

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

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**May 31, 2018 and 2017**



**CRI** CARR  
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**(d/b/a Morehouse General Hospital)**  
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**May 31, 2018**

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**Carr, Riggs & Ingram, LLC**  
400 West Parkway Place  
Suite 300  
Ridgeland, MS 39157

Mailing Address:  
P.O. Box 2418  
Ridgeland, MS 39158-2418

(601) 853-7050  
(601) 853-9331 (fax)  
CRIcpa.com

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of 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.

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of May 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Prior Period Financial Statements**

The financial statements of the Hospital as of May 31, 2017 were audited by other auditors whose report, dated November 27, 2017, expressed an unmodified opinion on those statements.

### **Other Matters**

#### **Required Supplementary Information**

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

#### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 37 - 41 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi

November 28, 2018

**Morehouse Parish Hospital Service District No. 1**  
**(d/b/a Morehouse General Hospital)**  
**Statements of Net Position**

<i>May 31,</i>	<b>2018</b>	2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,504,324	\$ 6,543,064
Patient accounts receivable, less allowance for uncollectible accounts of \$2,704,966 in 2018 and \$5,874,530 in 2017	1,937,741	2,023,152
Inventory and supplies	643,040	654,794
Assets limited as to use, current portion	526,308	526,308
Prepaid expenses and other current assets	2,647,015	2,833,263
<b>Total current assets</b>	<b>12,258,428</b>	12,580,581
Noncurrent assets		
Assets limited as to use	721,006	636,166
Capital assets, net of accumulated depreciation of \$35,487,141 in 2018 and \$34,436,268 in 2017	10,443,430	9,472,461
<b>Total noncurrent assets</b>	<b>11,164,436</b>	10,108,627
<b>Total assets</b>	<b>\$ 23,422,864</b>	\$ 22,689,208

(Continued)

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Statements of Net Position (Continued)**

<i>May 31,</i>	<b>2018</b>	<b>2017</b>
<b>Liabilities and Net Position</b>		
Current liabilities		
Accounts payable	\$ 1,933,520	\$ 2,081,004
Employee compensation and payroll tax liabilities	585,117	852,454
Other accrued liabilities	840,596	2,128,609
Estimated claims liability	399,670	389,671
Estimated amounts due to third-party payors	712,854	517,867
Short-term debt	98,488	-
Current portion of certificate indebtedness	-	1,340,380
Current portion of capital lease obligations	37,110	54,482
Current portion of long-term debt	1,344,221	716,253
<b>Total current liabilities</b>	<b>5,951,576</b>	<b>8,080,720</b>
Long-term liabilities		
Estimated claims liability	306,902	306,902
Capital lease obligation, less current portion	22,513	88,459
Long-term debt, less current portion	10,539,997	10,798,300
<b>Total long-term liabilities</b>	<b>10,869,412</b>	<b>11,193,661</b>
<b>Total liabilities</b>	<b>16,820,988</b>	<b>19,274,381</b>
Net position		
Net investment in capital assets	3,116,449	1,811,709
Restricted	1,247,314	1,162,474
Unrestricted	2,238,113	440,644
<b>Total net position</b>	<b>6,601,876</b>	<b>3,414,827</b>
<b>Total liabilities and net position</b>	<b>\$ 23,422,864</b>	<b>\$ 22,689,208</b>

(Concluded)

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

**Morehouse Parish Hospital Service District No. 1**  
**(d/b/a Morehouse General Hospital)**  
**Statements of Revenues, Expenses and Changes in Net Position**

<i>Years ended May 31,</i>	<b>2018</b>	2017
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for bad debts of approximately \$2,256,050 in 2018 and \$3,372,306 in 2017	\$ 24,595,021	\$ 23,236,364
Intergovernmental transfer - operating grant income	3,481,651	2,906,116
Other operating revenue	651,214	1,123,006
<b>Total operating revenues</b>	<b>28,727,886</b>	27,265,486
<b>Operating Expenses</b>		
Salaries and benefits	11,511,776	11,739,472
Outside services	8,739,812	6,985,949
Other operating expenses	2,193,513	2,226,334
Medical supplies and drugs	2,049,720	2,293,011
Depreciation and amortization	1,106,016	1,192,236
Insurance	634,680	779,133
Other supplies	622,421	427,750
<b>Total operating expenses</b>	<b>26,857,938</b>	25,643,885
<b>Operating income</b>	<b>1,869,948</b>	1,621,601
<b>Nonoperating Revenues (Expenses)</b>		
Investment earnings	3,940	3,864
Ad valorem tax revenue	1,790,824	1,775,110
Grant revenue	8,210	9,782
Contributions	27,410	-
Other	-	1,164,653
Interest expense	(513,283)	(477,874)
<b>Total nonoperating revenues (expenses)</b>	<b>1,317,101</b>	2,475,535
<b>Increase in net position</b>	<b>3,187,049</b>	4,097,136
<b>Net Position (Deficit) - beginning of year</b>	<b>3,414,827</b>	(682,309)
<b>Net Position - end of year</b>	<b>\$ 6,601,876</b>	\$ 3,414,827

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

**Morehouse Parish Hospital Service District No. 1**  
**(d/b/a Morehouse General Hospital)**  
**Statements of Cash Flows**

<i>Years ended May 31,</i>	<b>2018</b>	2017
<b>Operating Activities</b>		
Receipts from patients and third-party payors	\$ 24,927,252	\$ 25,656,103
Payments to suppliers and contractors	(14,482,674)	(13,581,311)
Payments to employees and for employee-related costs	(13,065,846)	(11,485,838)
Receipts from intergovernmental transfers	3,428,543	2,563,778
Receipts from Electronic Health Record incentives	260,249	533,495
Other receipts	391,516	589,423
Net cash provided by operating activities	<b>1,459,040</b>	4,275,650
<b>Noncapital Financing Activities</b>		
Ad valorem taxes received	1,796,145	1,769,789
Proceeds from certificates of indebtedness	-	335,000
Payments on certificates of indebtedness	(320,572)	(91,766)
Proceeds from short-term debt	182,251	-
Payments on short-term debt	(83,763)	-
Payments on hospital revenue bonds	(112,161)	(130,951)
Grants received	8,210	9,782
Contributions received	27,410	-
Interest paid	(271,121)	(129,367)
Net cash provided by noncapital financing activities	<b>1,226,399</b>	1,762,487
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(1,841,041)	(542,384)
Proceeds from insurance settlements	-	1,164,653
Proceeds from note payable	50,000	-
Payments on note payable	(12,000)	-
Payments on capital lease obligations	(31,733)	(52,185)
Payments on hospital revenue bonds	(575,982)	(555,794)
Interest paid	(232,523)	(344,094)
Net cash used in capital and related financing activities	<b>(2,643,279)</b>	(329,804)
<b>Investing Activities</b>		
Change in assets limited as to use	(84,840)	(92,831)
Investment income received	3,940	3,864
Net cash used in investing activities	<b>(80,900)</b>	(88,967)
Net (decrease) increase in cash and cash equivalents	<b>(38,740)</b>	5,619,366
<b>Cash and Cash Equivalents - beginning of year</b>	<b>6,543,064</b>	923,698
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 6,504,324</b>	\$ 6,543,064

(Continued)

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Statements of Cash Flows (Continued)**

<i>Years ended May 31,</i>	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 1,869,948	\$ 1,621,601
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,106,016	1,192,236
Provision for uncollectible accounts	2,256,050	3,372,306
Loss on disposal of capital assets	-	32,584
Changes in:		
Patient accounts receivable	(2,170,639)	(3,442,764)
Inventory and supplies	11,754	134,798
Prepaid expenses and other current assets	180,927	1,475,318
Accounts payable	(435,013)	786,405
Employee compensation and payroll tax liabilities	(267,337)	(107,785)
Estimated claims liability	9,999	(110,035)
Other accrued liabilities	(1,297,652)	(997,395)
Estimated amounts due to third-party payors	194,987	318,381
<b>Net cash provided by operating activities</b>	<b>\$ 1,459,040</b>	<b>\$ 4,275,650</b>

**Supplemental Disclosure of Noncash Investing Activities:**

Purchase of capital assets through accounts payable	\$ 287,529	\$ -
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(Concluded)

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES**

***Reporting Entity***

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

The financial statements also include the accounts of the Morehouse Healthcare Foundation (the Foundation). The Foundation is a not-for-profit organization created in 2017 exclusively for charitable, religious, educational and scientific purpose for the primary benefit of the Hospital. All significant inter-entity accounts and transactions have been eliminated. The Foundation is included in the financial statements as a blended component unit pursuant to Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component units, an Amendment of GASB Statement No. 14*, which requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The Board of Commissioners ratify any appointments to the Foundation's Board of Directors. The Foundation does not issue separate financial statements. The Foundation is a non-stock, not-for-profit Louisiana corporation considered to be and operated as if it is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

***Basis of Accounting and Presentation***

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

***Use of Estimates***

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES  
(Continued)**

***Cash and Cash Equivalents***

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

***Capital Assets***

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

Land improvements	15 to 20 years
Buildings and improvements	20 to 40 years
Equipment, computers and furniture	3 to 7 years

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

***Capitalized Interest***

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized for the years ended May 31, 2018 and 2017, respectively. Interest charged to expense amounted to \$513,283 and \$477,874 for fiscal years 2018 and 2017, respectively.

