

East Union Hospital Service District

Independent Auditor's Reports and Financial Statements

March 31, 2019 and 2018



East Union Hospital Service District
March 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 August 29, 2019 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
August 29, 2019

East Union Hospital Service District
Balance Sheets
March 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 612,794	\$ 439,414
Property taxes receivable	17,008	18,998
Prepaid expenses	-	2,251
Total current assets	629,802	460,663
 Capital Assets, Net	 4,283,420	 4,417,308
Total assets	\$ 4,913,222	\$ 4,877,971

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 1,441	\$ 2,019
Total current liabilities	1,441	2,019
 Net Position		
Net investment in capital assets	4,283,420	4,417,308
Unrestricted	628,361	458,644
Total net position	4,911,781	4,875,952
Total liabilities and net position	\$ 4,913,222	\$ 4,877,971

East Union Hospital Service District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2019 and 2018

	2019	2018
Operating Revenues		
Rent revenue	\$ 27,203	\$ 22,776
Total operating revenues	27,203	22,776
Operating Expenses		
Supplies and other	95,740	83,077
Depreciation and amortization	483,123	438,391
Total operating expenses	578,863	521,468
Operating Loss	(551,660)	(498,692)
Nonoperating Revenues (Expenses)		
Property taxes	679,857	669,731
Interest income	811	554
Grants	(93,179)	(102,940)
Total nonoperating revenues, net	587,489	567,345
Increase in Net Position	35,829	68,653
Net Position, Beginning of Year	4,875,952	4,807,299
Net Position, End of Year	\$ 4,911,781	\$ 4,875,952

East Union Hospital Service District
Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	2019	2018
Operating Activities		
Payments to suppliers and contractors	\$ (94,067)	\$ (80,590)
Other receipts, net	27,203	22,776
Net cash used in operating activities	(66,864)	(57,814)
Noncapital Financing Activities		
Property taxes supporting operations	681,847	677,916
Grants	(93,179)	(102,940)
Net cash provided by noncapital financing activities	588,668	574,976
Capital and Related Financing Activities		
Purchase of capital assets	(349,235)	(324,710)
Net cash used in capital and related financing activities	(349,235)	(324,710)
Investing Activities		
Interest on investments and bank deposits	811	554
Net cash provided by investing activities	811	554
Increase in Cash	173,380	193,006
Cash, Beginning of Year	439,414	246,408
Cash, End of Year	\$ 612,794	\$ 439,414
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (551,660)	\$ (498,692)
Depreciation and amortization	483,123	438,391
Changes in operating assets and liabilities		
Accounts payable	(578)	774
Prepaid expenses	2,251	1,713
Net cash used in operating activities	\$ (66,864)	\$ (57,814)

East Union Hospital Service District
Notes to Financial Statements
March 31, 2019 and 2018

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 2019 and 2018 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.

East Union Hospital Service District
Notes to Financial Statements
March 31, 2019 and 2018

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 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 2019 and 2018. These funds were used to support operations and support provided to the Hospital.

The District enters into property tax abatement agreements with local businesses under the state Property Redevelopment and Tax Abatement Act (the Act). Under the Act, counties may designate reinvestment zones within the county boundaries, excluding municipal areas. The District, which shares part of the county boundaries, may grant abatements to applicant companies to develop projects within the reinvestment zones that are expected to provide economic benefits. The District can grant property tax abatements of up to 100 percent of a business' property tax bill. The abatements may be granted to any business developing within or promising to develop in the designated zones.

For the years ended March 31, 2019 and 2018, the District abated property taxes totaling approximately \$1,400 and \$0, respectively, under this program. The tax abatements included two abatements for the development of a poultry farm project. In return for the abatement, the developer agreed to complete the projects within a reasonable time period and to continue operations for the 10 year abatement period. The District can recapture the abated taxes on any removed improvements from the date of the abatement election.

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

East Union Hospital Service District

Notes to Financial Statements

March 31, 2019 and 2018

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 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, 2019 and 2018, none of the District's bank balances of \$614,679 and \$439,414, respectively, were exposed to custodial credit risk.

