these financial statements, the Hospital has received multiple responses to its requests which it is still in the process of evaluating. The selection process will include a focus on an anticipated overall decrease in healthcare costs allowing the Hospital to both meet its goals and address the challenges of healthcare reform while maintaining a high standard of quality care. A decision on this matter is currently anticipated by April 2016.

While management is confident that the measures undertaken will be successful in strengthening the Hospital's results of operations and financial position, the ultimate impact cannot currently be determined.

Note 14. 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:

As discussed in Note 13, the Hospital issued a certificate of indebtedness on October 29, 2015 in the amount of $2,800,000 for the purpose of paying current expenses (including costs of acquisition, operation and maintenance of equipment) and to pay costs of issuance of the Certificates. Aggregate draws against the principal balance of the Certificates shall be limited to 60% until the Hospital has entered into a USDA approved management agreement. If the Hospital has not entered into a USDA approved management agreement by February 1, 2016, then further draws shall cease until written consent from the USDA is received. As of the date of the report, the Hospital has drawn down funds totaling $605,380 of which $105,380 were used to pay the costs of issuance.

The Certificates have a variable interest rate equal to the prime rate as published in The Wall Street Journal, plus 1.0% adjusted daily, with a minimum (floor) rate of 5.0% and a maximum (cap) rate of 8.0% or from the most recent interest payment date to which interest has been paid or duly provided for.

The first payment of accrued interest will be due January 1, 2016, with subsequent payments of interest due on each April 1, July 1, October 1, and January 1 during the term of this Certificate. A principal payment equal to the lesser of $933,333 or the principal amount outstanding as of such date will be due March 1, 2016, with principal remaining due at maturity.

The Certificates are subject to optional redemption by the Issuer in whole or in part on any date, without penalty.

The Certificates are secured by an irrevocable pledge and dedication of the Revenues, including (i) proceeds to be derived by the Issuer from the levy and collection of an 8 mills ad valorem tax to be levied each year through the year 2021, authorized at an election held in the Issuer on November 19, 2021; and (ii) the Hospital's State Department of Health and Hospitals Uncompensated Care reimbursement payments as set forth in the Resolution.

LaPorte
CPAs & BUSINESS ADVISORS

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, 2015 and 2014, and have issued our report thereon, dated November 23, 2015, 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 30 - 34 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.

LaPorte

A Professional Accounting Corporation

Metairie, LA
November 23, 2015

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, 2015

Commissioner	**Total Paid**
Mike Wooden (Chairman)	$ 440
Bobby Nugent	200
Dorothy Thomas	480
Nicolette Releford	400
John Yeldell	440
Bob Green	200
Total	$ 2,160

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Compensation, Benefits and Other Payments
to Agency Head
For the Year Ended May 31, 2015

Agency Head
Stephen R. Pitts, Chief Executive Officer

Purpose	Amount
Salary	$166,394
Benefits - Insurance	$12,960
Benefits - Retirement	$12,480
Benefits - Other (Life)	$58
Car Allowance	$0
Vehicle Provided by Government	$0
Cell Phone	$1,640
Dues (RT License and ACHE)	$531
Vehicle Rental	$0
Per Diem	$0
Reimbursements	$0
Travel	$0
Registration Fees	$0
Conference Travel	$0
Continuing Professional Education Fees	$0
Housing	$0
Unvouchered Expenses	$0
Special Meals	$615
Other	$0

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, 2015

COVERAGE	MAJOR LIMITS OF LIABILITY	DEDUCTIBLE	POLICY PERIOD	INSURANCE CARRIER	POLICY NUMBER
Professional / General Liability					
Each Occurrence Limit	$2,500,000	$500,000	11/01/14-11/01/15	Louisiana Hospital Association Malpractice & General Liability Trust	HPL-0390-2014
Annual Aggregate Limit	$2,500,000	$500,000			
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			
Umbrella Coverage					
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				
Physicians:					
Dr. Janos Gouth Retro Date: 11/01/07	$1,000,000/$3,000,000	$25,000	11/01/14-11/01/15	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. Traci L. Vaughn, Retro Date: 9/15/14	$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			
Excess Professional Liability					
Each Occurrence Limit	N/A				
Annual Aggregate Limit					
Umbrella Policy					
Excess Professional / General Liability,					
Auto and Employers' Liability	N/A				
Retroactive Date:					
Directors & Officers Liability					
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					
Directors & Officers Liability *continued*					
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			
Property Damage					
Blanket Real & Personal Property and Business Interruption	$74,483,009	$5,000	03/01/15-03/01/16	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			
Boiler & Machinery (Equipment Breakdown)					
Direct Damage / Real and Personal Property	$74,483,009	$25,000	03/01/15-03/01/16	Fireman's Fund Insurance Company	DZJ80954559
Business Interruption / Extra Expense/Service Interruption	Included	24 hrs after time of loss or 24 hrs before notice to company, whichever is later			
Perishable Stock	$10,000,000				
Hazardous Substance	$250,000				
Expediting Expense	Follows the Property Limit				
Data Restoration	$250,000				