***Financing Costs***

Financing costs are expensed as incurred.

***Restricted Resources***

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES**

(Continued)

***Grants and Contributions***

From time to time, the Hospital receives grants from the State of Louisiana, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

***Patient Accounts Receivable***

Patient accounts receivable are uncollateralized patient and third-party payor obligations reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

***Net Position***

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

***Operating Revenues and Expenses***

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity.

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES**

**(Continued)**

***Compensated Absences***

The Hospital's employees earn paid time off (PTO) at varying rates depending upon length of service and other factors. Amounts earned, but not yet used, totaled \$431,951 and \$412,352, as of May 31, 2018 and 2017, respectively. These amounts are reported as a component of employee compensation and payroll tax liabilities on the Hospital's statements of net position.

***Risk Management***

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

***Designated Cash and Investments***

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

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

Investments in debt and equity securities, when present, are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenue when earned. Unrealized gains (losses) reflected in investment income were not significant in 2018 and 2017.

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

***Inventories***

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES**

(Continued)

***Net Patient Service Revenue***

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reported net of provision for bad debts.

***Charity Care***

The Hospital provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone for services and supplies furnished under its charity care policy which totaled \$8,256 in fiscal 2018 and \$77,461 in fiscal 2017. The cost of charity care services provided during fiscal years 2018 and 2017 was estimated to be approximately \$2,287 and \$22,076, respectively, calculated by applying the cost to charge ratio from the latest Medicare cost report to charges forgone.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program. The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. EHR funding of \$260,249 and \$533,495 was recognized for the years ended May 31, 2018 and 2017, respectively, and included as a component of other operating revenue on the statements of revenues, expenses and changes in net position.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES  
(Continued)**

***Investment Income***

Interest on cash and deposits is included in nonoperating revenues when earned.

***Reclassifications***

Certain reclassifications have been made to the prior year's accounts to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net position.

***Impact of Recently Adopted Accounting Pronouncements***

During the year ended May 31 2018, the Hospital adopted three new statements of financial accounting standards issued by GASB, as follows:

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74)
- Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14* (GASB 80)
- Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81)

GASB 74 establishes accounting and financial reporting standards, but not funding or budgetary standards, for state and local governmental other postemployment benefit (OPEB) plans. GASB 74 replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The adoption of GASB 74 had no impact on the Hospital's financial statements.

GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments by providing an additional criterion. A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member as identified in the component unit's articles of incorporation or bylaws. There was no material impact on the Hospital's financial statements as a result of the implementation of GASB 80.

GASB 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. There was no impact on the Hospital's financial statements as a result of the implementation of GASB 81.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES  
(Continued)**

***Accounting Pronouncements Recently Issued But Not Yet Effective***

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Authority upon implementation. Management has not yet evaluated the effect of implementation of these standards.

<b>GASB Statement No.</b>	<b>GASB Accounting Standard</b>	<b>Effective Fiscal Year</b>
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2020
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2021

GASB 75 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for OPEB that is provided to the employees of state and local governmental employers through OPEB Plans that are administered through trusts or equivalent arrangements meeting certain criteria. GASB 75 also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. For defined benefit OPEB plans, GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are addressed. GASB 75 is effective for fiscal years beginning after June 15, 2017.

GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB 83 establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to AROs. Existing laws and regulations require governments to take specific actions to retire certain capital assets. Other obligations to retire certain capital assets may arise from contracts or court judgments. Under GASB 83, a government that has legal obligations to perform future asset retirement activities related to

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**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES**

**(Continued)**

its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The guidance also identifies the circumstances that trigger recognition of these transactions. GASB 83 requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an ARO will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. Disclosure requirements include a general description of the ARO and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability, and other relevant information. The requirements for GASB 83 are effective for reporting periods beginning after June 15, 2018.

GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. GASB 84 also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018.

GASB 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017.

GASB 86 improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 also improves

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**NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF ACCOUNTING POLICIES**

**(Continued)**

accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017.

The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Management does not currently anticipate early adoption and anticipates that, upon adoption, the statement will have material implications on its financial reporting beginning in the fiscal year ending May 31, 2021.

**NOTE 2: NET PATIENT SERVICE REVENUE**

Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Hospital's provision for bad debts is classified as a reduction to net patient service revenue. During the years ended May 31, 2018 and 2017, approximately 81% and 79%, respectively, of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

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

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**NOTE 2: NET PATIENT SERVICE REVENUE (Continued)**

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

As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Settlements through May 31, 2014 and 2010, for the Medicare and Medicaid programs, respectively, have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates. These adjustments resulted in decreased in net patient service revenue of \$35,713 and \$429,264 in 2018 and 2017, respectively. The effect of any adjustments that might be made to cost reports still subject to review will be reported in the Hospital's financial position or results of operations as such determinations are made.

The Hospital participates in Medicaid supplemental payment programs, as detailed in Note 11, to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. The Hospital recognized \$4,800,000 and \$4,416,710, in revenues associated with these programs during the fiscal years ended May 31, 2018 and 2017, respectively, which are included as a component of net patient service revenue.

**NOTE 3: DEPOSITS AND INVESTMENTS**

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

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

***Interest Rate Risk***

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

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**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

***Credit Risk***

Louisiana’s statutes also require that all the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital’s bank deposits consist of demand deposit accounts and certificates of deposit. These bank deposits are included in cash and cash equivalents and designated cash, and, as of May 31, 2018, the Hospital’s deposits were fully insured or collateralized with securities held by the agent of the pledging banks in the Hospital’s name. Statutes authorize the Hospital to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor’s Corporation or P-1 by Moody’s Commercial Paper Record, and bankers’ acceptances.

***Concentration of Credit Risk***

The Hospital places no limit on the amount it may invest in any one issuer. At May 31, 2018, the Hospital’s invested funds consisted of certificates of deposit included in cash and cash equivalents. The Hospital maintained deposits in one financial institution in excess of FDIC insurance limits, however, as discussed above, the funds were covered by collateral held by the financial institution in the Hospital’s name.

As of May 31, 2018 and 2017, all of the Hospital’s deposits and short-term investments were considered cash and cash equivalents and are included in the Hospital’s statements of net position as follows:

<i>May 31,</i>	<b>2018</b>	2017
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,504,324	\$ 6,543,064
Assets limited as to use, current portion	<b>526,308</b>	526,308
<b>Noncurrent assets</b>		
Assets limited as to use	<b>721,006</b>	636,166
	<b>\$ 7,751,638</b>	\$ 7,705,538

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**NOTE 4: ASSETS LIMITED AS TO USE**

The terms of the Hospital's Revenue Bonds require funds to be maintained on deposit in certain accounts with the trustee (see Note 6). The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the bond resolution. In addition, the Hospital's Board of Commissioners has certain assets pledged to fulfill the requirements of the Louisiana Patients Compensation Fund.

