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

Audits of Financial Statements

May 31, 2016 and 2015

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the years ended May 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these 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 basic 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 basic financial statements, whether due to fraud of error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of May 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern
The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 14 to the financial statements, the Hospital has suffered recurring losses from operations and has a net position deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2017, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 26, 2017

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Net Position
May 31, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 923,698	$ 1,907,295
Patient accounts receivable, less allowance for uncollectible accounts of $4,808,743 in 2016 and $12,260,147 in 2015	1,952,694	3,846,064
Inventories	789,592	810,933
Assets limited as to use, current portion	526,308	489,685
Prepaid expenses and other assets	4,303,260	1,103,175
Total current assets	8,495,552	8,157,152
Non-current assets		
Assets limited as to use	543,335	704,418
Amounts due from physicians, net of allowance for uncollectible accounts of $19,647 in 2016 and $18,557 in 2015	-	3,868
Capital assets, net of accumulated depreciation of $33,213,327 in 2016 and $35,343,884 in 2015	10,154,897	11,491,737
Total non-current assets	10,698,232	12,200,023
Total assets	$ 19,193,784	$ 20,357,175

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

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Net Position (Continued)
May 31, 2016 and 2015

	2016	2015
Liabilities and net position		
Current liabilities		
Accounts payable	$ 1,294,599	$ 1,505,920
Employee compensation and payroll tax liabilities	960,239	1,064,818
Other accrued liabilities	2,645,640	1,068,361
Estimated claims liability	419,706	400,764
Settlements due to third-party payors	199,486	1,018,085
Long-term debt reclassified as current - note 6	10,040,221	-
Current portion of capital lease obligations	52,405	71,388
Current portion of long-term debt	1,788,326	758,545
Total current liabilities	17,400,622	5,887,881
Non-current liabilities		
Estimated claims liability	386,902	263,772
Capital lease obligations, less current portion	142,721	195,125
Long-term debt, less current portion	1,469,897	12,292,914
Total non-current liabilities	1,999,520	12,751,811
Total liabilities	19,400,142	18,639,692
Net position		
Invested in capital assets, net of related debt	1,794,400	2,658,135
Restricted	1,033,908	1,022,417
Unrestricted	(3,034,666)	(1,963,069)
Total net position	(206,358)	1,717,483
Total liabilities and net position	$ 19,193,784	$ 20,357,175

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

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended May 31, 2016 and 2015

	2016	2015
Operating revenues		
Net patient service revenues, net of provision for bad debts of $5,811,437 in 2016 and $5,153,269 in 2015	**$ 20,548,303**	$ 22,828,311
Intergovernmental transfer-operating grant income	**1,462,829**	1,481,893
Other operating revenue	**900,158**	865,897
Total operating revenues	**22,911,290**	25,176,101
Operating expenses		
Salaries and benefits	**13,832,838**	15,765,909
Outside services	**4,768,162**	3,596,322
Medical supplies and drugs	**2,238,768**	2,742,986
Other operating expenses	**2,041,993**	2,379,958
Other supplies	**551,574**	754,606
Depreciation and amortization	**1,427,379**	1,721,202
Insurance	**800,164**	739,943
Total operating expenses	**25,660,878**	27,700,926
Loss from operations	**(2,749,588)**	(2,524,825)
Non-operating revenues (expense)		
Investment earnings	**2,639**	2,695
Ad Valorem tax revenue	**1,056,861**	1,065,401
Grant revenue	**74,719**	65,032
Contributions	**3,009**	5,907
Other gains	**114,341**	101,153
Interest expense	**(425,822)**	(560,425)
Non-operating revenues, net	**825,747**	679,763
Change in net position	**(1,923,841)**	(1,845,062)
Net position		
Beginning of year	**1,717,483**	3,562,545
End of year	**$ (206,358)**	$ 1,717,483

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

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Cash Flows
For the Years Ended May 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from patients and third-party payors	**$ 23,467,903**	$ 26,080,929
Payments to employees and for employee-related costs	**(13,937,417)**	(15,851,876)
Payments for operating expenses	**(11,542,136)**	(9,471,312)
Net cash (used in) provided by operating activities	**(2,011,650)**	757,741
Cash flows from capital and related financing activities		
Purchases of property, building, and equipment	**(97,752)**	(640,658)
Proceeds from sale of assets	**114,341**	130,000
Payments on hospital revenue bonds	**(259,873)**	(252,077)
Payments on capital lease obligations	**(71,387)**	(126,302)
Payments on bonds payable and long-term debt	**(278,179)**	(259,797)
Interest paid	**(289,824)**	(230,463)
Net cash used in capital and related financing activities	**(882,674)**	(1,379,297)
Cash flows from non-capital financing activities		
Ad Valorem taxes received	**1,056,861**	1,065,401
Proceeds from certificates of indebtedness	**1,005,380**	-
Payments on certificates of indebtedness	**(88,700)**	(85,908)
Payments on bonds payable and long-term debt	**(131,643)**	(97,091)
Grants received	**74,719**	65,032
Contributions received	**3,009**	5,907
Interest paid	**(135,998)**	(329,962)
Net cash provided by non-capital financing activities	**1,783,628**	623,379
Cash flows from investing activities		
Change in assets limited as to use, principally restricted cash and equivalents	**124,460**	(52,877)
Investment income received	**2,639**	2,695
Net cash provided by (used in) investing activities	**127,099**	(50,182)
Decrease in cash and cash equivalents	**(983,597)**	(48,359)
Cash and cash equivalents		
Beginning of year	**1,907,295**	1,955,654
End of year	**$ 923,698**	$ 1,907,295

