

# **Union General Hospital, Inc.**

Independent Auditor's Reports and Financial Statements

June 30, 2019 and 2018

**Union General Hospital, Inc.**  
**June 30, 2019 and 2018**

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## Independent Auditor's Report

Board of Directors  
Union General Hospital, Inc.  
Farmerville, Louisiana

### Report on the Financial Statements

We have audited the accompanying financial statements of Union General Hospital, Inc. (the Hospital), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 June 30, 2019 and 2018, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

As described in *Note 14* to the financial statements, the Hospital adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities, (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

### **Supplementary Information**

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, 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 and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

**BKD, LLP**

Waco, Texas  
October 30, 2019

# Union General Hospital, Inc.

## Balance Sheets

June 30, 2019 and 2018

### Assets

	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,990,071	\$ 7,256,900
Short-term certificates of deposit	355,506	350,750
Short-term investment	251,947	-
Patient accounts receivable	1,056,953	1,467,564
Estimated amounts due from third-party payers	628,731	-
Supplies	206,564	206,323
Prepaid expenses and other	378,052	265,485
	<u>9,867,824</u>	<u>9,547,022</u>
<b>Assets Limited As To Use - Internally Designated</b>	<u>20,760</u>	<u>20,571</u>
<b>Property and Equipment, At Cost</b>		
Land and land improvements	335,637	335,637
Buildings and leasehold improvements	7,814,025	7,798,735
Equipment and software	8,428,398	7,665,488
Construction in progress	172,401	52,915
	<u>16,750,461</u>	<u>15,852,775</u>
Less accumulated depreciation and amortization	<u>11,656,009</u>	<u>11,052,136</u>
	<u>5,094,452</u>	<u>4,800,639</u>
<b>Other Assets</b>	<u>150,031</u>	<u>150,041</u>
<b>Total assets</b>	<u>\$ 15,133,067</u>	<u>\$ 14,518,273</u>



**Union General Hospital, Inc.**  
**Statements of Operations and Changes in Net Assets**  
**Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Revenues, Gains and Other Support Without Donor Restriction</b>		
Patient service revenue	\$ 14,149,016	\$ 14,875,832
Other revenue	249,989	169,138
Total revenues, gains and other support without donor restriction	14,399,005	15,044,970
<b>Expenses and Losses</b>		
Salaries and wages	5,753,356	5,436,532
Employee benefits	965,714	786,172
Purchased services and professional fees	4,446,825	4,248,232
Supplies	1,144,496	1,091,402
Other expenses	1,528,860	1,490,843
Depreciation and amortization	603,873	629,850
Interest	512	736
Total expenses and losses	14,443,636	13,683,767
<b>Operating Income (Loss)</b>	(44,631)	1,361,203
<b>Other Income</b>		
Contributions received	143,604	175,225
Investment income	93,945	32,524
Total other income	237,549	207,749
<b>Excess of Revenues Over Expenses</b>	192,918	1,568,952
Contributions of or for acquisition of property and equipment	150,181	212,096
Net assets released from restriction related to property and equipment	52,595	52,595
<b>Increase in Net Assets Without Donor Restriction</b>	\$ 395,694	\$ 1,833,643

**Union General Hospital, Inc.**  
**Statements of Operations and Changes in Net Assets (Continued)**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Net Assets Without Donor Restriction</b>		
Excess of revenues over expenses	\$ 192,918	\$ 1,568,952
Contributions of or for acquisition of property and equipment	150,181	212,096
Net assets released from restriction related to property and equipment	<u>52,595</u>	<u>52,595</u>
Increase in net assets without donor restriction	<u>395,694</u>	<u>1,833,643</u>
<b>Net Assets With Donor Restriction</b>		
Contributions received	187,864	83,500
Net assets released from restriction	<u>(52,595)</u>	<u>(52,595)</u>
Increase in net assets with donor restriction	<u>135,269</u>	<u>30,905</u>
<b>Change in Net Assets</b>	530,963	1,864,548
<b>Net Assets, Beginning of Year</b>	<u>13,446,085</u>	<u>11,581,537</u>
<b>Net Assets, End of Year</b>	<u>\$ 13,977,048</u>	<u>\$ 13,446,085</u>