East Union Hospital Service District
Notes to Financial Statements
March 31, 2019 and 2018

Note 3: Capital Assets

Capital assets activity for the years ended March 31 was:

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 115,554	\$ -	\$ -	\$ -	\$ 115,554
Land improvements	144,621	5,500	-	-	150,121
Buildings and improvements	6,873,014	7,100	-	-	6,880,114
Equipment	3,231,553	148,771	-	65,046	3,445,370
Construction in progress	148,546	187,864	-	(65,046)	271,364
	<u>10,513,288</u>	<u>349,235</u>	<u>-</u>	<u>-</u>	<u>10,862,523</u>
Less accumulated depreciation					
Land improvements	84,534	10,375	-	-	94,909
Buildings and improvements	3,103,567	287,298	-	-	3,390,865
Equipment	2,907,879	185,450	-	-	3,093,329
	<u>6,095,980</u>	<u>483,123</u>	<u>-</u>	<u>-</u>	<u>6,579,103</u>
Capital assets, net	<u>\$ 4,417,308</u>	<u>\$ (133,888)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,283,420</u>
	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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, 2019 and 2018

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 \$93,179 and \$102,940 for the years ended March 31, 2019 and 2018, 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, 2019, 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 August 29, 2019.

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 2019-001 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
August 29, 2019

East Union Hospital Service District
Schedule of Finding and Response
Year Ended March 31, 2019

Reference Number	Finding
2019-001	<p style="text-align: center;">Asset Capitalization and Property Tax Receivables</p> <p>Criteria – 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>Condition – The District improperly recorded all capital asset additions in 2019 as an expense, did not record an estimate for depreciation expense in 2019, and did not reconcile the receivable for property taxes as of March 31, 2019. 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>Context – A formal review was not performed resulting in inaccurate financial information.</p> <p>Effect – 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>Cause – This is largely due to the staff and resource limitations.</p> <p>Recommendation – 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>Views of responsible officials and planned corrective actions – 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, 2019

Reference Number	Finding
2018-001	<p style="text-align: center;">Asset Capitalization and Property Tax Receivables</p> <p>Criteria – 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>Condition – 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>Context – A formal review was not performed resulting in inaccurate financial information.</p> <p>Effect – 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>Cause – This is largely due to the staff and resource limitations.</p> <p>Recommendation – 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>Views of responsible officials and planned corrective actions – 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 as of and for the year ended March 31, 2019, 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, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 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 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.

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*.

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 matter where conflicts exist.

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.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

GASB Statement No. 87, Leases (GASB 87)

GASB 87 provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for the District's fiscal year ending March 31, 2021. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

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

Waco, Texas
August 29, 2019

EAST UNION HOSPITAL SERVICE DISTRICT
P.O. BOX 941
FARMERVILLE, LA 71241

August 29, 2019

BKD, LLP
Certified Public Accountants
510 N. Valley Mills Drive, Suite 200
Waco, Texas 76710

We, East Union Hospital Service District (the District), are providing this letter in connection with your audits of our financial statements as of and for the years ended March 31, 2019 and 2018. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated May 30, 2019, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of meetings of the governing body held through the date of this letter.
 - (e) All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.
8. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, customers, regulators, suppliers or others.
10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other.

The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

11. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial statements.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the District is contingently liable.
12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We have no reason to believe the District owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
15. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Purchase commitments in excess of normal requirements or above prevailing market prices.

16. Except as disclosed in the financial statements, we have:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
17. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
18. With regard to deposit and investment activities:
 - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
19. With respect to any nonattest services you have provided us during the year, including drafting the financial statements and related note disclosures and maintaining capital asset schedules:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
20. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

21. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
22. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
23. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
24. We have a process to track the status of audit findings and recommendations.
25. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
26. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
27. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

EAST UNION HOSPITAL SERVICE DISTRICT



Howard Allen, Board Chair



Donna Cranford, Administrative Assistant

East Union Hospital Service District

Independent Accountant's Report on

Applying Agreed-Upon Procedures

For the Year Ended March 31, 2019



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, 2019. 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
August 29, 2019

East Union Hospital Service District
Applying Agreed-Upon Procedures
Year Ended March 31, 2019

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).

East Union Hospital Service District
Applying Agreed-Upon Procedures
Year Ended March 31, 2019

- 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 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, 2019 and that the listing was complete.

East Union Hospital Service District
Applying Agreed-Upon Procedures
Year Ended March 31, 2019

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

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.

East Union Hospital Service District

Applying Agreed-Upon Procedures

Year Ended March 31, 2019

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 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, 2019 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.

East Union Hospital Service District
Applying Agreed-Upon Procedures
Year Ended March 31, 2019

- 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.
- 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, 2019, 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.

East Union Hospital Service District
Applying Agreed-Upon Procedures
Year Ended March 31, 2019

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:
- 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, 2019. 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.

East Union Hospital Service District
Applying Agreed-Upon Procedures
Year Ended March 31, 2019

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.

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.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.