

# **East Union Hospital Service District**

Independent Auditor's Reports and Financial Statements

March 31, 2018 and 2017



**East Union Hospital Service District**  
**March 31, 2018 and 2017**

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## Independent Auditor's Report

Board of Commissioners  
East Union Hospital Service District  
Farmerville, Louisiana

### Report on the Financial Statements

We have audited the accompanying financial statements of East Union Hospital Service District (the District), as of and for the years ended March 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of March 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Information**

***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 September 27, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**BKD, LLP**

Waco, Texas  
September 27, 2018

**East Union Hospital Service District**  
**Balance Sheets**  
**March 31, 2018 and 2017**

**Assets**

|                                | <b>2018</b>   | <b>2017</b>   |
|--------------------------------|---------------|---------------|
| <b>Current Assets</b>          |               |               |
| Cash                           | \$ 439,414    | \$ 246,408    |
| Property taxes receivable      | 18,998        | 27,183        |
| Prepaid expenses               | 2,251         | -             |
| Total current assets           | 460,663       | 273,591       |
| <br><b>Capital Assets, Net</b> | <br>4,417,308 | <br>4,534,953 |
| Total assets                   | \$ 4,877,971  | \$ 4,808,544  |

**Liabilities and Net Position**

|                                    |              |              |
|------------------------------------|--------------|--------------|
| <b>Current Liabilities</b>         |              |              |
| Accounts payable                   | \$ 2,019     | \$ 1,245     |
| Total current liabilities          | 2,019        | 1,245        |
| <br><b>Net Position</b>            |              |              |
| Net investment in capital assets   | 4,417,308    | 4,534,953    |
| Unrestricted                       | 458,644      | 272,346      |
| Total net position                 | 4,875,952    | 4,807,299    |
| Total liabilities and net position | \$ 4,877,971 | \$ 4,808,544 |

**East Union Hospital Service District**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended March 31, 2018 and 2017**

|   | <b>2018</b>  | <b>2017</b>  |
|---|--------------|--------------|
| <b>Operating Revenues</b>               |              |              |
| Rent revenue                            | \$ 22,776    | \$ 20,544    |
| Total operating revenues                | 22,776       | 20,544       |
| <b>Operating Expenses</b>               |              |              |
| Supplies and other                      | 83,077       | 61,777       |
| Depreciation and amortization           | 438,391      | 310,314      |
| Total operating expenses                | 521,468      | 372,091      |
| <b>Operating Loss</b>                   | (498,692)    | (351,547)    |
| <b>Nonoperating Revenues (Expenses)</b> |              |              |
| Property taxes                          | 669,731      | 678,966      |
| Interest income                         | 554          | 1,433        |
| Grants                                  | (102,940)    | (104,895)    |
| Total nonoperating revenues, net        | 567,345      | 575,504      |
| <b>Increase in Net Position</b>         | 68,653       | 223,957      |
| <b>Net Position, Beginning of Year</b>  | 4,807,299    | 4,583,342    |
| <b>Net Position, End of Year</b>        | \$ 4,875,952 | \$ 4,807,299 |

**East Union Hospital Service District**  
**Statements of Cash Flows**  
**Years Ended March 31, 2018 and 2017**

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
| <b>Operating Activities</b>  |              |              |
| Payments to suppliers and contractors  | \$ (80,590)  | \$ (62,401)  |
| Other receipts, net  | 22,776       | 20,545       |
| Net cash used in operating activities  | (57,814)     | (41,856)     |
| <b>Noncapital Financing Activities</b>   |              |              |
| Property taxes supporting operations   | 677,916      | 685,968      |
| Grants   | (102,940)    | (104,895)    |
| Net cash provided by noncapital financing activities                             | 574,976      | 581,073      |
| <b>Capital and Related Financing Activities</b>                                  |              |              |
| Purchase of capital assets   | (324,710)    | (1,410,496)  |
| Net cash used in capital and related financing activities                        | (324,710)    | (1,410,496)  |
| <b>Investing Activities</b>  |              |              |
| Interest on investments and bank deposits  | 554          | 1,434        |
| Proceeds from disposition of investments   | -            | 253,523      |
| Net cash provided by investing activities  | 554          | 254,957      |
| <b>Increase (Decrease) in Cash</b>   | 193,006      | (616,322)    |
| <b>Cash, Beginning of Year</b>   | 246,408      | 862,730      |
| <b>Cash, End of Year</b>   | \$ 439,414   | \$ 246,408   |
| <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b> |              |              |
| Operating loss   | \$ (498,692) | \$ (351,547) |
| Depreciation and amortization  | 438,391      | 310,314      |
| Changes in operating assets and liabilities                                      |              |              |
| Accounts payable   | 774          | (623)        |
| Prepaid expenses   | 1,713        | -            |
| Net cash used in operating activities  | \$ (57,814)  | \$ (41,856)  |