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

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Cash Flows (Continued)
For the Years Ended May 31, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash (used in) provided by operating activities		
Loss from operations	$ (2,749,588)	$ (2,524,825)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	1,427,379	1,721,202
Provision for uncollectible accounts	5,811,437	5,153,269
Other (losses) gains	-	(28,847)
Loss on disposal of capital assets	7,213	15,835
Changes in:		
Patient accounts receivable	(3,918,067)	(4,154,218)
Inventories, prepaid expenses, and other assets	(3,174,876)	390,296
Third-party payor settlements	(818,599)	423,935
Accounts payable	(211,321)	(520,347)
Estimated claims liability	142,072	58,718
Employee compensation, payroll taxes, and other accrued liabilities	1,472,700	222,723
Net cash (used in) provided by operating activities	$ (2,011,650)	$ 757,741

	2016	2015
Supplemental disclosure of non-cash financing and investing activities		
Capital lease obligations incurred for acquisition of equipment	$ -	$ 278,717

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

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

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

Land Improvements	15 to 20 Years
Buildings and Improvements	20 to 40 Years
Equipment, Computers, and Furniture	3 to 7 Years

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

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, 2016 and 2015, respectively.

Financing Costs
Financing costs are expensed as incurred.

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

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

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable
Patient accounts receivable are 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, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 6. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

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

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

Compensated Absences
The Hospital's employees earn paid time off (PTO) at varying rates depending upon length of service and other factors. Amounts earned, but not yet used totaled $434,544 and $538,924, as of May 31, 2016 and 2015, respectively. These amounts are reported as a component of employee compensation and payroll tax liabilities on the Hospital's statements of net position.

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

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

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

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

Investments in debt and equity securities, when present, are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenue when earned. Unrealized gains (losses) reflected in investment income were not significant in 2016 and 2015.

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

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

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

Charity Care
The Hospital provides care without charge or at amounts less than established rates, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone ($652,419 in 2016, and $800,293 in 2015) for services and supplies furnished under its charity care policy.

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program. The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. EHR funding of $596,531 and $425,662 was recognized for the years ended May 31, 2016 and 2015, respectively, and included as component of other operating revenue on the statement of revenues, expenses, and changes in net position.

Investment Income

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

Reclassifications

Certain amounts in the May 31, 2015 financial statements have been reclassified to conform to the current year presentation.

Note 2. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Hospital's provision for bad debts is classified as a reduction to net patient service revenue. During the years ended May 31, 2016 and 2015, approximately 68% and 67%, respectively, of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

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.

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

As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Settlements through May 31, 2014 and 2012, for the Medicare and Medicaid programs, respectively, have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates. These adjustments resulted in an increase in net patient service revenue of $572,149 in 2016, and a decrease in net patient service revenue of $492,943 in 2015. 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 $3,720,384 and $936,197, in revenues associated with these programs during the fiscal years ended May 31, 2016 and 2015, 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.

Note 3. Deposits and Investments (Continued)

Interest Rate Risk

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

Credit Risk

Louisiana's statutes also require that all the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's bank deposits consist of demand deposit accounts and certificates of deposit. These bank deposits are included in cash and cash equivalents and designated cash, and, as of May 31, 2016, 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, 2016, 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, 2016 and 2015, all of the Hospital's deposits and short-term investments were considered cash and cash equivalents and are included in the Hospital's statements of net position as follows for May 31st:

	2016	2015
Current assets		
Cash and cash equivalents	**$ 923,698**	$ 1,907,295
Assets limited as to use, current portion	**526,308**	489,685
Non-current assets		
Assets limited as to use	**543,335**	704,418
	$ 1,993,341	$ 3,101,398

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, 2016 and 2015, was as follows:

	2016	2015
Pledged by board for specific purposes		
Certificates of deposit	$ 127,501	$ 127,118
Project Account for LPFA/DNR Empower LA Flex Fund Program	-	225,034
Required by bond resolutions (principally interest bearing cash and certificates of deposits)		
Series 2010 reserve fund	293,686	243,744
Series 2010 contingencies fund	295,883	245,941
Litigation reserve fund	52,360	52,203
Short-lived asset depreciation reserve fund	300,213	300,063
	942,142	841,951
Total assets limited as to use	1,069,643	1,194,103
Less: current potion	(526,308)	(489,685)
Non-current assets limited as to use	$ 543,335	$ 704,418

Note 5. Capital Assets

Capital assets activity as of and for the year ended May 31, 2016, was as follows:

	May 31, 2015	Additions	Disposals	Transfers	May 31, 2016
Capital assets, not being depreciated					
Land	$ 341,296	$ -	$ -	$ -	$ 341,296
Total capital assets, not being depreciated	341,296	-	-	-	341,296
Capital assets, being depreciated					
Land improvements	625,500	-	-	-	625,500
Buildings	21,232,171	57,967	-	-	21,290,138
Equipment	24,636,654	39,785	(3,565,149)	-	21,111,290
Total capital assets, being depreciated	46,494,325	97,752	(3,565,149)	-	43,026,928
Less: accumulated depreciation	(35,343,884)	(1,427,379)	3,557,936	-	(33,213,327)
Total capital assets, being depreciated, net	11,150,441	(1,329,627)	(7,213)	-	9,813,601
Hospital capital assets, net	$ 11,491,737	$ (1,329,627)	$ (7,213)	$ -	$ 10,154,897