**Union General Hospital, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Change in net assets	\$ 530,963	\$ 1,864,548
Items not requiring (providing) operating cash flow		
Loss on sale of property and equipment	-	6,160
Depreciation and amortization	603,873	629,850
Restricted contributions received	(187,864)	(83,500)
Contributions of or for acquisition of property and equipment	(150,181)	(212,096)
Changes in		
Patient accounts receivable	410,611	(547,341)
Estimated amounts due from and to third-party payers	(721,206)	78,541
Accounts payable and accrued expenses	174,659	77,994
Supplies	(241)	(9,033)
Other current assets	(112,557)	(7,659)
	<u>548,057</u>	<u>1,797,464</u>
<b>Investing Activities</b>		
Change in assets limited as to use	(189)	5,522
Purchase of certificates of deposit	(607,453)	(350,750)
Proceeds from sale of certificates of deposit	350,750	100,000
Purchase of property and equipment	(876,977)	(200,438)
	<u>(1,133,869)</u>	<u>(445,666)</u>
<b>Financing Activities</b>		
Proceeds from contributions for acquisition of property and equipment	338,045	295,596
Principal payments on capital lease obligation	(19,062)	(26,356)
	<u>318,983</u>	<u>269,240</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(266,829)	1,621,038
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,256,900</u>	<u>5,635,862</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 6,990,071</u>	<u>\$ 7,256,900</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 512	\$ 736
Property and equipment in accounts payable	\$ 50,193	\$ 29,484

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

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

***Nature of Operations***

Union General Hospital, Inc. (the Hospital) is a not-for-profit, critical access hospital (CAH), located in Farmerville, Louisiana. The Hospital provides inpatient, outpatient and emergency care services for the residents of Farmerville, Louisiana, and the surrounding area. Admitting physicians are primarily practitioners in the local area.

On November 22, 1983, the Hospital leased the hospital facilities from East Union Parish Hospital Service District (the District). The hospital facilities were originally constructed by the District, which issued ad valorem tax bonds to finance its construction. The Hospital's financial obligation under the lease is to maintain the leased premises in good repair and replace equipment as needed. The lease was amended and restated effective September 8, 2010, and the term extended through March 31, 2019. The agreement was renewed for an additional 10-year period through March 31, 2029. Under the current lease agreement, there are no minimum lease payments.

The net book value of the District's facility was recorded on the Hospital's financial statements in the initial year of the agreement and the remaining net book value is reported as net assets with donor restriction. Annual amortization related to the District's assets is reported as assets released from restrictions in the accompanying statements of operations and changes in net assets.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of a repurchase agreement with a bank and money market accounts with brokers.

At June 30, 2019, the Hospital's cash accounts exceeded federally insured limits by approximately \$22,000, however, collateral was held for a portion of these funds by a pledging financial institution. Cash exceeding federally insured limits and pledged collateral was \$6,000.

Certain cash balances are routinely invested in overnight repurchase agreements that are not covered by Federal Deposit Insurance Corporation insurance programs. The repurchase agreements are collateralized by securities held by the Hospital's financial institution in the Hospital's name.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

***Assets Limited As To Use***

Assets limited as to use include assets set aside by the board of directors (the Board) for future payment of employee sick leave over which the Board retains control and may at its discretion subsequently use for other purposes. At June 30, 2019 and 2018, respectively, assets limited as to use were comprised of cash and totaled \$20,760 and \$20,571. Amounts required to meet current liabilities of the Hospital are included in current assets.

***Investments and Net Investment Return***

Investments are valued at fair value. Investment return includes interest, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

***Patient Accounts Receivable***

Patient accounts receivable reflects the outstanding amount of consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Hospital bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed. No bad debt expense was recognized in 2019 or 2018.

***Contract Assets***

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract assets are not material and are included in patient accounts receivable on the balance sheets.