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**Years Ended March 31, 2018 and 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

East Union Hospital Service District (the District) was created by an ordinance of the Union Parish Police Jury on June 8, 1971. The District is a political subdivision in the state of Louisiana. The District's commissioners are appointed by the Union Parish Police Jury.

Since December 1, 1983, when the District discontinued operating Union General Hospital, Inc. (the Hospital), its operations consist of administration of the facilities through a cooperative endeavor agreement as discussed further in *Note 4*, rental of adjoining physicians' offices, collection and administration of tax receipts.

***Basis of Accounting and Presentation***

The financial statements of the District 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 nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, nonexchange transactions. Nonexchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District 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 conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Property Taxes***

The District levies a property tax on all property subject to taxation in the service district. Millage rates for 2018 and 2017 were 5.56 mills. The purpose of the tax is for constructing, maintaining, improving and operating the District. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the District.

Property taxes are levied by the District no later than November 15 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied between September 15 and November 15. This is the date on which an enforceable

# East Union Hospital Service District

## Notes to Financial Statements

### March 31, 2018 and 2017

legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after December 31.

The District received substantially all of its financial support from property taxes in 2018 and 2017. These funds were used to support operations and support provided to the Hospital.

#### ***Risk Management***

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

#### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Assets over \$5,000 and a three year useful life are capitalized under the District's capitalization policy. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

|                            |               |
|----------------------------|---------------|
| Land improvements          | 5 – 25 years  |
| Buildings and improvements | 25 – 40 years |
| Equipment                  | 3 – 25 years  |

#### ***Net Position***

Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

#### ***Income Taxes***

As an essential government function, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

#### ***Operating Revenues and Expenses***

The statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with rental and maintenance of the Hospital facility, the District's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**March 31, 2018 and 2017**

expenses incurred to maintain the facility in accordance with agreements, other than financing costs.

**Note 2: Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Louisiana; bonds of any city, county, school district or special road district of the state of Louisiana; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At March 31, 2018 and 2017, none of the District's bank balances of \$439,414 and \$247,807, respectively, were exposed to custodial credit risk.

**Note 3: Capital Assets**

Capital assets activity for the years ended March 31 was:

|                               | 2018                 |                     |                   |             | Ending<br>Balance   |
|-------------------------------|----------------------|---------------------|-------------------|-------------|---------------------|
|                               | Beginning<br>Balance | Additions           | Disposals         | Transfers   |                     |
| Land                          | \$ 115,554           | \$ -                | \$ -              | \$ -        | \$ 115,554          |
| Land improvements             | 144,621              | -                   | -                 | -           | 144,621             |
| Buildings and improvements    | 3,862,836            | 74,197              | -                 | 2,935,981   | 6,873,014           |
| Equipment                     | 3,180,524            | 21,563              | (46,718)          | 76,184      | 3,231,553           |
| Construction in progress      | 2,931,761            | 228,950             | -                 | (3,012,165) | 148,546             |
|                               | <u>10,235,296</u>    | <u>324,710</u>      | <u>(46,718)</u>   | <u>-</u>    | <u>10,513,288</u>   |
| Less accumulated depreciation |                      |                     |                   |             |                     |
| Land improvements             | 74,159               | 10,375              | -                 | -           | 84,534              |
| Buildings and improvements    | 2,851,892            | 251,675             | -                 | -           | 3,103,567           |
| Equipment                     | 2,774,292            | 176,341             | (42,754)          | -           | 2,907,879           |
|                               | <u>5,700,343</u>     | <u>438,391</u>      | <u>(42,754)</u>   | <u>-</u>    | <u>6,095,980</u>    |
| Capital assets, net           | <u>\$ 4,534,953</u>  | <u>\$ (113,681)</u> | <u>\$ (3,964)</u> | <u>\$ -</u> | <u>\$ 4,417,308</u> |