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, 2015

COVERAGE	MAJOR LIMITS OF LIABILITY	DEDUCTIBLE	POLICY PERIOD	INSURANCE CARRIER	POLICY NUMBER
Flood					
Building Address: Main Hospital 323 W. Walnut Avenue, Bastrop, LA 71220			8/26/14-8/26/15	Fidelity Flood	17 1150843317 02
Building	$500,000	$1,000		(Wright)	
Contents	$500,000	$1,000			
Inland Marine (separate policy)	N/A				
Comprehensive Glass					
Misc. Property Floater - transit (MRI)					
Ambulance Equipment					
Cyber Liability					
Multimedia Liability	$1,000,000/$1,000,000	$100,000	11/1/14-11/1/15	Underwriters at Lloyd's of London	474852
Retroactive Date: 11/01/2014					
Security and Privacy Liability	$1,000,000/$1,000,000	$100,000			
Retroactive Date: 11/01/2014					
Privacy Regulatory Defense and Penalties	$1,000,000/$1,000,000	$100,000			
Retroactive Date: 11/01/2014					
Privacy Breech Response Costs	$500,000/$500,000	$100,000			
Retroactive Date: 11/01/2014					
Network Asset Protection	$250,000/$250,000	$100,000/10% Co-insurance each and every loss			
Retroactive Date: 11/01/2014					
Cyber Extortion	$1,000,000/$1,000,000	$100,000			
Retroactive Date: 11/01/2014					
Cyber Terrorism	$1,000,000/$1,000,000	$100,000			
Retroactive Date: 11/01/2014					
Medefense Plus	N/A	N/A			
Automobile Liability					
Liability Limit	$1,000,000 CSL	N/A	03/04/15-03/04/16	The First Liberty Insurance Corp	AS6-Z51-291063-015
Hired and Non-Owned Liability	$1,000,000 CSL				
Medical Payments	$5,000				
Uninsured Motorist	$1,000,000 CSL				
Automobile and/or Physical Damage					
Comprehensive	ACV	$500	03/04/15-03/04/16	The First Liberty Insurance Corp	AS6-Z51-291063-015
Collision		$500			
Non-Owned / Hired Car Physical Damage		$1,000/$1,000			
Excess Automobile Liability					
Liability Limit					
Crime					
Employee Theft - A1	$750,000	$10,000	11/11/14-11/11/17	Travelers Casualty & Surety Company of America	105706915
Third Party Liability - A3	Not Covered				
Forgery of Alteration - B	$750,000	$10,000			
On-Premises - C	$750,000	$10,000			
In-Transit - D	$750,000	$10,000			
Money Orders & Counterfeit Currency - E	Not Covered				
Computer Fraud - F1	$750,000	$10,000			
Funds Transfer Fraud - G	$750,000	$10,000			
Claims Expense - I	$5,000	$-0-			
Fiduciary Liability					
Liability Limit	$1,000,000	$-0-	11/11/14-11/11/17	Travelers Casualty & Surety Co of America	105706915
Settlement Program Limit of Liability	$100,000	$-0-			
HIPAA Limit of Liability	$25,000	$-0-			
ERISA Fidelity Bond - A2					
Liability Limit	$500,000	$-0-	11/11/14-11/11/17	Travelers Casualty & Surety Co of America	105706915
Resident Fund Bond					
Liability Limit	N/A				
Tax Free Alcohol User Bond					
Liability Limit	N/A				
Workers' Compensation & Employers' Liability					
Employers' Liability					
Each Employee	$1,000,000	$-0-	01/01/15-01/01/16	LCTA	WC-1-019926-115
Each Accident	$1,000,000	$-0-			
Policy Limit	$1,000,000	$-0-			
Experience Mod. - .68					

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, 2015

	Beginning Balance May 31, 2014	Deposits	Earnings	Withdrawals	Transfers	Ending Balance May 31, 2015
Trusteed funds (principally interest bearing cash and certificates of deposits):						
Series 2010 reserve fund	$ 201,489	$ 42,144	$ 111	$ -	$ -	$ 243,744
Series 2010 contingencies fund	203,684	42,144	113	-	-	245,941
Litigation reserve fund	52,046	-	157	-	-	52,203
Short-lived asset depreciation reserve fund	272,732	50,000	147	(22,816)	-	300,063
Total 2010 Bond Series Fund Activity:	$ 729,951	$ 134,288	$ 528	$ (22,816)	$ -	$ 841,951

See independent auditor’s report on supplementary information.

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

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, 2015, 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 23, 2015.

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 2015-001, and 2015-002 in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

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.

LaPorte

A Professional Accounting Corporation

Metairie, LA
November 23, 2015

2015-001 Patient Accounts Receivable Maintenance

Condition: We noted in a prior audit that there was 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. While efforts taken by management have substantially reduced these older account balances through continued efforts to process write-offs, as of May 31, 2015 a large number of these uncollectible accounts remain to be processed.