***Supplies***

Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

# Union General Hospital, Inc.

## Notes to Financial Statements

June 30, 2019 and 2018

### ***Property and Equipment***

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	5 – 20 years
Land improvements	5 – 20 years
Equipment and software	3 – 20 years

### ***Long-lived Asset Impairment***

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

### ***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor (see *Note 5*).

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

***Patient Service Revenue***

Patient service revenue is recognized as the Hospital satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital’s policies and implicit price concessions provided to uninsured patients.

The Hospital determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Hospital determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient service revenue.

***Contributions***

Contributions are provided to the Hospital either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Hospital overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

***Professional Liability Claims***

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any.

The Hospital participates in the Louisiana Patients' Compensation Fund established by the state of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides \$400,000 in coverage per occurrence above the first \$100,000 per occurrence. The first \$100,000 is covered by the Louisiana Hospital Association Malpractice and General Liability Trust. There is not a limitation placed on the number of occurrences covered.

***Workers' Compensation***

The Hospital participates in the Louisiana Hospital Association's Self-Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in other assets.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

***Income Taxes***

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction.

***Excess of Revenues Over Expenses***

The statements of operations include excess of revenues over expenses. Changes in net assets without donor restriction which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

***Self-Insurance***

The Hospital has elected to self-insure certain costs related to employee health programs. Costs resulting from noninsured losses are charged to income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$50,000 per covered person.

***Subsequent Events***

Subsequent events have been evaluated through, October 30, 2019, which is the date the financial statements were available to be issued.

**Note 2: Patient Service Revenue**

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

# Union General Hospital, Inc.

## Notes to Financial Statements

June 30, 2019 and 2018

### ***Performance Obligations***

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in its outpatient centers. The Hospital measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals) and the Hospital does not believe it is required to provide additional goods related to the patient.

### ***Transaction Price***

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

### ***Third-Party Payors***

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

*Medicare.* Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

*Medicaid.* Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member.

*Other.* Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

# **Union General Hospital, Inc.**

## **Notes to Financial Statements**

### **June 30, 2019 and 2018**

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. As of June 30, 2019 and 2018, the Hospital's Medicare and Medicaid cost report audits have been completed through June 30, 2011.

#### ***Refund Liabilities***

From time to time the Hospital will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2019 and 2018, the Hospital has a liability for refunds to third-party payors and patients recorded of approximately \$97,600 and \$73,400, respectively, which is included in accrued expenses in the balance sheets.

#### ***Patient and Uninsured Payors***

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2019 and 2018, there were no material changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

***Revenue Composition***

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service
- Method of reimbursement (fee for service)
- Hospital's line of business that provided the service (for example, hospital inpatient, hospital outpatient, etc.)

For the years ended June 30, 2019 and 2018, the Hospital recognized revenue of \$14,149,016 and \$14,875,832, respectively, from goods and services that transfer to the customer over time. For the years ended June 30, 2019 and 2018, the Hospital recognized no patient revenue from goods and services that transfer to the customer at a point in time.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

The composition of patient service revenue by primary payor for the years ended June 30, 2019 and 2018, respectively, is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 7,110,211	\$ 7,230,556
Medicaid	4,872,091	4,908,107
Other third-party payers	2,043,612	2,631,522
Self-pay	<u>123,102</u>	<u>105,647</u>
Totals	<u>\$ 14,149,016</u>	<u>\$ 14,875,832</u>

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

**Note 3: Concentration of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2019 and 2018, is:

	<u>2019</u>	<u>2018</u>
Medicare	49%	47%
Medicaid	17%	22%
Other third-party payers	28%	24%
Patients	<u>6%</u>	<u>7%</u>
Totals	<u>100%</u>	<u>100%</u>

**Note 4: Investments and Investment Return**

Short-term investments at June 30, 2019 and 2018, include:

	<u>2019</u>	<u>2018</u>
Negotiable certificate of deposit	<u>\$ 251,947</u>	<u>\$ -</u>

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 5: Net Assets**

***Net Assets With Donor Restrictions***

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purpose		
Purchase of equipment	\$ 271,364	\$ 83,500
Subject to the passage of time		
For periods after June 30	<u>26,475</u>	<u>79,070</u>
	<u>\$ 297,839</u>	<u>\$ 162,570</u>

***Net Assets Released from Restrictions***

In both 2019 and 2018, \$52,595 was released from net assets with donor restrictions due to the passage of time.