The composition of assets, whose use is limited as of May 31, 2018 and 2017, was as follows:

<i>May 31,</i>	<b>2018</b>	2017
Pledged by board for specific purposes		
Certificates of deposits	\$ 127,866	\$ 127,803
Required by bond resolutions (principally interest bearing cash and certificates of deposits)		
Series 2010 reserve fund	382,143	339,819
Series 2010 contingencies fund	384,343	342,017
Litigation research fund	52,449	52,472
Short-lived asset depreciation reserve fund	300,513	300,363
	<b>1,119,448</b>	1,034,671
Total assets limited as to use	<b>1,247,314</b>	1,162,474
Less: current portion	<b>(526,308)</b>	(526,308)
<b>Noncurrent assets limited as to use</b>	<b>\$ 721,006</b>	\$ 636,166

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**NOTE 5: CAPITAL ASSETS**

Capital asset activity as of and for the year ended May 31, 2018, was as follows:

	June 1, 2017	Additions	Disposals	Transfers	May 31, 2018
<b>Capital assets, not being depreciated</b>					
Land	\$ 341,296	\$ -	\$ -	\$ -	\$ 341,296
Construction in progress	430,504	1,900,591	-	(2,139,025)	192,070
<b>Total capital assets, not being depreciated</b>	<b>771,800</b>	<b>1,900,591</b>	<b>-</b>	<b>(2,139,025)</b>	<b>533,366</b>
<b>Capital assets, not being depreciated</b>					
Land improvements	608,422	-	-	-	608,422
Buildings	26,131,599	108,954	-	2,090,522	28,331,075
Equipment	16,396,908	119,025	-	(58,225)	16,457,708
<b>Total capital assets, being depreciated</b>	<b>43,136,929</b>	<b>227,979</b>	<b>-</b>	<b>2,032,297</b>	<b>45,397,205</b>
Less: accumulated depreciation	(34,436,268)	(1,106,016)	-	55,143	(35,487,141)
Total capital assets, being depreciated, net	8,700,661	(878,037)	-	2,087,440	9,910,064
<b>Hospital capital assets, net</b>	<b>\$ 9,472,461</b>	<b>\$ 1,022,554</b>	<b>\$ -</b>	<b>\$ (51,585)</b>	<b>\$ 10,443,430</b>

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Notes to Financial Statements**

**NOTE 5: CAPITAL ASSETS (Continued)**

Capital asset activity as of and for the year ended May 31, 2017, was as follows:

	June 1, 2016	Additions	Disposals	Transfers	May 31, 2017
<b>Capital assets, not being depreciated</b>					
Land	\$ 341,296	\$ -	\$ -	\$ -	\$ 341,296
Construction in progress	-	430,504	-	-	430,504
<b>Total capital assets, not being depreciated</b>	<b>341,296</b>	<b>430,504</b>	<b>-</b>	<b>-</b>	<b>771,800</b>
<b>Capital assets, not being depreciated</b>					
Land improvements	625,500	-	-	(17,078)	608,422
Buildings	21,290,138	28,284	-	4,813,177	26,131,599
Equipment	21,111,290	83,596	-	(4,797,978)	16,396,908
<b>Total capital assets, being depreciated</b>	<b>43,026,928</b>	<b>111,880</b>	<b>-</b>	<b>(1,879)</b>	<b>43,136,929</b>
Less: accumulated depreciation	(33,213,327)	(1,192,236)	-	(30,705)	(34,436,268)
Total capital assets, being depreciated, net	9,813,601	(1,080,356)	-	(32,584)	8,700,661
<b>Hospital capital assets, net</b>	<b>\$ 10,154,897</b>	<b>\$ (649,852)</b>	<b>\$ -</b>	<b>\$ (32,584)</b>	<b>\$ 9,472,461</b>

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

**NOTE 6: DEBT**

***Short-term Debt***

In November 2017, the Hospital financed \$103,392 related to insurance premiums for its professional and general liability, crime and cyber policies. Under the financing agreement, which bears interest at 6.39%, principal and interest payments are due in 11 consecutive monthly installments of \$9,702 beginning November 2017. The balance of this financial agreement was \$47,746 at May 31, 2018.

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**NOTE 6: DEBT (Continued)**

In January 2018, the Hospital financed \$78,859 related to its worker's compensation insurance premiums. Under the financing agreement, which bears interest at 6.72%, principal and interest payments are due in 11 consecutive monthly installments of \$7,412 beginning February 2018. The balance of this financial agreement was \$50,742 at May 31, 2018.

A summary of changes in the Hospital's short-term debt for the year ended May 31, 2018 follows:

	June 1, 2017	Additions	Reductions	May 31, 2018
<b>Short-term debt</b>				
Insurance premium financing:				
Professional, general liability, crime, cyber	\$ -	\$ 103,392	\$ (55,646)	\$ 47,746
Worker's compensation	-	78,859	(28,117)	50,742
<b>Total short-term debt</b>	<b>\$ -</b>	<b>\$ 182,251</b>	<b>\$ (83,763)</b>	<b>\$ 98,488</b>

**Long-term Debt**

Long-term debt activity as of and for the years ended May 31, 2018 and 2017, was as follows:

	June 1, 2017	Additions	Reductions	May 31, 2018	Due Within One Year	Long-term Portion
<b>Long-term Debt</b>						
Hospital revenue bonds,						
Series 2008A	\$ 3,996,742	\$ -	\$ (112,161)	\$ 3,884,581	\$ 124,826	\$ 3,759,755
Series 2010	6,049,214	-	(299,810)	5,749,404	312,805	5,436,599
Series 2012	1,468,597	-	(276,172)	1,192,425	284,690	907,735
Certificate of indebtedness	1,340,380	-	(320,572)	1,019,808	607,500	412,308
Note payable	-	50,000	(12,000)	38,000	14,400	23,600
Capital lease obligations	142,941	-	(83,318)	59,623	37,110	22,513
<b>Total long-term debt</b>	<b>\$ 12,997,874</b>	<b>\$ 50,000</b>	<b>\$ (1,104,033)</b>	<b>\$ 11,943,841</b>	<b>\$ 1,381,331</b>	<b>\$ 10,562,510</b>

**Morehouse Parish Hospital Service District No. 1**  
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**Notes to Financial Statements**

**NOTE 6: DEBT (Continued)**

	June 1, 2016	Additions	Reductions	May 31, 2017	Due Within One Year	Long-term Portion
<b>Bonds payable and capital lease</b>						
Hospital revenue bonds,						
Series 2008A	\$ 4,127,693	\$ -	\$ (130,951)	\$ 3,996,742	\$ 140,271	\$ 3,856,471
Series 2010	6,337,106	-	(287,892)	6,049,214	299,810	5,749,404
Series 2012	1,736,499	-	(267,902)	1,468,597	276,172	1,192,425
Certificate of indebtedness	1,097,146	335,000	(91,766)	1,340,380	1,340,380	-
Capital lease obligations	195,126	-	(52,185)	142,941	54,482	88,459
<b>Total bonds payable and capital leases</b>	<b>\$ 13,493,570</b>	<b>\$ 335,000</b>	<b>\$ (830,696)</b>	<b>\$ 12,997,874</b>	<b>\$ 2,111,115</b>	<b>\$ 10,886,759</b>

Long-term debt and capital lease obligations as of May 31, 2018 and 2017 consisted of the following:

<i>As of May 31,</i>	<b>2018</b>	2017
Hospital revenue bonds, Series 2008A	(A) \$ <b>3,884,581</b>	\$ 3,996,742
Hospital revenue bonds, Series 2010	(B) <b>5,749,404</b>	6,049,214
Hospital revenue bonds, Series 2012A	(C) <b>1,192,425</b>	1,468,597
Certificate of indebtedness	(D) <b>1,019,808</b>	1,340,380
Note payable	(E) <b>38,000</b>	-
Capital lease obligations	(F) <b>59,623</b>	142,941
	<b>11,943,841</b>	12,997,874
Less: current maturities	<b>(1,381,331)</b>	(2,111,115)
<b>Total long-term debt and capital leases</b>	<b>\$ 10,562,510</b>	<b>\$ 10,886,759</b>

(A) As a component of its plan for physical plant improvements, other capital assets acquisition, and overall financial restructuring, on September 26, 2008, the Hospital issued a Taxable Hospital Revenue Bond (USDA-90% Guaranteed), Series 2008A in the amount of \$4,643,050 as authorized by a resolution enacted September 24, 2008.

The Hospital is required to make monthly payments beginning October 1, 2008 and continuing on the first day of each month thereafter through the scheduled maturity date of September 26, 2037. Payments are applied first to accrued interest, and then to principal. The bond bore interest at a fixed rate of 7.5% through October 1, 2014. Effective October 2, 2014, the interest rate is a variable rate equal to the prevailing prime rate as published in the Wall

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**NOTE 6: DEBT (Continued)**

Street Journal (WSJ) on the first business day of each calendar quarter (January 1, April 1, July 1, and October 1). The amount of monthly payments, initially \$32,767, is adjusted to accommodate changes in the interest rate, and was \$25,767 at May 31, 2018 to reflect a 4.75% interest rate.

The bond is secured by (i) an irrevocable pledge and assignment of the net revenues (as defined in the bond resolution) of the Hospital; (ii) a first mortgage on the Hospital; and (iii) a first security interest in equipment (as defined in the Bond Resolution). The pledge of net revenues was subject to the lien of the existing outstanding debt obligations detailed above prior to the refunding of those obligations in November 2009. The bond is guaranteed by the United States Department of Agriculture-Rural Development-Business and Cooperative Programs at a rate of 90% of the principal and interest of any loss that might occur, subject to stipulated conditions. The bond is subject to optional redemption by the Hospital at redemption processes and dates as defined in the bond resolution.