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**March 31, 2018 and 2017**

|                               | 2017                 |                     |             |             | Ending<br>Balance   |
|-------------------------------|----------------------|---------------------|-------------|-------------|---------------------|
|                               | Beginning<br>Balance | Additions           | Disposals   | Transfers   |                     |
| Land                          | \$ 115,554           | \$ -                | \$ -        | \$ -        | \$ 115,554          |
| Land improvements             | 144,621              | -                   | -           | -           | 144,621             |
| Buildings and improvements    | 3,836,716            | -                   | -           | 26,120      | 3,862,836           |
| Equipment                     | 2,734,666            | 301,313             | -           | 144,545     | 3,180,524           |
| Construction in progress      | 1,993,243            | 1,109,183           | -           | (170,665)   | 2,931,761           |
|                               | <u>8,824,800</u>     | <u>1,410,496</u>    | <u>-</u>    | <u>-</u>    | <u>10,235,296</u>   |
| Less accumulated depreciation |                      |                     |             |             |                     |
| Land improvements             | 63,784               | 10,375              | -           | -           | 74,159              |
| Buildings and improvements    | 2,766,325            | 85,567              | -           | -           | 2,851,892           |
| Equipment                     | 2,559,920            | 214,372             | -           | -           | 2,774,292           |
|                               | <u>5,390,029</u>     | <u>310,314</u>      | <u>-</u>    | <u>-</u>    | <u>5,700,343</u>    |
| Capital assets, net           | <u>\$ 3,434,771</u>  | <u>\$ 1,100,182</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,534,953</u> |

**Note 4: Operating Agreements**

On November 22, 1983, the District entered into a cooperative endeavor agreement with a newly formed nonprofit corporation named "Union General Hospital, Inc." The agreement states the Hospital would operate the District's hospital facility known as Union General Hospital in Farmerville, Louisiana, as well as all related moveable property. The Hospital is a Louisiana nonprofit corporation, which has received exemption from income taxes as an organization described under section 501(c)(3) of the IRC.

The current agreement, dated September 8, 2010, has a "primary term" beginning September 8, 2010, and continuing until March 31, 2019. Thereafter, the agreement will automatically renew for an additional ten year term renewal with the same terms and conditions unless either the Hospital or District provides 180 days advanced notice of non-renewal. The Hospital has agreed to maintain at its expense certain insurance, capital additions, and make necessary and proper repairs.

The District provided grants to the Hospital of \$102,940 and \$104,895 for the years ended March 31, 2018 and 2017, respectively.

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

### Independent Auditor's Report

Board of Commissioners  
East Union Hospital Service District  
Farmerville, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of East Union Hospital Service District (the District), which comprise the balance sheet as of March 31, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018.

#### ***Internal Control over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding and response as item 2018-001 that we consider to be a material weakness.

### ***Compliance and Other Matters***

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

### ***District's Response to Finding***

The District's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The District'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Waco, Texas  
September 27, 2018

**East Union Hospital Service District**  
**Schedule of Finding and Response**  
**Year Ended March 31, 2018**

| <b>Reference Number</b> | <b>Finding</b>   |
|-------------------------|--|
| 2018-001                | <p style="text-align: center;">Asset Capitalization and Property Tax Receivables</p> <p><b>Criteria</b> – Generally accepted accounting standards require the capitalization of assets that are used in operations and have initial useful lives extending beyond a single reporting period. The District’s capitalization policy is to capitalize assets over a minimum dollar amount of \$5,000 with a useful life of three years or more. Accounting standards also require the depreciation of capital assets over their assigned useful life. Additionally, standards require the accruing of receivables, including property tax receivables.</p> <p><b>Condition</b> – The District improperly recorded all capital asset additions in 2018 as an expense, did not record an estimate for depreciation expense in 2018, and did not reconcile the receivable for property taxes as of March 31, 2018. Audit adjustments were proposed to properly state construction in progress, capital assets and related depreciation expense, as well as an estimate for property tax receivables.</p> <p><b>Context</b> – A formal review was not performed resulting in inaccurate financial information.</p> <p><b>Effect</b> – Material misstatements in the financial statements and accompanying notes could occur and not be prevented or detected by the District’s internal control structure.</p> <p><b>Cause</b> – This is largely due to the staff and resource limitations.</p> <p><b>Recommendation</b> – We suggest the District review monthly and year-end closing procedures to ensure that accurate and relevant information is reflected in the financial statements.</p> <p><b>Views of responsible officials and planned corrective actions</b> – The District acknowledges the limitations of the existing staffing levels and as a result will review current procedures to ensure the proper reporting of capital assets, related depreciation expense, and property tax receivables.</p> |