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

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

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

Note 6. Long-Term Debt and Other Non-Current Liabilities

Noncurrent liability activity as of and for the years ended May 31, 2016 and 2015, was as follows:

	May 31, 2015	Additions	Reductions	May 31, 2016	Due Within One Year	Long-Term Portion
Bonds payable and capital leases						
Hospital revenue bonds,						
Series 2008A	**$ 4,259,336**	**$ -**	**$ (131,643)**	**$ 4,127,693**	**$ 135,785**	**$ 3,991,908**
Series 2010	**6,615,285**	**-**	**(278,179)**	**6,337,106**	**288,793**	**6,048,313**
Series 2012	**1,996,372**	**-**	**(259,873)**	**1,736,499**	**267,901**	**1,468,598**
Certificate of indebtedness,						
Series 2012B	**180,466**	**-**	**(88,700)**	**91,766**	**90,467**	**1,299**
Series 2015	**-**	**1,005,380**	**-**	**1,005,380**	**1,005,380**	**-**
Capital lease obligations	**266,513**	**-**	**(71,387)**	**195,126**	**52,405**	**142,721**
Total bonds payable and capital leases	**$ 13,317,972**	**$ 1,005,380**	**$ (829,782)**	**$ 13,493,570**	**$ 1,840,731**	**$ 11,652,839**

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

Long-term debt and capital lease obligations as of May 31, 2016 and 2015 consisted of the following:

		2016	2015
Hospital revenue bonds, Series 2008A	(A)	**$ 4,127,693**	$ 4,259,336
Hospital revenue bonds, Series 2010	(B)	**6,337,106**	6,615,285
Hospital revenue bonds, Series 2012A	(C)	**1,736,499**	1,996,372
Certificate of indebtedness, Series 2012B	(D)	**91,766**	180,466
Certificate of indebtedness, Series 2015	(E)	**1,005,380**	-
Capital lease obligations	(F)	**195,126**	266,513
		13,493,570	13,317,972
Less: current maturities		**(1,840,731)**	(829,933)
Long-term debt at scheduled maturities		**11,652,839**	12,488,039
Less: long-term debt reclassified as current due to covenant violation		**(10,040,221)**	-
Total long-term debt and capital leases after reclassification		**$ 1,612,618**	$ 12,488,039

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

Long-Term Debt and Capital Lease Details

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

The Hospital is required to make monthly payments of $32,767 beginning October 1, 2008 and continuing on the first day of each month thereafter through the scheduled maturity date of September 26, 2037. Payments would be applied first to accrued interest, and then to principal. The bond is scheduled to bear interest at a fixed rate of 7.5% through October 1, 2014. Beginning October 2, 2014, the interest rate will be a variable rate equal to the prevailing prime rate as published in the Wall Street Journal (WSJ) on the first business day of each calendar quarter (January 1, April 1, July 1, October 1). The amount of monthly payments was adjusted to $22,508 per month to accommodate the 3.25% interest rate as of May 31, 2015. Beginning January 1, 2016, the interest rate was adjusted to 3.50%.

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

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

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

Long-Term Debt and Capital Lease Details (Continued)

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

The balance of the proceeds was disbursed to the Hospital for the purposes authorized in the Supplemental and Restated Bond Resolution.

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

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

Restrictive Covenant Considerations 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. As of May 31, 2016, the Hospital was not in compliance with the debt to tangible net worth ratio covenant contained in the resolution. Although no current intent has been expressed to do so, if the bondholders were to provide written notice to the Hospital that this instance was deemed to be a default, and the Hospital was incapable of curing the default within the post notification grace period (90 days), then such event would become an "event of default", and the holder(s) of either Series could declare that Series to be immediately due and payable following the 90 day cure period. As of the date of issuance of these financial statements the Hospital has not received notice of default from either bondholder.

Due to the inability to comply with debt to tangible net worth ratio covenant, the scheduled long-term portion of the Series 2008 and 2010 bond issues is also reflected as a current liability on the Hospital's balance sheet as of May 31, 2016.

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

Long-Term Debt and Capital Lease Details (Continued)

(C) On June 21, 2012, the Hospital issued $2,248,489 of Hospital Revenue Bonds, Series 2012A bearing interest at a rate of 0.00% for the purpose of funding an energy efficient retrofit to the physical plant of the Hospital, including acquisition, construction, and installation of improvements in connection with the project, and to pay costs of issuance of the related financing. The Bonds require a servicing fee at an annual rate of 0.5% to be paid to the holder on April 30 of each year. The bond is subject to mandatory amortized redemption in annual installments beginning May 30, 2015 through maturity on May 30, 2022.

Annual principal payments range from $252,077 to $311,810. The Bonds are issued in accordance with the terms of a Loan and Security Agreement as of June 1, 2012, by and between the Hospital and the Louisiana Public Facilities Authority (the LPFA). The LPFA is purchasing the Bonds with funds from the Louisiana Department of Natural Resources (the LDNR) Empower Louisiana Flex Fund Revolving Loan Program. In connection with the Loan Agreement, the Hospital has entered into a Disbursement Agreement to which the proceeds of the Bonds will be deposited with a local bank as “Escrow Agent” and disbursed pursuant to requisitions made by the Hospital and approved by LDNR to ensure compliance with the Program.

As of May 31, 2016 and 2015, the balance of proceeds deposited within the LDNR Project Account with the Escrow Agent totaled $-0- and $225,034, respectively, and is included as non-current assets limited as to use on the statements of net position.