**Note 6: Functional Expenses**

The Hospital provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services and general and administrative functional expense classifications. The following schedule presents the natural classification of expenses by function for the year ended June 30, 2019, as follows:

	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 4,671,576	\$ 1,081,780	\$ 5,753,356
Employee benefits	748,398	217,316	965,714
Purchased services and professional fees	3,623,283	823,542	4,446,825
Supplies	932,538	211,958	1,144,496
Other expenses	1,245,718	283,142	1,528,860
Depreciation and amortization	492,037	111,836	603,873
Interest	<u>512</u>	<u>-</u>	<u>512</u>
Total expenses	<u>\$ 11,714,062</u>	<u>\$ 2,729,574</u>	<u>\$ 14,443,636</u>

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

The following schedule presents the functional classification of expenses for the year ended June 30, 2018, as follows:

Health care services	\$ 11,120,569
General and administrative	<u>2,563,198</u>
	<u>\$ 13,683,767</u>

**Note 7: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Total financial assets		
Cash and cash equivalents	\$ 6,990,071	\$ 7,256,900
Short-term certificates of deposit	355,506	350,750
Short-term investment	251,947	-
Patient accounts receivable	1,056,953	1,467,564
Estimated amounts due from third-party payers	628,731	-
Assets limited as to use	20,760	20,571
Other receivables included in prepaid expenses and other	313,440	211,731
Other assets	<u>150,031</u>	<u>150,041</u>
Total financial assets	<u>9,767,439</u>	<u>9,457,557</u>
Less amounts not available to be used within one year		
Assets limited as to use	20,760	20,571
Other assets	<u>150,031</u>	<u>150,041</u>
Financial assets not available to be used within one year	<u>170,791</u>	<u>170,612</u>
Financial assets available to meet general expenditures within one year	<u>\$ 9,596,648</u>	<u>\$ 9,286,945</u>

The Hospital has assets limited to use for payment of employee sick leave over which the Board retains control. These assets limited to use are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As a part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 8: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

**Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019:

	Total Fair Value	Fair Value Measurements using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
<b>Investments</b>				
Negotiable certificate of deposit	\$ 251,947	\$ -	\$ 251,947	\$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

**Note 9: Pension Plan**

The Hospital has a defined contribution pension plan covering substantially all employees. The Board annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$80,935 and \$61,648 for 2019 and 2018, respectively.

**Note 10: Related Party Transactions**

From time to time, the Hospital conducts business with organizations that are affiliated with Board members. This is often a result of a limited number of vendors in smaller communities. During 2019 and 2018, the Hospital maintained funds at Origin Bank where a Hospital Board member serves on the board of directors and is a senior vice-president. At June 30, 2019 and 2018, approximately \$6,582,000 and \$6,559,000, respectively, of the Hospital's cash balances was held at Origin Bank.

**Note 11: Transactions with the District**

In March 2008, the voters of the District approved the authorization of a ten-year, \$5.56 million property tax levy on all taxable property located within the District. The tax can be used for constructing, maintaining, improving, equipping and operating the Hospital facilities. The District board of directors determines how the tax proceeds will be spent. At the District's election, the Hospital may receive a portion of the tax proceeds from the District as a contribution. During the years ended June 30, 2019 and 2018, the Hospital received \$465,851 and \$447,788, respectively, from the District, and is included in contributions received in the statements of operations and changes in net assets.

The net book value of the property and equipment being leased from the District (*Note 1*) is \$26,475 and \$79,070 at June 30, 2019 and 2018, respectively. These assets are being amortized over the life of the lease and will revert back to the District at the end of the lease.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 12: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Variable Consideration***

Estimates of variable consideration in determining the transaction price for patient service revenue as described in *Notes 1* and *2*.

***Medical Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Note 1*.

***Physician Revenue Concentration***

The Hospital is served by two physicians whose patients comprise approximately 33% of the Hospital's patient service revenue for the year ended June 30, 2019.