**East Union Hospital Service District**  
**Summary Schedule of Prior Year Audit Finding**  
**Year Ended March 31, 2018**

| <b>Reference Number</b> | <b>Finding</b>   |
|-------------------------|--|
| 2017-001                | <p>Asset Capitalization and Property Tax Receivables</p> <p><b>Criteria</b> – Generally accepted accounting standards require the capitalization of assets that are used in operations and have initial useful lives extending beyond a single reporting period. The District’s capitalization policy is to capitalize assets over a minimum dollar amount of \$5,000 with a useful life of three years or more. Accounting standards also require the depreciation of capital assets over their assigned useful life. Additionally, standards require the accruing of receivables, including property tax receivables.</p> <p><b>Condition</b> – The District improperly recorded all capital asset additions in 2017 as an expense, did not record an estimate for depreciation expense in 2017, and did not reconcile the receivable for property taxes as of March 31, 2017. Audit adjustments were proposed to properly state construction in progress, capital assets and related depreciation expense, as well as an estimate for property tax receivables.</p> <p><b>Context</b> – A formal review was not performed resulting in inaccurate financial information.</p> <p><b>Effect</b> – Material misstatements in the financial statements and accompanying notes could occur and not be prevented or detected by the District’s internal control structure.</p> <p><b>Cause</b> – This is largely due to the staff and resource limitations.</p> <p><b>Recommendation</b> – We suggest the District review monthly and year-end closing procedures to ensure that accurate and relevant information is reflected in the financial statements.</p> <p><b>Views of responsible officials and planned corrective actions</b> – The District acknowledges the limitations of the existing staffing levels and as a result will review current procedures to ensure the proper reporting of capital assets, related depreciation expense, and property tax receivables.</p> |

Board of Commissioners  
East Union Hospital Service District  
Farmerville, Louisiana

As part of our audit of the financial statements of East Union Hospital Service District (the District) as of and for the year ended March 31, 2018, we wish to communicate the following to you.

## **AUDIT SCOPE AND RESULTS**

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in Government Auditing Standards Issued by the Comptroller General of the United States**

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

### **Qualitative Aspects of Significant Accounting Policies and Practices**

#### **Significant Accounting Policies**

The District's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

No matters are reportable.

Financial Statement Disclosures

No matters are reportable.

**Audit Adjustments**

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated.

Areas in which adjustments were proposed include:

- Property tax receivables and related revenue
- Capital assets and related depreciation and other expense

**Auditor's Judgments About the Quality of the Entity's Accounting Principles**

No matters are reportable.

**Other Material Communications**

Listed below are other material communications between management and us related to the audit:

- Management representation letter (*attached*)

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of the District as of and for the year ended March 31, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 of the District's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be a deficiency or material weakness.

### **Deficiency**

#### *Segregation of Duties*

Management is responsible for establishing and maintaining effective internal controls over financial reporting. When designing an internal control structure, conflicts in the segregation of duties among different accounting functions should be limited. Generally, access; monitoring and recording responsibilities should be assigned to different individuals. In instances where these duties are not segregated, potential internal control weaknesses exist. We identified the following matters where duty conflicts exist.

#### **Revenue Cycle**

The administrative assistant has access to cash receipts and has responsibility to record the receipts as well as reconcile the bank statement. When individuals have the ability to access payments received, responsibility to record the deposits, and responsibility to reconcile the bank accounts, there is generally a risk of misappropriation. While the financials are reviewed at board meetings, there are no procedures in place to catch

checks received but not deposited. We recommend management evaluate the cash receipt process and consider adding additional oversight procedures to mitigate this risk.

**Material Weakness**

Refer to the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

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

*BKD, LLP*

September 27, 2018

# **East Union Hospital Service District**

Independent Accountant's Report on  
Applying Agreed-Upon Procedures  
For the Year Ended March 31, 2018



## Independent Accountant's Report on Applying Agreed-Upon Procedures

Boards of Commissioners  
East Union Hospital Service District  
Farmerville, Louisiana

We have performed the procedures enumerated in the attachment to this report, which were agreed to by East Union Hospital Service District (the District) and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures for the year ended March 31, 2018. The management of the District is responsible for the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment to this report for the purpose for which this report has been requested or for any other purpose.