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

(D) In May 2012, the Hospital issued a Certificate of Indebtedness, Series 2012B, for $430,000 which bears a fixed interest rate of 3.25%. The Hospital is required to make monthly payments of $7,778 beginning June 15, 2012 and continuing on the same date of each month thereafter through the scheduled maturity date of May 15, 2017. The issuance will be used for the purpose of paying expenses related to the purchase and acquisition of electronic medical records, equipment and software, and to pay costs of issuance of the related financing.

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

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

Long-Term Debt and Capital Lease Details (Continued)

(E) The Hospital issued a certificate of indebtedness 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 Certificates.

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

The first payment of accrued interest will be due January 1, 2016, with subsequent payments of interest due on each April 1, July 1, October 1, and January 1 during the term of this Certificate. The Certificate was replaced upon maturity with the issuance of series 2016 certificates of indebtedness on December 1, 2016. See Note 15 for further details.

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

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

(F) The Hospital entered into capital leases for various types of equipment. Under the terms of the leasing arrangements, the Hospital is obligated to pay monthly rental payments ranging from $1,656 to $3,269 over the remaining years of the leases. Current lease obligations extend through December 15, 2019.

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

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

Long-Term Debt and Capital Lease Details (Continued)

Scheduled principal and interest payments on long-term debt and future minimum rental commitments payable on capital lease obligations prior to the reclassification of long-term debt to current as a result of the aforementioned covenant violation are as follows as of May 31, 2016:

	Long-Term Debt		Capital Lease Obligations	
Year ending May 31:	Principal	Interest	Principal	Interest
2017	$ 1,788,326	$ 404,840	$ 52,405	$ 6,708
2018	717,552	356,323	54,482	4,631
2019	740,902	340,192	56,653	2,460
2020	766,072	323,796	31,586	401
2021	792,765	306,140	-	-
2022-2026	3,046,059	1,247,730	-	-
2027-2031	3,274,165	707,855	-	-
2032-2036	1,821,557	184,831	-	-
2037-2041	351,046	8,791	-	-
Total	$ 13,298,444	$ 3,880,498	$ 195,126	$ 14,200

The cost of all leased assets included under the equipment caption on the statement of net position totaled $612,569 at May 31, 2016 and 2015. The related accumulated amortization was $401,071 and $338,375, at May 31, 2016 and 2015, 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 $220,604 and $213,588, for the years ended May 31, 2016 and 2015, respectively.

Note 7. Employee Retirement Plans

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

Morehouse General Hospital Money Purchase Pension Plan & Trust
Under the provisions of the plan documents, the Hospital is required to contribute 7.5% of a plan participant's annual compensation. The plan provides for the contributions (and interest allocated to the employee's account) to become partially vested after three years of continuous employment and fully vested after seven years of continuous employment. The unvested portion of an account of an employee who terminates employment before becoming fully vested is used to reduce the Hospital's current year contribution.

Note 7. Employee Retirement Plans (Continued)

Morehouse General Hospital Money Purchase Pension Plan & Trust (Continued)
The Hospital's contribution payable to the plan of $925,314 and $993,660, at May 31, 2016 and 2015, respectively, is included in accounts payable and accrued expenses on the accompanying statements of net position. The changes in the Hospital's contribution payable to the plan were as follows for the fiscal years ended May 31, 2016 and 2015:

Fiscal Year Ended May 31,	Contributions Payable Beginning of Year	Contribution Expense Recognized	Remittance to Plan	Contributions Payable End of Year
2015	$ 569,364	$ 880,590	$ (456,294)	$ 993,660
2016	**$ 993,660**	**$ 756,108**	**$ (824,454)**	**$ 925,314**

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, 2016 and 2015, respectively.

Total payroll for all employees was $11,766,039 and $13,295,903, for the years ended May 31, 2016 and 2015, respectively. Substantially all employees of the Hospital are covered by the plan discussed above.

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, 2016 and 2015 and, accordingly, no contribution expense was recognized.

Note 8. Commitments and Contingencies

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.

Note 8. Commitments and Contingencies (Continued)

Management Contract (Continued)
Under the terms of the agreement the management company provides the Hospital's CEO and CFO 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 in the aggregate.

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

In August of 2012 the Hospital was notified of a judgment by an appellate court in favor of the plaintiff relative to a long standing litigation matter. Management has recorded a liability in the amount $347,061, which represents the full amount of the settlement of this matter. As of May 31, 2016 and 2015, the Hospital has cumulatively accrued $72,645 and $53,703, respectively, in interest in connection with the settlement liability. The Hospital is a defendant in a number of other legal actions arising in the ordinary course of business.

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

Year Ended May 31,	Total Liability at Beginning of Year	New Claims and and Changes in Estimates	Claim Payments	Total Liability at End of Year	Estimated Amount due Within One Year
2016	**$ 664,536**	**$ 259,712**	**$ (117,640)**	**$ 806,608**	**$ 419,706**
2015	$ 605,818	$ 92,328	$ (33,610)	$ 664,536	$ 400,764

Note 8. Commitments and Contingencies (Continued)

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. 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. 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. While the Hospital is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Hospital's financial position.

Note 10. Concentrations 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 for May 31st:

	2016	2015
Medicare	**23%**	16%
Medicaid	**14**	10
Managed Care	**14**	6
Self-Pay	**49**	68
	100%	100%

Note 11. Physician's Medicaid Upper Payment Limit (UPL) and Full Medicaid Pricing Agreements

The Hospital entered in to agreements with 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 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.