The Hospital Board of Commissioners had passed resolutions to issue Bond Anticipation Notes, Series 2009A (the Notes) to provide interim financing prior to the issuance of the Series 2010 Bonds described in the subsequent paragraph. Upon issue on November 3, 2009, these Notes were utilized for the purposes of constructing and acquiring improvements, extensions and replacements to facilities and the advance refunding of existing long-term debt obligations, and bore interest at a variable rate of (WSJ prime +0.50). These interim obligations in anticipation of the Series 2010 issuance were issued on parity with the Series 2008A issue.

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

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

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**NOTE 6: DEBT (Continued)**

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

Restrictive Covenant Considerations Series 2008 and 2010:

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

- (C) On June 21, 2012, the Hospital issued \$2,248,489 of noninterest bearing Hospital Revenue Bonds, Series 2012A for the purpose of funding an energy efficient retrofit to the physical plant of the Hospital, including acquisition, construction, and installation of improvements in connection with the project, and to pay costs of issuance of the related

financing. The Bonds require a servicing fee at an annual rate of 0.5% to be paid to the holder on April 30 of each year. The bond is subject to mandatory amortized redemption in annual installments beginning May 30, 2015 through maturity on May 30, 2022.

Annual principal payments range from \$252,077 to \$311,810. The Bonds are issued in accordance with the terms of a Loan and Security Agreement as of June 1, 2012, by and between the Hospital and the Louisiana Public Facilities Authority (the LPFA). The LPFA is purchasing the Bonds with funds from the Louisiana Department of Natural Resources (the LDNR) Empower Louisiana Flex Fund Revolving Loan Program. In connection with the Loan Agreement, the Hospital entered into a Disbursement Agreement whereby the proceeds of the Bonds would be deposited with a local bank as "Escrow Agent" and disbursed pursuant to requisitions made by the Hospital and approved by LDNR to ensure compliance with the Program. As of May 31, 2018, the balance of the escrow had been fully requisitioned by the Hospital.

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

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**NOTE 6: DEBT (Continued)**

(D) Certificate of Indebtedness Issuance - Series 2012

In May 2012, the Hospital issued a certificate of indebtedness, series 2012, for \$430,000 which bore a fixed interest rate of 3.25%. The Hospital was required to make monthly payments of \$7,778 beginning June 15, 2012 and continuing on the same date of each month thereafter through the scheduled maturity date of May 15, 2017 when the issue was retired. The issuance was used for the purpose of paying expenses related to the purchase and acquisition of electronic medical records, equipment and software, and to pay costs of issuance of the related financing.

Certificate of Indebtedness Issuance - Series 2015

The Hospital issued a certificate of indebtedness, series 2015, on October 29, 2015 in an amount authorized up to \$2,800,000 for the purpose of paying current expenses (including costs of acquisition, operation and maintenance of equipment) and to pay costs of issuance of the certificate.

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

The first payment of accrued interest was due January 1, 2016, with subsequent payments of interest due on each April 1, July 1, October 1, and January 1 during the term of this certificate. The certificate was replaced upon maturity with the issuance of the series 2016 certificate of indebtedness on December 1, 2016.

Certificate of Indebtedness Issuance - Series 2016

The Hospital issued a series 2016 certificate of indebtedness on December 1, 2016 in an amount authorized up to \$2,800,000 for the purpose of paying current expenses (including costs of acquisition, operation and maintenance of equipment) and to pay costs of issuance of the certificate. This certificate replaced the series 2015 certificate that matured October 31, 2016.

The series 2016 certificate had a variable interest rate equal to the prime rate as published in the Wall Street Journal, plus 1.0% adjusted daily, with a minimum (floor) rate of 5.0% and a maximum (cap) rate of 8.0% or from the most recent interest payment date to which interest has been paid or duly provided for. Interest accrued only against principal amounts drawn and outstanding.

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**NOTE 6: DEBT (Continued)**

The first payment of accrued interest was due January 1, 2017, with subsequent payments of interest due on April 1, July 1, October 1, and January 1 during the term of this certificate. The certificate was replaced upon maturity with the issuance of the series 2017 certificate of indebtedness on December 1, 2017, at which time the outstanding balance was \$1,340,380.

Certificate of Indebtedness Issuance - Series 2017

The Hospital issued a series 2017 certificate of indebtedness on December 1, 2017 to replace the series 2016 certificate of indebtedness upon its maturity.

The series 2017 certificate has a variable interest rate equal to the prime rate as published in the Wall Street Journal, plus 1.0% adjusted daily, with a minimum (floor) rate of 5.0% and a maximum (cap) rate of 8.0% or from the most recent interest payment date to which interest has been paid or duly provided for. The interest rate at May 31, 2018 was 5.75%.

The Hospital is required to make monthly payments of principal and interest of \$58,804 beginning January 1, 2018 and continuing on the same day of each month thereafter through the scheduled maturity date of December 1, 2019. As of May 31, 2018 the outstanding balance on this certificate was \$1,019,808.

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

- (E) On August 2, 2017, the Hospital signed a \$50,000 promissory note related to the purchase of real estate. The note, which does not bear interest, is payable in 12 monthly installments of \$1,200 beginning August 2017, with one final payment of \$800 due upon maturity on December 31, 2020.
- (F) The Hospital entered into capital leases for various types of equipment. Under the terms of the remaining capital leasing arrangement in place at May 31, 2018, the Hospital is obligated to pay monthly rental payments of \$3,269 over the remaining years of the lease, which extends through December 15, 2019.

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

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 6: DEBT (Continued)**

Scheduled principal and interest payments on long-term debt and future minimum rental commitments payable on capital lease obligations are as follows as of May 31, 2018:

Year ending May 31:	Bonds, Notes, Certificates		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,344,221	\$ 433,991	\$ 37,110	\$ 2,126	\$ 1,381,331	\$ 436,117
2020	1,175,396	385,161	22,513	375	1,197,909	385,536
2021	786,225	357,754	-	-	786,225	357,754
2022	805,921	338,127	-	-	805,921	338,127
2023	514,602	317,676	-	-	514,602	317,676
2024 - 2028	2,910,337	1,251,052	-	-	2,910,337	1,251,052
2029 - 2033	3,138,921	599,550	-	-	3,138,921	599,550
2034 - 2038	1,208,595	133,329	-	-	1,208,595	133,329
<b>Total long-term debt and capital leases</b>	<b>\$ 11,884,218</b>	<b>\$ 3,816,640</b>	<b>\$ 59,623</b>	<b>\$ 2,501</b>	<b>\$ 11,943,841</b>	<b>\$ 3,819,141</b>

The cost of all leased assets included under the equipment caption on the statement of net position totaled \$171,989 and \$278,717 at May 31, 2018 and 2017, respectively. The related accumulated amortization was \$84,327 and \$114,017, at May 31, 2018 and 2017, respectively.

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

The Hospital has also entered into various cancelable operating leases for equipment. Operating lease expense was \$174,472 and \$216,653, for the years ended May 31, 2018 and 2017, respectively.

**NOTE 7: EMPLOYEE RETIREMENT PLANS**

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

Morehouse General Hospital Money Purchase Pension Plan & Trust

Prior to the plan's termination on December 31, 2017, the Hospital was required to contribute 7.5% of a plan participant's annual compensation. The plan provided for the contributions (and interest allocated to the employee's account) to become partially vested after three years of continuous employment and fully vested after seven years of continuous employment. The unvested portion of an account of an employee who terminated employment before becoming fully vested was used to reduce the Hospital's current year contribution.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 7: EMPLOYEE RETIREMENT PLANS (Continued)**

There was not a contribution payable at May 31, 2018. The Hospital's contributions payable to the plan amounted to \$1,286,733 at May 31, 2017 and is included in accounts payable and accrued expenses on the accompanying statements of net position. The changes in the Hospital's contributions payable to the plan were as follows for the fiscal years ended May 31, 2018 and 2017:

Fiscal Year Ended May 31,	Contributions Payable Beginning of Year	Contribution Expense Recognized*	Remittance to Plan*	Contributions Payable End of Year
2018	\$ 1,286,733	\$ 164,632	\$ (1,451,365)	\$ -
2017	\$ 1,419,659	\$ 657,881	\$ (790,807)	\$ 1,286,733

\* Includes the utilization of forfeitures of former participant's non-vested accounts of \$203,581 and \$74,072 for fiscal years 2018 and 2017, respectively.

The contribution expense recognized (net of forfeitures), as reflected in the table above, is included as a component of salaries and benefits in the accompanying statements of revenues, expenses and changes in net assets, for the years ended May 31, 2018 and 2017, respectively.