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

***Management Agreement***

In prior years, the Hospital entered into a contract for administrative services with IASIS Glenwood Regional Medical Center, which was terminated in April 2018. Prior to the contract being terminated, the contract required the management company provide personnel to perform duties as the Hospital administrator. For the year ended June 30, 2018, the Hospital incurred approximately \$147,000 of expenses under the contract, which are included in purchased services and professional fees in the statements of operations and changes in net assets.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 13: Future Change in Accounting Principle**

***Accounting for Leases***

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the Hospital's fiscal year ending June 30, 2022. The Hospital is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

**Note 14: Change in Accounting Principles**

**Topic 606 Revenue from Contracts with Customers**

On July 01, 2018, the Hospital adopted Topic 606 *Revenue from Contracts with Customers (Topic 606)*, using a full retrospective method of adoption to all contracts with patients at July 01, 2017.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to patients in amounts that reflect the consideration to which the Hospital expects to be entitled in exchange for those goods or services.

The amount to which the Hospital expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients.

Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements.

Prior to the adoption of Topic 606, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which the Hospital does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Hospital's estimation of the transaction price or revenue recorded.

**Union General Hospital, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

	June 30, 2018		
	As Previously Reported	As Adjusted	Adoption Impact
<b>Statement of Operations</b>			
<b>Revenues, Gains and Other Support Without Donor Restriction</b>			
Patient service revenue (net of contractual discounts and allowances)	\$ 16,124,990	\$ 14,875,832	\$ (1,249,158)
Provision for uncollectible accounts	(1,249,158)	-	1,249,158
Net patient service revenue less provision for uncollectible accounts	14,875,832	14,875,832	-
Other revenue	169,138	169,138	-
 Total revenues, gains and other support without donor restriction	 \$ 15,044,970	 \$ 15,044,970	 \$ -
<b>Statements of Cash Flows</b>			
Provision for uncollectible accounts	\$ 1,249,158	\$ -	\$ (1,249,158)
Changes in patient accounts receivable	(1,796,499)	(547,341)	1,249,158
	\$ (547,341)	\$ (547,341)	\$ -

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

**Topic 958 Presentation of Financial Statements of Not-For-Profit Entities**

In 2018, the System, adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

***Balance Sheet***

- The balance sheet distinguishes between two new classes of net assets—those with donor imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

***Statement of Operations and Changes in Net Assets***

- Expenses are reported by both nature and function.

# **Union General Hospital, Inc.**

## **Notes to Financial Statements**

**June 30, 2019 and 2018**

### ***Notes to the Financial Statements***

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the balance sheet.

This change had no impact on previously reported total change in net assets.

## **Supplementary Information**

**Union General Hospital, Inc.**  
**Schedule of Compensation, Benefits and Other Payments to**  
**Chief Executive Officer**  
**Year Ended June 30, 2019**

Name of Hospital Chief Executive Officer: Evalyn Ormond

<b>Purpose</b>	<b>Amount</b>
Salary	\$ 226,857
Benefits - insurance	548
Benefits - retirement and other	36,978
Reimbursements	2,187
Conference travel	7,671
Unvouchered expenses*	2,950
	<u>\$ 277,191</u>

\* An example of an unvouchered expense would be a travel advance.

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

**Independent Auditor's Report**

Board of Directors  
Union General Hospital, Inc.  
Farmerville, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Union General Hospital, Inc. (the Hospital), which comprise the balance sheet as of June 30, 2019, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019.

***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 opinion 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2019-001, that we consider to be a significant deficiency.

***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 Response to Findings***

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

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Waco, Texas  
October 30, 2019