Note 11. Physician's Medicaid Upper Payment Limit (UPL) and Full Medicaid Pricing Agreements (Continued)

During 2016 and 2015, in accordance with the funding provisions of the above agreements, the Hospital recognized $3,720,375 and $936,220, as components of net patient service revenue, respectively. The Hospital recognized $1,686,657 and $407,944, as outside services expense, funds paid or payable to DHH under the terms of the Physicians' UPL and FMP agreements during 2016 and 2015, respectively, concurrent with the income recognition from the Medicaid Supplemental Payments. As of May 31, 2016 and 2015, the Hospital reported $3,720,375 and $-0-, 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, 2016 and 2015, the Hospital had $1,686,657 and $-0-, 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 $1,462,829 and $1,481,893, for the fiscal years ended May 31, 2016 and 2015, respectively. As of May 31, 2016 and 2015, $185,318 and $846,157, 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.

Ad valorem tax revenue is recognized each year in December when it is due and collectible. During fiscal years 2016 and 2015, the Hospital received and recorded property tax revenues in the amount of $1,056,861 and $1,065,401, respectively. There was no receivable for delinquent property taxes as of May 31, 2016 or 2015.

Note 14. 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. During the two most recent fiscal years ended May 31, 2016 and 2015 the Hospital experienced substantial losses from operations of overall decreases in net position. The Hospital also unable to comply with a financial covenant contained in its bond resolution as of May 31, 2016, which has necessitated the reclassification of the long-term portion of its bond principal as a current liability on its Statement of Net Position to reflect the presence of acceleration clauses.

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 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 enhance the revenue stream.

- Implementation of revenue cycle improvement measures

- Implementation of expense reductions where deemed necessary via:
    - staffing cuts or reassignments
    - reductions to supply costs
    - contract negotiations
    - clinic realignment and/or consolidation
    - increased utilization of the pharmacy 340b program

- In November 2016 management successfully renewed a $2,800,000 certificate of indebtedness with the intent of providing short-term funding while anticipated cost saving measures and revenue enhancements take affect. (See Note 15.)

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

Note 15. 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:

Certificate of Indebtedness Issuance - Series 2016
The Hospital issued series 2016 certificates 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 Certificates. These certificates replaced the Series 2015 Certificates that matured October 31, 2016. As of the date of the financial statements the total borrowing under the Series 2016 certificates were $1,340,380.

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

The first payment of accrued interest will be due January 1, 2017, with subsequent payments of interest due on each April 1, July 1, October 1, and January 1 during the term of this Certificate. Principal is due at maturity on December 1, 2017.

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

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

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Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the years ended May 31, 2016 and 2015, and have issued our report thereon, dated January 26, 2017, which contained an unmodified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to January 26, 2017.

The supplementary information shown on pages 31 - 36 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 26, 2017

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, 2016

Commissioner	**Total Paid**
Mike Wooden (Chairman)	$ 440
Willie McKee	160
Dorothy Thomas	280
Nicolette Releford	400
John Yeldell	440
Bob Green	440
Total	$ 2,160

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Compensation, Benefits, and Other Payments to Agency Head
For the Year Ended May 31, 2016

Agency Head
Stephen R. Pitts, Chief Executive Officer
(Resigned effective September 1, 2015)

Purpose	Amount
Salary	$126,075
Benefits - Insurance	$7,421
Benefits - Retirement	$9,456
Benefits - Other (Life)	$0
Car Allowance	$0
Vehicle Provided by Government	$0
Cell Phone	$528
Dues (RT License and ACHE)	$64
Vehicle Rental	$0
Per Diem	$0
Reimbursements	$0
Travel	$0
Registration Fees	$0
Conference Travel	$0
Continuing Professional Education Fees	$0
Housing	$0
Unvouchered Expenses	$0
Special Meals	$0
Other	$0

See independent auditor’s report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Compensation, Benefits, and Other Payments
to Agency Head (Continued)
For the Year Ended May 31, 2016

Agency Head
Jim Allbritton, Interim Chief Executive Officer
September 1, 2015 through May 31, 2016

Purpose	Amount
Salary	$126,191
Benefits - Insurance	$5,823
Benefits - Retirement	$9,464
Benefits - Other (Life)	$0
Car Allowance	$0
Vehicle Provided by Government	$0
Cell Phone	$575
Dues (RT License and ACHE)	$0
Vehicle Rental	$0
Per Diem	$0
Reimbursements	$0
Travel	$533
Registration Fees	$0
Conference Travel	$0
Continuing Professional Education Fees	$0
Housing	$0
Unvouchered Expenses	$0
Special Meals	$0
Other	$0

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Insurance Coverages
For the Year Ended May 31, 2016