Substantially all employees of the Hospital were covered by the plan prior to its termination on December 31, 2017. Total payroll for all employees while the plan was in effect was approximately \$5,678,000 and \$9,773,000, for the years ended May 31, 2018 and 2017, respectively.

Morehouse General Hospital Tax Deferred Savings Plan

This plan, which qualifies as a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code, covers all employees who elect to participate. The plan allows participants to defer a portion of their annual compensation. The amount of annual contributions to the plan by participants is subject to certain limitations as defined in the plan document. Plan participants vest 100% immediately in their contributions and investment earnings thereon. The plan document allows for discretionary employer contributions to be made to the plan. The Hospital did not elect to make discretionary employer contributions for the years ended May 31, 2018 and 2017 and, accordingly, no contribution expense was recognized.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 8: COMMITMENTS AND CONTINGENCES**

***Management Contract***

Effective May 23, 2016, the Hospital entered into a management agreement with a healthcare consulting and management company to assume the authority and responsibility for oversight of the day-to-day administration, management, and direction of the operations of the Hospital, subject to the Hospital's control as stipulated in the terms of the agreement. In addition to overseeing the day-to-day operations, the management company makes recommendations to the Hospital's board of commissioners regarding matters of facility improvements and expansion, public relations, provider and payor relationships and strategic planning.

Under the terms of the agreement, the management company provides the Hospital's chief executive officer and chief financial officer as direct employees, for which the Hospital pays the management company a monthly fee equal to their salaries and benefits. The Hospital also pays a monthly fee of \$30,000 to the management company for other management and support services provided. The term of the agreement began on the effective date and continues for a period of 36 months. Following the initial term, the agreement automatically renews for successive 12-month terms, subject to either party's written notification of termination. The agreement contains provisions that allow either party to terminate the agreement immediately with cause, as defined. Either party may terminate the agreement without cause following the initial 12 months by providing 90 days' notice to the other party. Subject to the initial three year term the management fee is subject to inflationary increases.

***Self-Insurance Claims and Litigation***

Since November 1, 2002, the Hospital has been self-insured for individual medical malpractice claims up to \$100,000. For individual malpractice claims in excess of \$100,000, the Hospital participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides malpractice insurance coverage on a claims-made basis for claims up to the statutory maximum exposure of \$500,000, which currently exists under Louisiana law, plus interest and future medical costs. The Hospital has purchased additional malpractice insurance providing coverage up to \$2,500,000 taken together.

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

In August of 2012, the Hospital was notified of a judgment by an appellate court in favor of the plaintiff relative to a long-standing litigation matter. Management has recorded a liability in the amount \$219,243, which represents the full amount of the ordered settlement. As of May 31, 2018 and 2017, the Hospital had also cumulatively accrued an additional \$180,427 and \$170,428, respectively, in judicial interest in connection with the settlement liability. The Hospital is a defendant in a number of other legal actions arising in the ordinary course of business.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 8: COMMITMENTS AND CONTINGENCES (Continued)**

A roll forward of the Hospital's estimated liability for litigation and self-insurance claims follows:

Year Ended May 31,	Total Liability at Beginning of Year	New Claims and Changes in Estimates	Claim Payments	Total Liability at End of Year	Estimated Amount due Within One Year
2018	\$ 696,573	\$ 99,202	\$ (89,203)	\$ 706,572	\$ 399,670
2017	\$ 806,608	\$ (30,035)	\$ (80,000)	\$ 696,573	\$ 389,671

***Recovery Audit Contractors***

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

The program uses RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year but not longer than three years. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits at the time of notice received until such time that estimates of net amounts due can be reasonably estimated. Continued RAC and MIC assessments are anticipated; however, the outcome of any such assessments is unknown and cannot be reasonably estimated. Management's experience has determined that RAC and MIC assessments have been immaterial to date.

**NOTE 9: GOVERNMENT REGULATIONS**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potentially significant wrongdoing. However, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 9: GOVERNMENT REGULATIONS (Continued)**

Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received.

**NOTE 10: CONCENTRATION OF CREDIT RISK**

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

<i>May 31,</i>	<b>2018</b>	2017
Medicare	<b>23%</b>	18%
Medicaid	<b>23%</b>	19%
Managed care and other payors	<b>34%</b>	30%
Self-Pay	<b>20%</b>	33%
	<b>100%</b>	100%

**NOTE 11: PHYSICIAN’S MEDICAID UPPER PAYMENT LIMIT (UPL) AND FULL MEDICAID PRICING (FMP) AGREEMENTS**

The Hospital entered in to agreements with the Louisiana Department of Health (LDH) and Medicaid managed care organizations (MCOs) which were approved by CMS. Under these programs, LDH began making payments under the Physician’s Supplemental Payment and Full Medicaid Pricing (FMP) programs for non-state owned public hospitals (HSDs). The purpose of these programs under traditional and MCO based Medicaid is to enhance payments to physicians employed or contracted by the public hospitals.

Morehouse agreed to transfer funds to LDH to be used as Medicaid matching funds for the purpose of making physician supplemental payments and providing the State with additional resources to assist in the medical costs to the State. These matching funds are comprised of (1) an amount to be utilized as the “non-federal share” of the supplemental payments for services provided by the identified physician and other healthcare professionals and (2) the “state retention amount”, which is fifteen percent of the “non-federal share”, for the State to utilize in delivering healthcare services. In turn, the Hospital receives supplemental Medicaid payments. The supplemental payments

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 11: PHYSICIAN'S MEDICAID UPPER PAYMENT LIMIT (UPL) AND FULL MEDICAID PRICING (FMP) AGREEMENTS (Continued)**

include the "non-federal share" and the "federal funds" generated by the "non-federal share" payments. The total amount of the supplemental payments is intended to represent the difference between the Medicaid payments otherwise made to these qualifying providers and the Average Community Rate for these services.

During 2018 and 2017, in accordance with the funding provisions of the above agreements, the Hospital recognized \$4,800,000 and \$4,416,710, as components of net patient service revenue, respectively. The Hospital recognized \$2,341,350 and \$2,150,268, as outside services expense, funds paid or payable to the Louisiana Department of Health and Hospitals (DHH) under the terms

of the Physicians' UPL and FMP agreements during 2018 and 2017, respectively, concurrent with the income recognition from the Medicaid Supplemental Payments. As of May 31, 2018 and 2017, the Hospital reported \$1,526,843 and \$1,995,833, respectively, as receivables from these programs which are included under the caption "prepaid expenses and other assets" on the Hospital's statements of net position. As of May 31, 2018 and 2017, the Hospital had \$792,865 and \$803,784, respectively, of associated intergovernmental transfer grant (IGT) payments payable included in "other current liabilities" on its statements of net position.

**NOTE 12: INTERGOVERNMENTAL TRANSFER GRANT**

The Hospital (grantee) has entered into a cooperative endeavor agreement (CEA) with a regional public rural hospital (grantor) whereby the grantor, through its cooperation with a rural hospital trade organization, awards an IGT to be used solely to provide adequate and essential medically necessary and available healthcare services to the grantee's service population subject to the availability of such grant funds. The aggregate IGT grant income recognized was \$3,481,651 and \$2,906,116, for the fiscal years ended May 31, 2018 and 2017, respectively. As of May 31, 2018 and 2017, \$580,764 and \$527,656, respectively, are included as receivables in the statements of net position under the caption "prepaid expenses and other assets".

**NOTE 13: AD VALOREM TAX REVENUE**

In October 2007, the voters of Morehouse Parish, Louisiana approved a five-year, five-millage property tax to be levied on the 2007 tax roll on all property subject to taxation by the Morehouse Parish Hospital Service District. The voters approved to increase the millage to eight mills in November 2012 for a term of ten years. In November 2015, voters approved an additional millage of five mills for a term of ten years, which was first levied in December 2016.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 13: AD VALOREM TAX REVENUE (Continued)**

Ad valorem tax revenue is recognized each year in December when it is due and collectible. During fiscal years 2018 and 2017, the Hospital received and recorded property tax revenues in the amount of \$1,790,824 and \$1,775,110, respectively. There was no receivable for delinquent property taxes as of May 31, 2018 or 2017.