**Union General Hospital, Inc.**  
**Schedule of Finding and Response**  
**Year Ended June 30, 2019**

Reference Number	Finding
2019-001	<p>Segregation of Duties</p> <p><b>Criteria</b> – Personnel functions that have the ability to conceal and perpetrate fraud should be segregated.</p> <p><b>Condition</b> – The Hospital has a lack of segregation of duties regarding bank reconciliations, payment processing and payroll processing.</p> <p><b>Context</b> – The personnel that reconciles the bank account also makes journal entries and processes payments; the business office manager has the ability to take payments, post adjustments and write-off accounts; the payroll personnel has the ability to create a new employee within the system and generate payroll direct deposits.</p> <p><b>Effect</b> – The ability to conceal and perpetrate fraud.</p> <p><b>Cause</b> – The Hospital operates a smaller/medium sized facility and has limited personnel.</p> <p><b>Recommendation</b> – The Hospital should segregate incompatible duties to improve its internal controls related to cash receipts, cash payments and payroll. Specifically, individuals that can add employees to the payroll system should not also have the ability to generate or have access to payroll payments. Additionally, personnel with access to patient payments should not also have the ability to authorize or approve adjustments to patient accounts.</p> <p><b>Views of responsible officials and planned corrective actions</b> – We understand the importance of the Segregation of Duties as it relates to maintaining internal control. As mentioned, the Hospital does have limited personnel in certain areas that creates a lack of Segregation of Duties, but we believe that we have sufficient checks and balances in place in those areas to adequately minimize any risks.</p>

**Union General Hospital, Inc.**  
**Summary Schedule of Prior Audit Finding**  
**Year Ended June 30, 2018**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
2018-001	Segregation of Duties	Unresolved. See finding 2019-001.

Board of Directors  
Union General Hospital, Inc.  
Farmerville, Louisiana

As part of our audit of the financial statements of Union General Hospital, Inc. (the Hospital) as of and for the year ended June 30, 2019, we wish to communicate the following to you.

## **AUDIT SCOPE AND RESULTS**

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

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

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

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

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

#### **Significant Accounting Policies**

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

Effective July 1, 2018, the Hospital adopted ASC 606, *Revenue from Contracts with Customers*, as further discussed in the Alternative Accounting Treatments section below. ASC 606 applies to all contracts with customers other than those within the scope of other standards, such as leases, insurance, financing arrangements, financial instruments and guarantees (other than product or service warranties).

The new revenue recognition standard eliminates the transaction- and industry-specific revenue recognition guidance under legacy generally accepted accounting principles (GAAP) and replaces it with a principle-based approach for determining revenue recognition. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In implementing ASC 606, the Hospital was required to re-evaluate all contracts within the scope of the standard (other than those excluded under practical expedients elected) under a five-step model for revenue recognition. While certain entities were affected more than others, all entities are subject to extensive new disclosure requirements.

#### Alternative Accounting Treatments

No matters are reportable.

#### Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Patient accounts receivable
- Amounts due to and from third-party payers
- Accruals for malpractice losses
- Self-funded health insurance accrual

#### Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue recognition
- Self-insured risks
- Liquidity
- Change in accounting principle (ASU 2016-14 and ASU 2014-09)

### **Audit Adjustments**

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments, which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

#### *Proposed Audit Adjustments Recorded*

- Accounts payable
- Self-funded employee health insurance accrual

#### *Proposed Audit Adjustments Not Recorded*

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

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

During the course of the audit, we made the following observations regarding the Hospital's application of accounting principles:

- In 2019, the Hospital adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*.

### **Other Material Communications**

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

- Management representation letter (*attached*)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of the Hospital as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be significant deficiencies.

### **Significant Deficiencies**

#### **Segregation of Duties**

Management is responsible for establishing and maintaining effective control over financial reporting. A few individuals within the entity have incompatible duties in several financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Hospital's assets. Following is a summary of various incompatible duties we identified.

### Revenue Cycle

The business office director has access to all aspects of the cash-receipting, posting and adjustment process. When employees have the ability to make changes in the master file, post entries and reconcile patient accounts, there is generally a risk of misappropriation. We recommend management evaluate the cash receipt process and consider adding additional oversight procedures to mitigate the risk.

### Purchasing Cycle

Certain individuals have incompatible duties in the cash disbursements and accounts payable transaction cycle. The comptroller has the ability to generate a payment, post journal entries, make changes to master files and perform bank reconciliations, though the bank reconciliations and some of the journal entries are reviewed by the chief executive officer (CEO) and the chief financial officer (CFO). The human resources director has the ability to access the accounts payable module as well as secondary ability to perform comptroller duties. Individuals with the ability to generate payments should have separate duties from individuals with recording and monitoring duties. We recommend the Hospital consider adding additional oversight procedures to mitigate and limit the opportunity for misappropriation.