COVERAGE	MAJOR LIMITS OF LIABILITY	DEDUCTIBLE	POLICY PERIOD	INSURANCE CARRIER	POLICY NUMBER
Professional / General Liability					
Each Occurrence Limit	$2,500,000	$500,000	11/01/15-11/01/16	Louisiana Hospital	HPL-0390-2015
Annual Aggregate Limit	$2,500,000	$500,000		Association	
Personal & Advertising Injury Limit	$500,000	$50,000		Malpractice &	
Bodily Injury	$500,000	$50,000		General Liability	
Property Damage	$500,000	$50,000		Trust	
Employee Benefits Liability	$500,000	$50,000			
Pollution, Wrongful Termination					
Per Occurrence	$250,000	$50,000			
Annual Aggregate	$250,000	$50,000			
Applicable to All Other Coverages	$2,000,000	$50,000			
Umbrella Coverage					
Professional Per Incident	$2,500,000				
Professional Aggregate Loss Limit	$2,500,000				
Retro Date 11/1/2005					
General Liability Per Occurrence	$2,500,000				
General Liability Aggregate Loss Limit	$2,500,000				
Excess of $1M Underlying Auto Liability	$2,500,000/$2,500,000				
Physicians:					
Dr Janos Gouth Retro Date 11/01/07	$1,000,000/$3,000,000	$25,000	11/01/15-11/01/16	Louisiana Hospital	PPG000109
Dr Martin Young, Retro Date 10/1/12	$1,000,000/$3,000,000	$25,000		The Physicians Trust	
Dr Joseph A Walters, Jr , Retro Date 12/3/12	$1,000,000/$3,000,000	$25,000			
Dr Traci L Vaughn, Retro Date 9/15/14	$1,000,000/$3,000,000	$25,000			
Dr Curtis L Sanders, Retro Date 11/1/12	$1,000,000/$3,000,000	$25,000			
Excess Professional Liability					
Each Occurrence Limit	N/A				
Annual Aggregate Limit					
Umbrella Policy					
Excess Professional / General Liability,					
Auto and Employers' Liability	N/A				
Retroactive Date					
Directors & Officers Liability					
Liability Limit (A & B)	$2,000,000	$0/$25,000	05/31/15	Travelers	104426170J
Entity Coverage (C)	Included	$25,000	to	Casualty &	
Employment Practice Liability	$2,000,000	$50,000	05/31/2016	Surety	
EMTALA Coverage	$250,000			Company of	
Excess Benefit Transaction Tax	$50,000			America	
Regulatory Action 25% Co-Ins/P&P Lit Date 5/31/2005	$250,000	$100,000			
Pending & Prior Proceeding Date 5/31/2003					
Continuity Date 5/31/2003					
Directors & Officers Liability *continued*					
HIPAA Violation Coverage	$50,000				
Third Party Coverage	EXCLUDED	EXCLUDED			
Internal Revenue Code Violation	$100,000				
Anti-Trust 25% co-ins	$2,000,000	$100,000			
Property Damage					
Blanket Real & Personal Property			03/01/16-03/01/17	Fireman's Fund	DZJ80968784
and Business Interruption	$75,155,940	$5,000		Insurance Company	
Extra Expense Sublimit	$10,000,000	$5,000			
Earthquake	$50,000,000	$25,000			
Flood	$50,000,000	$25,000			
Boiler & Machinery (Equipment Breakdown)					
Direct Damage / Real and			03/01/15-03/01/16	Fireman's Fund	DZJ80954559
Personal Property	$75,155,940	$25,000		Insurance Company	
Business Interruption / Extra Expense/Service Interruption	Included	24 hrs after time of loss or 24 hrs before notice to company, whichever is later			
Perishable Stock	$10,000,000				
Hazardous Substance	$250,000				
Expediting Expense	Follows the Property Limit				
Data Restoration	$500,000				

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Insurance Coverages (Continued)
For the Year Ended May 31, 2016

COVERAGE	MAJOR LIMITS OF LIABILITY	DEDUCTIBLE	POLICY PERIOD	INSURANCE CARRIER	POLICY NUMBER
Flood					
Building Address Main Hospital 323 W Walnut Avenue, Bastrop, LA 71220			8/26/15-8/26/16	Fidelity Flood	17 1150843317 03
Building	$500,000	$1,250		(Wright)	
Contents	$500,000	$1,250			
Inland Marine (separate policy)	N/A				
Comprehensive Glass					
Misc Property Floater - transit (MRI)					
Ambulance Equipment					
Cyber Liability					
Multimedia Liability	$1,000,000/$1,000,000	$100,000	11/1/15-11/1/16	Underwriters at Lloyd's of London	481943
Retroactive Date 11/01/2014					
Security and Privacy Liability	$1,000,000/$1,000,000	$100,000			
Retroactive Date 11/01/2014					
Privacy Regulatory Defense and Penalties	$1,000,000/$1,000,000	$100,000			
Retroactive Date 11/01/2014					
Privacy Breach Response Costs	$1,000,000/$1,000,000	$100,000			
Proactive Privacy Breach Response Costs	$25,000/$25,000				
Voluntary Notification Expenses Sublimit	$1,000,000/$1,000,000				
Retroactive Date 11/01/2014					
BrandGuard	$1,000,000/$1,000,000	2 Wk Waiting Period 6mo Period of Indemnity			
Retroactive Date 11/01/2014					
Network Asset Protection	$1,000,000/$1,000,000	$100,000/10% Co-insurance each and every loss			
A Digital Assets Loss		$100,000			
Special Expenses		10% Co-Insurance			
B Non-Physical BI & EE		8hr Waiting Period			
Cyber Extortion	$1,000,000/$1,000,000	$100,000			
Cyber Terrorism	$1,000,000/$1,000,000	8hr Waiting Period			
Medefense Plus	N/A	N/A			
Automobile Liability					
Liability Limit	$1,000,000 CSL	N/A	03/04/16-03/04/17	The First Liberty Insurance Corp	AS6-Z51-291063-016
Hired and Non-Owned Liability	$1,000,000 CSL				
Medical Payments	$5,000				
Uninsured Motorist	$1,000,000 CSL				
Automobile and/or Physical Damage					
Comprehensive	ACV	$500	03/04/16-03/04/17	The First Liberty Insurance Corp	AS6-Z51-291063-016
Collision		$500			
Non-Owned / Hired Car Physical Damage		$1,000/$1,000			
Excess Automobile Liability					
Liability Limit	N/A				
Crime					
Employee Theft - A1	$750,000	$10,000	11/11/14-11/11/17	Travelers Casualty & Surety Company of America	105706915
Third Party Liability - A3	Not Covered				
Forgery of Alteration - B	$750,000	$10,000			
On-Premises - C	$750,000	$10,000			
In-Transit - D	$750,000	$10,000			
Money Orders & Counterfeit Currency - E	Not Covered				
Computer Fraud - F1	$750,000	$10,000			
Funds Transfer Fraud - G	$750,000	$10,000			
Claims Expense - I	$5,000	$-0-			
Fiduciary Liability				Travelers Casualty & Surety Co of America	
Liability Limit	$1,000,000	$-0-	11/11/14-11/11/17		105706915
Settlement Program Limit of Liability	$100,000	$-0-			
HIPAA Limit of Liability	$25,000	$-0-			
ERISA Fidelity Bond - A2				Travelers Casualty & Surety Co of America	
Liability Limit	$500,000	$-0-	11/11/14-11/11/17		105706915
Resident Fund Bond					
Liability Limit	N/A				
Tax Free Alcohol User Bond					
Liability Limit	N/A				
Workers' Compensation & Employers' Liability					
Employers' Liability					
Each Employee	$1,000,000	$-0-	01/01/16-01/01/17	LCTA	WC-1-019926-116
Each Accident	$1,000,000	$-0-			
Policy Limit	$1,000,000	$-0-			
Experience Mod - 69					