**NOTE 14: NET INVESTMENT IN CAPITAL ASSETS**

The Hospital's net investment in capital assets, as presented on the accompanying statements of net position, is calculated as follows:

<i>May 31,</i>	<b>2018</b>	2017
Capital assets	\$ 45,930,571	\$ 43,908,729
Less accumulated depreciation	(35,487,141)	(34,436,268)
Less outstanding accounts payable related to capital assets	(287,529)	-
Less debt outstanding related to capital assets		
Note payable	(38,000)	-
Hospital revenue bonds, Series 2010	(5,749,404)	(6,049,214)
Hospital revenue bonds, Series 2012A	(1,192,425)	(1,468,597)
Capital lease obligations	(59,623)	(142,941)
<b>Net investment in capital assets</b>	<b>\$ 3,116,449</b>	<b>\$ 1,811,709</b>

**NOTE 15: OPERATIONS AND FINANCIAL PERFORMANCE**

Rural hospital service districts in Louisiana continue to face economic challenges in their mission to provide quality health care access to area residents regardless of their ability to pay. Rising costs, increased federal regulation, cuts to Medicaid payment funding, and competition for physicians and insured patients has created budgetary obstacles that are increasingly difficult for these facilities to overcome. The business of healthcare in the current economic, legislative and regulatory environment remains volatile. Any of the above factors, along with others both currently in existence and/or which may arise in the future, could have a material adverse impact on the Hospital's financial position and operating results.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 15: OPERATIONS AND FINANCIAL PERFORMANCE (Continued)**

In response to these factors, in May 2016 the Board of Commissioners signed a management contract with a health care management company to take over the day-to-day operations of the Hospital and implement an ongoing action plan with the goal of strengthening the Hospital's performance and helping to maintain long-term viability. Key points of the action plan include:

- The recruitment of additional physicians to serve the Hospital's patients and enhance both the services offered and the revenue stream.
- Implementation of revenue cycle improvement measures
- Implementation of expense reductions where deemed necessary via:
  - o staffing cuts or reassignments
  - o reductions to supply
  - o costs
  - o contract negotiations
  - o clinic realignment and/or consolidation
  - o increased utilization of the pharmacy 340b program

While management is optimistic that the measures undertaken will strengthen the Hospital's financial position, the ultimate impact cannot currently be determined.

**NOTE 16: SUBSEQUENT EVENTS**

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

On September 28, 2018, the Hospital reached a settlement and release agreement related to the long-standing litigation matter discussed in Note 8. Under the terms of the agreement, accrued judicial interest will be waived and the judgment dismissed upon fulfillment of structured payments totaling \$219,243, the principal judgement amount. This amount is payable in four annual installments of \$50,000 beginning September 2018 followed by a final payment of \$19,243 on September 1, 2022.

On October 1, 2018, the Hospital signed a \$183,368 promissory note with a financial institution in connection with the purchase of building and equipment with a total cost of \$225,000. The note bears interest at 5.99%. Principal and interest payments are payable in 83 monthly installments of \$1,555 beginning November 1, 2018 plus one final payment of \$119,553, due upon maturity on October 1, 2025.



**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Notes to Financial Statements**

**NOTE 16: SUBSEQUENT EVENTS (Continued)**

On October 29, 2018, the Hospital entered into a \$262,000 capital lease for medical equipment. The capital lease does not bear interest for the first six months, and bears interest at a rate of 8.48% thereafter. Principal and interest is payable in 54 monthly installments of \$5,853 beginning May 2019 and continuing to maturity at October 2023.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Schedule of Board of Commissioners and Compensation  
For the Year Ended May 31, 2018**

<b>Commissioner</b>	<b>Total Paid</b>
Robert Green (Chairman)	\$ 400
Nicolette Releford	440
John Yeldell	440
Betty Alford Olive	400
Susan Plonnings	400
<b>Total</b>	<b>\$ 2,080</b>

*See independent auditors' report on supplementary information.*

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Schedule of Compensation, Benefits and Other Payments  
For the Year Ended May 31, 2018**

**Agency Head**

Robert Green, Chairman of the Board of Commissioners

<b>Purpose</b>	<b>Amount</b>
Salary	\$ -
Benefits - Insurance	\$ -
Benefits - Retirement	\$ -
Benefits - Other (Life)	\$ -
Car Allowance	\$ -
Vehicle Provided by Government	\$ -
Cell Phone	\$ -
Dues (RT License and ACHE)	\$ -
Vehicle Rental	\$ -
Per Diem	\$ 400
Reimbursements	\$ -
Travel	\$ -
Registration Fees	\$ -
Conference Travel	\$ -
Continuing Professional Education Fees	\$ -
Housing	\$ -
Unvouchered Expenses	\$ -
Special Meals	\$ -
Other	\$ -

Note: For the fiscal year ended May 31, 2018, the chief executive officer of Morehouse Parish Hospital Service District No. 1 (the Hospital) was employed by an independent healthcare consulting and management company under the terms of a management agreement which includes the authority and responsibility for oversight of the day-to-day administration, management, and direction of the operations of the Hospital, subject to the Hospital's control as stipulated in the terms of the agreement. Accordingly, the agency head of the Hospital is reflected as its Board of Commissioners' chairman.

*See independent auditors' report on supplementary information.*

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Schedule of Insurance Coverages  
For the Year Ended May 31, 2018**

Line of Coverage	Policy Data	Limit / Deductible
<b>Property &amp; Equipment Breakdown</b>	Allianz (Fireman's Fund Insurance Company)  11/1/2017 to 11/1/2018 Policy No. S 60 DZJ 80968784	Blanket Building / Business Personal Property & Business Income Policy Limit: \$76,373,151 (see policy for additional info)  Deductibles: Building \$10,000 Earthquake/Flood \$25,000 Wind/Hail \$50,000 BI 24 Hour Waiting Period
<b>Network Security Liability &amp; Privacy Liability (Cyber)</b>	Lloyd's of London (NAS Insurance) 11/1/2017 to 11/1/2018 Policy No. 500049	Limit: \$2,000,000 Each Claim: \$2,000,000 Policy Aggregate Retention: \$100,000 each claim; Cyber Terrorism 8 Hour Waiting Period Retro Date Unknown prior acts are covered
<b>General, Professional &amp; Umbrella Liability</b> *incl. Employee Benefits Liability	LHA (Louisiana Hospital Association) LHA Malpractice & General Liability Trust 11/1/2017 to 11/1/2018 Policy No. HPL-0390-2017	Professional Liability \$100,000 Self-Insured Retention \$400,000 Patient's Compensation Fund  General Liability \$500,000 Each Occurrence Limit  \$2,000,000 Annual General Aggregate Limit  \$50,000 Per Claim Deductible \$500,000 EBL Limit \$50,000 Deductible  Umbrella Liability \$2,500,000 Each Claim Limit / Aggregate

*See independent auditors' report on supplementary information.*

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Schedule of Insurance Coverages (Continued)  
For the Year Ended May 31, 2018**

Line of Coverage	Policy Data	Limit / Deductible
<b>Commercial Auto:</b> Business Auto Liability & Physical Damage Coverage	Liberty Mutual (The First Liberty Insurance Corp.)  11/1/2017 to 11/1/2018 Policy No. As6-651-291063-017	\$1,000,000 Combined Single Limit \$500/\$500 comp & Collision deductibles  Hired Auto Physical Damage Deductibles  \$1,000/\$1,000 comp & collision  *Incl. Hired/Non-Owned Auto Liability
<b>Executive Risk Liability (D&amp;O/EPL)</b>	Travelers (Travelers Casualty and Surety Company of America)  11/1/17 to 11/1/18 Policy No. 106528889	D&O: \$2,000,000 Per Claim (Shared with EPL) \$25,000 Retention  EPL: \$2,000,000 Per Claim (Shared with D&O) \$50,000 Retention  \$2,000,000 Policy Aggregate
<b>Fiduciary/Crime</b>	Travelers (Travelers Casualty and Surety Company of  11/1/2017 to 11/1/2018 Policy No. 105706915	Fiduciary: \$1,000,000 Aggregate Limit \$0 Retention  Crime: \$750,000 Employee Theft Limit \$10,000 Retention  ERISA: \$500,000 Limit \$0 Retention
<b>Workers' Compensation</b>	LHA (Louisiana Hospital Association) 1/1/2018 to 1/1/2019 Policy No. WC-0270-2018	Employer's Liability: \$1M/\$1M/\$1M Limits

*See independent auditors' report on supplementary information.*

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Schedule of Series 2010 Bond Resolution Fund Activity  
For the Year Ended May 31, 2018**

	<b>Beginning Balance June 1, 2017</b>	<b>Deposits</b>	<b>Earnings</b>	<b>Withdrawals</b>	<b>Ending Balance May 31, 2018</b>
Trusted funds (principally interest bearing cash and certificates of deposits):					
Series 2010 reserve fund	\$ 339,819	\$ 42,144	\$ 180	\$ -	\$ 382,143
Series 2010 contingencies fund	342,017	42,145	181	-	384,343
Litigation reserve fund	52,472	-	73	(96)	52,449
Short-lived asset depreciation reserve fund	300,363	-	150	-	300,513
<b>Total 2010 bond series fund activity</b>	<b>\$ 1,034,671</b>	<b>\$ 84,289</b>	<b>\$ 584</b>	<b>\$ (96)</b>	<b>\$ 1,119,448</b>

*See independent auditors' report on supplementary information.*



Carr, Riggs & Ingram, LLC  
400 West Parkway Place  
Suite 300  
Ridgeland, MS 39157

Mailing Address:  
P.O. Box 2418  
Ridgeland, MS 39158-2418

(601) 853-7050  
(601) 853-9331 (fax)  
CRlcpa.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated November 28, 2018.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-0002, that we consider to be material weaknesses.