### Payroll Cycle

Certain individuals have incompatible duties within the payroll transaction cycle. The human resource director and payroll clerk have the ability to enter a new employee as well as process payroll for that employee. In addition, it is possible within the system for the human resources director and payroll clerk to approve their own timecard, but all department managers' time is reviewed and approved in the payroll system by the CEO, CFO, or Division Leader prior to the payroll being processed for payment. The comptroller has secondary ability to perform payroll transaction duties, including entering a new employee as well as processing payroll for the employee. Individuals that can add employees to the payroll system should not also have the ability to generate or have access to payroll payments. We recommend the Hospital consider adding additional oversight procedures to mitigate and limit the opportunity for misappropriation.

Management should evaluate the costs versus the benefit of further segregation of duties or implementing additional monitoring or other compensating controls for the above segregation of duties and implement the changes it deems appropriate.

## OTHER MATTERS

### New Lease Accounting Standard

FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), the long-awaited new standard on lease accounting. The FASB has issued various ASUs since that date related to Topic 842 as well seeking to clarify guidance and provide more transition relief in certain areas.

Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

### Effective Dates

- The Hospital is currently\* required to adopt Topic 842 for fiscal year ending June 30, 2021, with early adoption permitted

*\*A tentative board decision was reached by the FASB at its October 16, 2019 meeting to delay the effective date of Topic 842 by one year (i.e. the Hospital's fiscal year ending June 30, 2022). Issuance of a final ASU related to this decision is expected later in 2019.*

### Implementation

The proposed delay by FASB of the effective date of the new leases standard (ASC 842) by one year for private companies and most non-profit organizations is welcome relief as many of these entities continue to work on their implementations of the new revenue standard (ASC 606).

However, there are certain lease implementation items to get moving on sooner rather than later:

1. Educate yourself and key stakeholders about ASC 842
  - a. Check out [www.bkd.com](http://www.bkd.com) for BKD Thoughtware resources, including articles and webinars related to the new standard and the related implementation efforts
2. Early Decision Points:
  - a. Transition method
  - b. Practical expedients and accounting policy elections
3. Accumulate the population of potential leases
4. Systems analysis – Do you need lease software? If so, vendor selection takes time
5. Start developing the processes and controls necessary for effective implementation of the ASC 842 as well as the ongoing accounting requirements

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

*BKD, LLP*

October 30, 2019



“Providing Quality Service With Compassionate Care”

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October 30, 2019

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

We, Union General Hospital, Inc. (the Hospital), are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2019 and 2018. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

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

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

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated June 13, 2019, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
  - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
  - (b) Additional information that you have requested from us for the purpose of the audit.
  - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - (d) All minutes of and directors' meetings held through the date of this letter.
  - (e) All significant contracts and grants.
  - (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by hospital procedures with respect to:
  - (a) Misappropriation of assets.
  - (b) Misrepresented or misstated assets or liabilities.
8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
9. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.
10. We have no knowledge of any known or suspected:
  - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
  - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

- (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.
  12. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Hospital may deal if the Hospital can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Hospital.
  13. Except as reflected in the financial statements, there are no:
    - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
    - (b) Material transactions omitted or improperly recorded in the financial records.
    - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
    - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
    - (e) Agreements to purchase assets previously sold.
    - (f) Restrictions on cash balances or compensating balance agreements.
    - (g) Guarantees, whether written or oral, under which the Hospital is contingently liable.
  14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

15. We have no reason to believe the Hospital owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
16. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
17. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.
18. Adequate provisions and allowances have been accrued for any material losses from:
  - (a) Uncollectible receivables.
  - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
  - (c) Reducing obsolete or excess inventories to estimated net realizable value.
  - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
19. Except as disclosed in the financial statements, the Hospital has:
  - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
  - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
20. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:
  - (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
  - (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.