The findings obtained are described in the attachment to this report.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified users of this report. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on those control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

*BKD, LLP*

Waco, Texas  
September 27, 2018

# East Union Hospital Service District

## Applying Agreed-Upon Procedures

### Year Ended March 31, 2018

#### Policies and Procedures

##### Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures) as applicable with respect to receipt of public funds:
  - a. **Budgeting**, including preparing, adopting, monitoring and amending the budget.
  - b. **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
  - c. **Disbursements**, including processing, reviewing and approving
  - d. **Receipts**, including receiving, recording and preparing deposits
  - e. **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process and (5) monitoring process
  - f. **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

##### Findings

The District does not have written policies and procedures that address budgeting, purchasing, disbursements, receipts, contracting or ethics with respect to public funds.

#### Board Minutes

##### Procedures

2. Obtain and review the board/committee minutes for the fiscal period, and:
  - a. Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
  - b. Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
    - i. If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a

**East Union Hospital Service District**  
**Applying Agreed-Upon Procedures**  
**Year Ended March 31, 2018**

formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

- c. Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Findings

The District's Board of Directors meeting minutes did not reference or include monthly budget-to-actual comparisons.

Except where otherwise stated, no exceptions were identified in the performance of the procedures listed above.

**Bank Reconciliations**

Procedures

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.
4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
  - a. Bank reconciliations have been prepared;
  - b. Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
  - c. If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Findings

Management provided a listing of bank accounts for which public funds are deposited into, asserting that one account was used for the year ending March 31, 2018 and that the listing was complete.

Bank reconciliations are completed monthly by the Administrative Assistant, but did not include evidence of review of the bank reconciliation by a board member.

**East Union Hospital Service District**  
**Applying Agreed-Upon Procedures**  
**Year Ended March 31, 2018**

Except where otherwise stated, no exceptions were identified in the performance of the procedures listed above.

**Collections**

Procedures

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.
6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). For each cash collection location selected:
  - a. Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
  - b. Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.
  - c. Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
    - i. Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
    - ii. Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.
7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing

# **East Union Hospital Service District**

## **Applying Agreed-Upon Procedures**

### **Year Ended March 31, 2018**

after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

#### Findings

Management provided a listing of cash/check/money order (cash) collection locations as it relates to public funds, asserting that five checks were received for the year ending March 31, 2018 at one location and that the listing was complete.

The District does not have written documentation that specifically defines how to determine the completeness of all collections.

The Administrative Assistant is not bonded and is responsible for the receipt of funds, making deposits into the District's bank account, and reconciling the bank statement.

Except where otherwise stated, no exceptions were identified in the performance of the procedures listed above.

#### Disbursements

##### Procedures

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.
9. Using the disbursement population from above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
  - a. Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
  - b. Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
  - c. Payments for purchases were not processed without an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

**East Union Hospital Service District**  
**Applying Agreed-Upon Procedures**  
**Year Ended March 31, 2018**

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.
11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.
12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.
13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Findings

Management provided a listing of disbursements as it relates to public funds for the year ending March 31, 2018, asserting that the listing was complete.

The Administrative Assistant has the ability to add vendors to the District's master files as well as the authority to process payments.

A signature stamp or signature machine is not utilized by the District.

The District does not utilize a requisition/purchase order system.

Except where otherwise stated, no exceptions were identified in the performance of the procedures listed above.

Contracts

Procedures

14. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.
15. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

**East Union Hospital Service District**  
**Applying Agreed-Upon Procedures**  
**Year Ended March 31, 2018**

- a. Report whether there is a formal/written contract that supports the services arrangement and the amount paid.
- b. Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
  - i. If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder).
  - ii. If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.
- c. Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
- d. Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
- e. Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Findings

There were no contracts in effect for the year ended March 31, 2018. Accordingly, steps 14 through 15e were not completed.

Other

Procedures

16. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.
17. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

**East Union Hospital Service District**  
**Applying Agreed-Upon Procedures**  
**Year Ended March 31, 2018**

18. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at [www.lla.la.gov/hotline](http://www.lla.la.gov/hotline)) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.
  
19. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

Findings

The District does not have the notice required by R.S. 24:523.1 posted publicly as the District does not maintain a website and does not have a physical place of operation.

Except where otherwise stated, no exceptions were identified in the performance of the procedures listed above.

**Management's Response**

Management understands the importance of having policies and procedures in place and being able to monitor those policies and procedures for compliance. Management is in the process of updating all policy and procedure manuals district-wide and will consider the findings noted in this document as the policies and procedures are being updated. Management will also look at procedures that are currently in place that do not meet the LLA's requirements to determine the changes necessary to ensure compliance.