Cause: In a prior year the Hospital had experienced turnover and re-staffing in the business office which appeared to have created a difficulty in keeping up with the daily account maintenance, and when required, the write-off of uncollectible balances. The process of writing off these older balances that have accumulated is an arduous time consuming process that was addressed secondarily to maintenance of the more current account 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 inordinately large allowance for doubtful accounts to correctly estimate the net realizable valuable 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: As indicated above we note that during the fiscal year ended May 31, 2015 that that the Hospital made substantial progress in processing these balance write-offs and reduced the outstanding gross amount of patient accounts receivable by almost a third. We believe this to be an important area of focus and recommend that the Hospital continue its efforts in this area. Since staffing in this area has again experienced turnover 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: During the year 2015 the accounts receivable balance was substantially reduced by through the efforts of the Hospital's patient financial services department. While this process remains ongoing the efforts are currently hampered by the resignation of the Director of Patient Financial Services during the Summer of 2015. We are currently in process of recruiting a new Director Patient Financial Services.

2015-002 Segregation of Duties – Accounts Payable and Cash Disbursements

Condition: Our audit procedures indicated that one individual has access to the non-payroll check stock, has full access to make changes to the accounts payable vendor master file, is responsible for preparing and approving check runs, and is responsible for processing accounts payable. We also noted that while checks require two signatures, in practice, these signatures are being electronically signed.

Cause: The Hospital has limited staffing available and turnover and re-staffing in the business office appears to have created a difficulty in monitoring the access and responsibilities of staff. In addition, the Hospital policy states that all checks in excess of $20,000 require two manual signatures, one of which is to include a board member, but does not appear to be implemented in practice.

Effect: The lack of segregation of duties in this area coupled with the lack of strict adherence to the Hospital's check signing policy creates a significant weakness in the Hospital's controls over the accounts payable and cash disbursement process.

Recommendation: While it is often difficult for governmental organizations to achieve an optimal segregation of duties, it's important that measures be taken to minimize the amount of conflicting duties that are vested in any one individual. We believe it is especially important that the Hospital seek to reallocate responsibilities so that the ability to add payees to the vendor master file is not available to an employee who is responsible for process and approving check runs. Secondly, we believe that Hospital's policy of requiring manual signatures on checks over a predetermined dollar amount is an important control over cash when staffing available staffing is limited and we recommend that it be adhered to without exception.

Management Response and Corrective Action: We agree with the importance of achieving the optimal segregation of duties possible within the staffing constraints present at the Hospital. Effective November 17, 2015 the staff responsible for processing of accounts payable and preparing checks will no longer have access to add vendors. The accounting director/CFO will approve by signature the payable listing prior to processing of checks, and subsequently the accounts payable check register. The Hospital will also revisit its check signing policy to monitor adherence.

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

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 valuable 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.
- 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. See finding 2015-001.

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 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: Resolved. Management has consulted with its legal counsel and has reduced the reconciled balance of these accounts in accordance with the legal prescription period in Louisiana. The remaining balance will be settled with the payees, as appropriate, or derecognized once the prescribed period has been reached as determined by the individual circumstances.

LAPORTE
CPAs & BUSINESS ADVISORS

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

November 30, 2015

Board of Commissioners
Morehouse General Hospital

Dear Commissioners:

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the basic financial statements of Morehouse General Hospital (the Hospital) as of and for the year ended May 31, 2015. These items are offered as observations and recommendations as part of the ongoing process of modifying and improving the Hospital's practices and procedures.

M2015-001 - Timing of Employer Contribution Remittances to the Retirement Plan

Observation: The hospital accrues a liability for its required contributions to the Morehouse General Hospital Money Purchase Pension Plan & Trust Plan (the Plan) on a monthly basis. However, we've noted that while participant's accounts under the Plan are credited with contributions earned, the actual remittance of these contributions to the Plan is routinely delayed because of the economic conditions the Hospital has faced. While neither the plan document nor government regulations appear to address a time period for payment of contributions to the Plan, the Louisiana Revised Statute that authorizes the creation of such plans by hospital service districts, indicates that such districts *"…maintain actuarially sound pension and retirement systems"*. Inherently, that statute implies that amounts be present to fund payment of benefits under the terms of the Plan as a withdrawal request is made upon either a participant's termination or retirement.

Recommendation: We understand the Hospital's efforts to maintain the financial viability of the service district, but we do strongly urge the Hospital to implement a policy, whereby the employer contributions are remitted to the Plan at least monthly to avoid any potential delays in payments of distributions as they may be requested by Plan participants.

Management's Response and Corrective Action: Management is making every effort to fund the pension plan as funds come available. Management continues to make monthly or bimonthly payments using loan proceeds, when necessary, with pension funding improving over the last several months. With the pending lease proposal of the facility, our plan is to completely fund all remaining required contributions due to the Plan through completion of the lease transaction which is expected in late spring of 2016.

This letter is intended solely for the information and use of the Commissioners and Management of Morehouse General Hospital 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 Louisiana Legislative Auditor as a public document.

Sincerely,

LaPorte

A Professional Accounting Corporation