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

As part of obtaining reasonable assurance about whether the Hospital'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*.

### ***Hospital's Responses to Findings***

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is intended for the information of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
November 28, 2018

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Schedule of Findings and Responses  
For the Year Ended May 31, 2018**

**2018 – 001 Construction in Progress, Prepaids and Related Liabilities**

**Criteria:** The financial statements should reflect all assets and related liabilities for goods received or services provided as of the balance sheet date.

**Condition:** At May 31, 2018, certain construction in progress and prepaid insurance amounts were omitted from the general ledger, requiring audit adjustments to correctly state the accounts.

**Cause:** The Hospital's rapid monthly close process means that invoices for goods received or services incurred prior to a given month are often not received in the accounting department until after that month's close has been completed. While the Hospital has a process in place to estimate and accrue for liabilities related to operating expenses, even when related invoices have not been received, this process does not sufficiently address liabilities related to construction in progress. In addition, the Hospital's regular monthly recording and reconciliation process did not appropriately capture liabilities related to the financing of insurance premiums.

**Effect:** The omitted amounts resulted in significant understatements of both assets and liabilities.

**Recommendation:** We recommend the Hospital ensures appropriate measures are taken to account for all assets and liabilities, with particular focus on identifying and capturing any non-routine items such as capital purchases and financing transactions.

**Management's Response and Corrective Action:** Management agrees with the recommendation and has already taken measures to update its procedures. For future construction projections, the basis for accrual will come from the initial winning bid, which means we will have more close conversations with the architect to determine projection completion percentages and expected completion dates.

For prepaid expenses that are financed, such as insurances, that liability has been established for the 2018-2019 insurance premium year.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Schedule of Findings and Responses  
For the Year Ended May 31, 2018**

**2018 – 002 Third-Party Payor Settlement Estimates - Interim Financial Statements**

**Criteria:** As was noted in the prior year's audit, preparation of financial statements in accordance with generally accepted accounting principles necessitate that the Hospital reflect an appropriate estimate of the settlement due to, or due from third party payors whose contracts or programs contain settlement provisions.

**Condition:** The Hospital does not currently have a process in place for tracking and reconciling outstanding Medicare and Medicaid costs report settlements or for estimating a provision for the current year's estimated settlement during the course of the year. While these account balances are adjusted as of year-end during the audit process, a reconciliation schedule of the amounts due to and from the Medicare and Medicaid programs should be maintained during the fiscal year.

**Cause:** Transitions in management positions over the last two years and efforts to restructure and reorganize operations, as well as a lack of support underlying the prior year audit adjustments in this area, hampered the ability of management to update these account balances during the course of the fiscal year.,

**Effect:** Interim monthly financial statements may not always reflect the most update to balances for the estimated liabilities due to, or receivables due from third party payors.

**Recommendation:** The Hospital should maintain an up to date schedule of estimated settlements amounts due to, or due from the Medicare and Medicaid program payors based upon the most recent remittance advices and correspondence received from payors and fiscal intermediaries. As individual settlements and adjustments are often significant these should be reflected on this schedule during the year as they become known, to help insure that monthly financial statements accurately reflect the appropriate balances of any related receivables and payables.

**Management's Response and Corrective Action:** Management agrees with the recommendation and is taking measures to update its procedures. The Hospital began working with its cost report preparer in October 2017 to make a monthly estimate of the amounts due to or due from third party payors associated with its current fiscal year activity.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Summary Schedule of Prior Audit Findings  
For the Year Ended May 31, 2018**

**2017 – 001 Segregation of Duties – Accounts Payable and Cash Disbursements**

Audit procedures indicated that one employee had access to the non-payroll check stock, had full access to make changes to the accounts payable vendor master file, has access to prepare check runs, is primarily responsible for approving check runs, had access to print checks, had access to void and reissue checks, and is responsible for the review and coding of cash disbursements. Additionally, a second employee had access to the non-payroll check stock, was primarily responsible for designating invoices for payment and preparing check runs, had access to print checks, access to void and reissue checks, and had access to post cash disbursements and journal entries to the general ledger. Further, the Hospital's controller has had the ability to initiate and complete wire transfers, which results in an additional segregation of duties issue.

It was also noted that, while the Hospital's policy requires at least one manual signature on check above the predetermined threshold, in practice, both signatures on these disbursements are often being electronically generated even when a manual signature is required.

The lack of segregation of duties in this area coupled with the lack of strict adherence to the Hospital's check signing policy creates a significant weakness in the Hospital's controls over the accounts payable and cash disbursement process. It was recommended to management to attempt to optimize segregation of duties through reassignment of responsibilities where possible and to consider and adhere to the check signing policy.

**Current Status:** Resolved.

**2017 – 002 Timing of Employer Contribution Remittances to the Retirement Plan**

Morehouse General Hospital maintains defined contribution plan known as the Morehouse General Hospital Money Purchase Pension Plan & Trust Plan (the Plan) and accrues a liability for its required contributions to the plan on a monthly basis. While participant's accounts under the Plan are credited with contributions earned, the actual remittance of these contributions to the Plan was delayed in previous years because of the economic conditions the Hospital faced. While neither the plan document nor government regulations address an appropriate time period for payment of contributions to the Plan, the delay of remittance of these contributions created a substantial current liability on the Hospital's statement of net position and a resulting degree of difficulty with the eventual remittance of the total balance to the Plan.

**Current Status:** Resolved.

**Morehouse Parish Hospital Service District No. 1  
(d/b/a Morehouse General Hospital)  
Summary Schedule of Prior Audit Findings  
For the Year Ended May 31, 2018**

**2017 – 003 Third-Party Payor Settlement Estimates – Interim Financial Statements**

During the audit, it was noted that the Hospital had correctly applied payment activity to the previous year's outstanding balances, but there was no particular reconciliation of the remaining balances of outstanding Medicare and Medicaid costs reports, or a provision for the current year's estimated settlement recorded during the course of the year. While these account balances are adjusted as of year-end during the audit process, a reconciliation schedule of the amounts due to and due from the Medicare and Medicaid programs should be maintained during the fiscal year.

**Current Status:** Unresolved. See finding 2018-002.

**2017 – 004 Physical Inventory Count**

The Hospital completed its most recent physical inventory count in March and April 2017 rather than at May 31, 2017.

**Current Status:** Resolved.

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

**AGREED-UPON PROCEDURES REPORT**

**May 31, 2018**



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CPAs and Advisors

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**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

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

and

Louisiana Legislative Auditor  
Baton Rouge, Louisiana

We have performed the procedures enumerated below, which were agreed to by Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the period from June 1, 2017 through May 31, 2018. The Hospital's management is responsible for those C/C areas identified in the SAUPs. The sufficiency of these procedures is solely the responsibility of the Hospital and the LLA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

***Written Policies and Procedures***

1. We obtained the entity's written policies and procedures and reported whether those written policies and procedures address each of the following financial/business functions (or reported that the entity does not have any written policies and procedures), as applicable:
  - 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) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

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- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) **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. Note: Ethics requirements are not applicable to nonprofits.
- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

**Findings:** *No exceptions were noted in the budgeting, purchasing, disbursements, receipts, payroll/personnel, contracting or travel and expense reimbursement policies. Although a process is in place, there were no written policies for credit cards.*

**Board (or Finance Committee, if applicable)**

- 2. We obtained and read the board/committee minutes for the fiscal period, and:
  - a) We reported 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) We reported 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).
    - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, we reported 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, we reported whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

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- c) We reported 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: No exceptions noted in the procedures performed.*

**Bank Reconciliations**

- 3. We obtained a listing of client bank accounts from management and management's representation that the listing is complete.

*Findings: No exceptions noted in the procedures performed.*

- 4. Using the listing provided by management, we selected 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, we obtained bank statements and reconciliations for all months in the fiscal period and reported whether:

- a) Bank reconciliations have been prepared;
- b) Bank reconciliations included 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: No exceptions noted in the procedures performed.*

**Collections**

- 5. We obtained a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

*Findings: No exceptions noted in the procedures performed.*

- 6. Using the listing provided by management, we selected 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) We obtained existing written documentation (e.g. insurance policy, policy manual, job description) and reported whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related

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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.