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Series 2010 Bond Resolution Fund Activity
For the Year Ended May 31, 2016

	Beginning Balance May 31, 2015	Deposits	Earnings	Withdrawals	Transfers	Ending Balance May 31, 2016
Trusteed funds (principally interest bearing cash and certificates of deposits):						
Series 2010 reserve fund	$ 243,744	$ 49,807	$ 135	$ -	$ -	$ 293,686
Series 2010 contingencies fund	245,941	49,807	135	-	-	295,883
Litigation reserve fund	52,203	-	157	-	-	52,360
Short-lived asset depreciation reserve fund	300,063	10,000	150	-	(10,000)	300,213
Total 2010 Bond Series Fund Activity:	$ 841,951	$ 109,614	$ 577	$ -	$ (10,000)	$ 942,142

See independent auditor’s report on supplementary information.

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated January 26, 2017.

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

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 described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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. We consider the deficiency described as 2016-005 in the accompanying schedule of findings and responses to be a material weakness.

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. We consider the deficiencies described as 2016-001 and 2016-004, in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Hospital's basic 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-002 and 2016-003.

Hospital's Response to Findings
The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and 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 or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is intended for the information of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
January 26, 2017

2016-001 Segregation of Duties - Accounts Payable and Cash Disbursements

Criteria: A sound system of internal controls requires that the entity maintain an adequate segregation of duties to safeguard the organization's assets.

Condition: Our audit procedures indicated that one employee has access to the non-payroll check stock, has 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, has access to print checks, has access to void and reissue checks, and is responsible for the review and coding of cash disbursements.

Additionally, a second employee has access to the non-payroll check stock, is primarily responsible for designating invoices for payment and preparing check runs, has access to print checks, access to void and reissue checks, and has access to post cash disbursements and journal entries to the general ledger.

This results in individuals who have incompatible functions within the accounts payable and cash disbursements transaction cycle and weakens controls over cash disbursements.

Independent check signing approval can be an effective compensating control for limited staffing environments, like this one; however, we noted that the Hospital's policy of requiring at least one manual signature on check above the predetermined threshold is not being consistently followed. In practice, both signatures on these disbursements are often being electronically generated even when a manual signature is required.

Cause: The Hospital has limited staffing available and turnover and re-staffing in accounting and administration appears to have created a difficulty in monitoring the access and responsibilities of staff. The Hospital policy states that "non-routine" checks in excess of $20,000 require two manual signatures, one of which is to include a board member, but does not appear to be implemented in practice. Additionally, there is no clear definition of what constitutes a "non-routine" transaction.

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

Recommendation: While it is often difficult for governmental organizations to achieve an optimal segregation of duties, it's important that measures be taken to minimize the amount of conflicting duties that are vested in any one individual. We believe it is especially important that the Hospital seek to reallocate responsibilities to limit accountants' ability to modify, add, or delete parts of a transaction prior to being reviewed by the check signer. We believe that the Hospital's policy of requiring manual signatures on over a predetermined dollar amount is an important control over cash when available staffing is limited and we recommend that it be adhered to without exception. Further, we recommend that the Hospital consider its policy for required manual check signing to eliminate exceptions over the predetermined threshold.

Management Response and Corrective Action: We agree with the importance of achieving the optimal segregation of duties possible within the staffing constraints present at the Hospital. We will investigate opportunities for reassignments where circumstances permit. The accounting director/CFO do approve by signature the payable listing prior to processing of checks, and subsequently the accounts payable check register. The Hospital will also revisit its check signing policy to monitor adherence.

2016-002 Timely Submission of Audit Report to the Legislative Auditor

Criteria: Compliance with Louisiana Revised Statute 24:513.

Condition: Under Louisiana Revised Statute, the Hospital is required to have an annual audit of its financial statements prepared in accordance with U.S. generally accepted accounting principles completed and filed with the Legislative Auditor of the State of Louisiana within six months of the close of its year end (May 31st).