- (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
  - (d) Management does not expect any claims to exceed malpractice insurance limits.
  - (e) We believe our accruals for malpractice claims are sufficient for all known and probable potential claims.
21. With respect to any nonattest services you have provided us during the year, including preparation of the Form 990, *Return of Organization Exempt from Income Tax*, and the preparation of a draft of the financial statements and related notes:
- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
  - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
  - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
  - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
22. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
23. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
24. We further acknowledge the Hospital's exemption under Section 501(c) is subject to additional operating requirements under Section 501(r). As such, we made publicly available a community health needs assessment performed in accordance with IRS requirements, and the Hospital's Board of Trustees subsequently approved an implementation strategy to address needs identified in the assessment. The Hospital is also in compliance with certain requirements dealing with financial assistance, billing and collection practices and limitations on charges for uninsured patients that meet our financial assistance requirements.

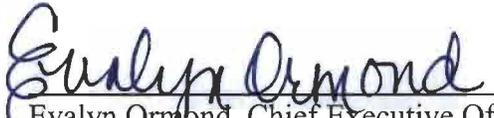
25. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
26. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
27. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
28. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
29. We have a process to track the status of audit findings and recommendations.
30. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
31. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
32. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
33. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

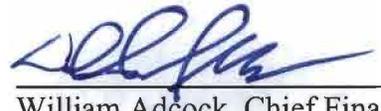
34. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
35. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
36. With regard to cost reports filed with Medicare, Medicaid or other third parties:
  - (a) All required reports have been properly filed.
  - (b) Management is responsible for the accuracy and propriety of those reports.
  - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
  - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
  - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
  - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
37. With regard to supplementary information:
  - (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
  - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
  - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
  - (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.

- (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.
- 38. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.
- 39. We acknowledge the Hospital is not a conduit debt obligor whose debt securities are listed, quoted or traded on an exchange or an over-the-counter market. As a result, we acknowledge the Hospital does not meet the definition of a "public entity" under generally accepted accounting principles for certain accounting standards.
- 40. We have not received public monies greater the threshold amount provided by the Louisiana Legislative Auditor and therefore are not required to complete the statewide agreed-upon procedures.
- 41. In connection with the adoption of ASC Topic 606, *Revenue from Contracts with Customers*, we represent the following:
  - (a) We have adopted ASC Topic 606, *Revenue from Contracts with Customers*, using the full retrospective approach and elected the following transitional practical expedients:
    - i. For completed contracts, we elected to not restate contracts that begin and are completed within the same annual reporting period.
    - ii. For completed contracts that have variable consideration, we elected to use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
    - iii. For all reporting periods presented before the date of initial application, we elected to not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when we expect to recognize that amount as revenue.
    - iv. For contracts that were modified before the beginning of the earliest reporting period, we elected not to retrospectively restate the contract for those contract modifications in accordance with paragraphs 12–13 of FASB ASC 606-10-25.
  - (b) We have identified portfolios to evaluate revenue recognition. Actual results under the portfolio approach are materially similar to evaluations on an individual contract basis.

- (c) We have adequate controls in place to prevent and/or detect errors in revenue recognition measurement and disclosure on a recurring basis.
- (d) The footnotes to the financial statements appropriately describe the adoption of ASC Topic 606, *Revenue from Contracts with Customers*, and include all additional disclosures required under the standard.

**UNION GENERAL HOSPITAL, INC.**

  
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Evalyn Ormond, Chief Executive Officer

  
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William Adcock, Chief Financial Officer

# Union General Hospital

## ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

### QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	9,867,824	72,000	9,939,824	0.73%
Non-Current Assets	5,265,243	0	5,265,243	0.00%
Current Liabilities	(1,156,019)	(76,027)	(1,232,046)	6.58%
Non-Current Liabilities	0	0	0	0.00%
Current Ratio	8.54		8.07	-5.48%
Total Assets	15,133,067	72,000	15,205,067	0.48%
Total Liabilities	(1,156,019)	(76,027)	(1,232,046)	6.58%
Net Assets	(13,977,048)	4,027	(13,973,021)	-0.03%
Revenues & Income	(14,839,330)	(22,000)	(14,861,330)	0.15%
Costs & Expenses	14,443,636	26,027	14,469,663	0.18%
Change in Net Assets	(395,694)	4,027	(391,667)	-1.02%