**Findings:** *CRI obtained written documentation from management noting whether clerks responsible for cash were bonded. We noted none of the clerks were bonded in either location. There were no employees responsible for depositing cash in the bank at either location; however, all of the clerks in the second location had responsibilities related to recording the related transactions. None of these clerks were responsible for reconciling bank accounts. All of the clerks at one of the locations selected for testing shared their cash drawers.*

- b) We obtained existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and reported 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.

**Findings:** *No exceptions noted in the procedures performed.*

- c) We selected the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
- Using entity collection documentation, deposit slips, and bank statements, we traced daily collections to the deposit date on the corresponding bank statement and reported whether the deposits were made within one day of collection. If deposits were not made within one day of collection, we inquired as to the number of days from receipt to deposit for each day at each collection location.
  - Using sequentially numbered receipts, system reports, or other related collection documentation, we verified that daily cash collections were completely supported by documentation and reported any exceptions.

**Findings:** *CRI was unable to trace daily collections to the deposit date on the corresponding bank statement using the collection documentation, deposit slips, and bank statements. Collections occur at multiple locations and limited documentation is maintained per location. The daily deposit combines all locations, but locations are not identified on the deposit slip, or other related reports. Therefore, CRI could not trace collections per location to a specific transaction on the bank statement. Based on this information, CRI was unable to determine whether deposits were made within one day of collection, or to report the number of days from receipt to deposit for each day at each collection location. Furthermore, evidence of sequentially numbered receipts, system reports, or other related collection documentation was not available in order for CRI to verify that daily cash collections were completely supported by documentation.*

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7. We obtained existing written documentation (e.g. policy manual, written procedure) and reported 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: No exceptions noted in the procedures performed.*

**Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)**

8. We obtained a listing of entity disbursements from management or, alternately, obtained the general ledger and sorted/filtered for entity disbursements. We obtained management's representation that the listing or general ledger population is complete.

*Findings: No exceptions noted in the procedures performed.*

9. Using the disbursement population from #8 above, we randomly selected 25 disbursements (or randomly selected 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. We obtained supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and reported 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 (1) 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.

*Findings: No exceptions noted in the procedures performed.*

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), we reported whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

*Findings: No exceptions noted in the procedures performed.*

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11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), we reported whether the persons with signatory authority or who makes the final authorization for disbursements have no responsibility for initiating or recording purchases.

*Findings: No exceptions noted in the procedures performed.*

12. We inquired of management and observed 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 reported any exceptions. Alternately, if the checks were electronically printed on blank check stock, we reviewed entity documentation (electronic system control documentation) and reported whether the persons with signatory authority have system access to print checks.

*Findings: No exceptions noted in the procedures performed.*

13. If a signature stamp or signature machine is used, we inquired of the signer whether his or her signature was maintained under his or her control or was used only with the knowledge and consent of the signer. We inquired of the signer whether signed checks were likewise maintained under the control of the signer or authorized user until mailed. We reported any exceptions.

*Findings: No exceptions noted in the procedures performed.*

**Credit Cards/Debit Cards/Fuel Cards/P-Cards**

14. We obtained from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. We obtained management's representation that the listing is complete.

*Findings: No exceptions noted in the procedures performed.*

15. Using the listing prepared by management, we randomly selected 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year.

We obtained the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. We selected the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, selected the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) We reported whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other

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than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported).

**Findings:** *No exceptions noted in the procedures performed.*

- b) We reported whether finance charges and/or late fees were assessed on the selected statements.

**Findings:** *No exceptions noted in the procedures performed.*

16. Using the monthly statements or combined statements selected under #15 above, we obtained supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, we reported whether the transaction is supported by:

- An original itemized receipt (i.e., identifies precisely what was purchased).
- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
- Other documentation that may be required by written policy (e.g., purchase order, written authorization).

**Findings:** *No exceptions noted in the procedures performed.*

- b) For each transaction, we compared the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and reported any exceptions.

**Findings:** *No exceptions noted in the procedures performed.*

- c) For each transaction, we compared the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and reported any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner reported the transaction as an exception.

**Findings:** *No exceptions noted in the procedures performed.*

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***Travel and Expense Reimbursement***

17. We obtained from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtained the general ledger and sorted/filtered for travel reimbursements. We obtained management's representation that the listing or general ledger is complete.

***Findings:*** *No exceptions noted in the procedures performed.*

18. We obtained the entity's written policies related to travel and expense reimbursements. We compared the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) and reported any amounts that exceed GSA rates.

***Findings:*** *No exceptions noted in the procedures performed.*

19. Using the listing or general ledger from #17 above, we selected the three persons who incurred the most travel costs during the fiscal period. We obtained the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and chose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

a) We compared expense documentation to written policies and reported whether each expense were reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, we compared to the GSA rates (#18 above) and reported each reimbursement that exceeded those rates.

b) We reported whether each expense were supported by:

- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that was reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

c) We compared the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and reported any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the

## Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) Agreed Upon Procedures Report

travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner reported the transaction as an exception.

- d) We reported whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

**Findings:** *One of the three expense reports selected for testing did not have any documentation. Since no original itemized receipt or supporting documentation was maintained, we were unable to determine the date of travel or observe if the expenses were reviewed and approved in writing.*

### **Contracts**

20. We obtained a listing of all contracts in effect during the fiscal period or, alternately, obtained the general ledger and sorted/filtered for contract payments. We obtained management's representation that the listing or general ledger is complete.

**Findings:** *No exceptions noted in the procedures performed.*

21. Using the listing above, we selected 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). We obtained the related contracts and paid invoices and:

- a) We reported whether there is a formal/written contract that supports the services arrangement and the amount paid.

**Findings:** *No exceptions noted in the procedures performed.*

- b) We compared each contract's detail to the Louisiana Public Bid Law or Procurement Code. We reported whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- If yes, we obtained/compared supporting contract documentation to legal requirements and reported whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
- If no, we obtained supporting contract documentation and reported whether the entity solicited quotes as a best practice.

**Findings:** *No exceptions noted in the procedures performed.*

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- c) We reported whether the contract was amended. If so, we reported the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

**Findings:** *No contracts were amended during the fiscal year.*

- d) We selected the largest payment from each of the five contracts, obtained the supporting invoice, compared the invoice to the contract terms, and reported whether the invoice and related payment complied with the terms and conditions of the contract.

**Findings:** *No exceptions noted in the procedures performed.*

- e) We obtained/reviewed contract documentation and board minutes and reported whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

**Findings:** *No exceptions noted in the procedures performed.*

**Payroll and Personnel**

22. We obtained a listing of employees (and elected officials, if applicable) with their related salaries, and obtained management's representation that the listing is complete. We randomly selected five employees/officials, obtained their personnel files, and:

- a) We reviewed compensation paid to each employee during the fiscal period and reported whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

**Findings:** *No exceptions noted in the procedures performed.*

- b) We reviewed changes made to hourly pay rates/salaries during the fiscal period and reported whether those changes were approved in writing and in accordance with written policy.

**Findings:** *No exceptions noted in the procedures performed.*

23. We obtained attendance and leave records and randomly selected one pay period in which leave has been taken by at least one employee. Within that pay period, we randomly selected twenty five employees/officials (or randomly selected one-third of employees/officials if the entity had less than twenty five employees during the fiscal period), and:

- a) We reported whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not

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eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave).

**Findings:** *No exceptions noted in the procedures performed.*

- b) We reported whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

**Findings:** *No exceptions noted in the procedures performed.*

- c) We reported whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

**Findings:** *No exceptions noted in the procedures performed.*

24. We obtained from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, we selected the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtained the personnel files for the two employees/officials. We reported whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

**Findings:** *No exceptions noted in the procedures performed.*

25. We obtained supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. We reported whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

**Findings:** *No exceptions noted in the procedures performed.*

**Other**

26. We inquired of management whether the entity had any misappropriations of public funds or assets. If so, we obtained supporting documentation and reported whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

**Findings:** *No exceptions noted in the procedures performed.*

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27. We observed and reported 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.

*Findings: We observed the entity has the notice posted on the premises; however, it is not posted on the website.*

28. If the practitioner observed or otherwise identified any exceptions regarding management's representations in the procedures above, we reported the nature of each exception.

*Findings: No exceptions were noted regarding management's representations.*

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. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. 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 C/C areas identified in the SAUPs, 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.

This report is intended solely for the information and use of the Hospital's management, the Hospital's Board of Commissioners and the Louisiana Legislative Auditor and is not intended to be, and should not be, used by anyone other than the specified parties.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
November 28, 2018