Cause: For the past several years the Hospital has been hampered by deteriorating margins from operations due in part to the increasingly challenging healthcare reimbursement environment. In May 2016, the Hospital signed a management agreement with a healthcare management company to oversee the Hospital's operations. A lengthy and detailed process of analyzing and restructuring the Hospital's operations to provide for an improved delivery model was immediately undertaken. In September 2016 the existing CFO terminated his employment with the Hospital, leading to the hiring of an Interim CFO who has since been replaced by another interim applicant. During this time, the Hospital also experienced a power outage due to faulty equipment in its power plant which necessitated the transfer of patients until such time as the equipment could be repaired.

Because of the exceptional challenges, necessary restructuring, turnover in key positions and financial staffing the Hospital faced in recent months, completion of the annual audit has been delayed.

Effect: The Hospital was not in compliance with Louisiana Revised Statute 24:513. The Hospital did request and receive an extension to file its May 31, 2016 financial statement audit by January 31, 2017.

Recommendation: Although the Hospital has always been a timely filer in the past and we do not anticipate a need for future extension; the Hospital should take the necessary steps to file its financial statements in a timely manner.

Management Response and Corrective Action: Management requested and received an extension of time until January 31, 2017 from the Legislative Auditor to file its May 31, 2016 financial statements. Management agrees with the finding, and will ensure that the financial statements are approved and submitted by the November 30th deadline in future years.

2016-003 Noncompliance Bond Resolution

Criteria: Per Section 17(e)(i) of the Supplemental and Restated Bond Resolution the Hospital shall not at any time permit the Debt to Tangible Net Worth of the Hospital to exceed a 9.0:1.0 ratio as determined in accordance with Generally Accepted Accounting Principles.

Condition: At May 31, 2016 the Hospital was not in compliance with Section 17(e)(i).

Cause: The Hospital has incurred operating losses in each of the last two fiscal years that resulted in a deficit in net position of $(206,358) as of May 31, 2016.

Effect: The condition results in an instance of noncompliance with the bond resolution.

Recommendation: We recognize the board has brought in outside management to improve the Hospital's operations and financial position. We recommend that the Hospital's management and Board continue to monitor the progress being made in this area and to consider the need to seek amendment of the requirement with the bondholders.

Management Response and Corrective Action: The Hospital continues to operate in a challenging reimbursement environment; however, we've undertaken measures to increase volumes, recruit additional physicians, and monitor opportunity for cost savings. While these measures are underway we emphasize that the hospital has not been delinquent in any debt service.

2016-004 Timing of Employer Contribution Remittances to the Retirement Plan

Criteria: Louisiana Revised Statute 46:1068 that authorizes the creation of retirement plans by hospital service districts, indicates that such districts "…maintain actuarially sound pension and retirement systems". Inherently, that statute implies that amounts be present to fund payment of benefits under the terms of the Plan as a withdrawal request is made upon either a participant's termination or retirement.

Condition: Morehouse General Hospital maintains 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 is routinely delayed because of the economic conditions the Hospital has faced. While neither the plan document nor government regulations appear to address an appropriate time period for payment of contributions to the Plan, the delay of remittance of these contributions creates 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.

Cause: The Hospital has faced losses from operations and has had to limit its cash flows to such times as cash was available. Cancellation by the potential lessor of the plan to lease the hospital facility which would have provided funding to settle the obligation has caused management to seek other sources of available cash to settle the obligation.

Effect: The condition creates a weakness in internal control over compliance with laws and regulations as the continued growth in this liability could affect the Hospital's compliance with Louisiana R.S. 46:1068, should the Plan ever not be able to meet its obligations as a result.

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

Management's Response and Corrective Action:
Management agrees with the recommendation and as part of its action plan for the Hospital is developing steps to reduce the amount due to the Plan while seeking to preserve the viability of the Hospital for the continued benefit of the community served as well as its employees. We review the reports produced by the Plan's recordkeeper / custodian to monitor that the Plan has sufficient invested assets to pay expected benefit withdrawals as they come due. As our counsel has advised us that governmental defined contribution plans of this type have no specific prescribed time period for remittance of contributions our primary focus remains to timely remit our contributions and reduce the existing liability.

2016-005 Third-Party Payor Settlement Estimates - Interim Financial Statements

Criteria: Preparation of financial statements in accordance with Accounting Principles Generally Accepted in the United States of America 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: During the audit a substantial entry was proposed to adjust the third party payor accounts to actual at fiscal year end based upon settlement notifications and related correspondence received during the fiscal year from the Medicare and Medicaid payors and fiscal intermediaries. While these account balances are adjusted as of year end, it would appear that a substantial amount of time had elapsed since the accounts were last adjusted during the course of the fiscal year.

Cause: Turnover in management positions during the last year, and efforts to negotiate leasing and management contracts limited the time available by management to update these account balances during the course of the fiscal year.

Effect: Interim monthly financial statements may not have reflected 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. 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.

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

2015-001 Patient Accounts Receivable Maintenance

As we noted in prior years, there had been continued substantial growth in the volume of patient accounts carried on the Hospital's subsidiary ledger in excess of 180 and 365 days requiring an increased allowance balance to properly reflect collectability on the financial statements. The condition resulted in a weakness in the Hospital's internal controls over financial reporting. Management of the Hospital had had to calculate and assess an ever increasing allowance for doubtful accounts to correctly estimate the net realizable valuable of its patient account receivable. This calculation became subject to a greater range of estimate when a predefined write-off policy was not consistently followed in the business office, since past write-off history utilized in the estimation process became distorted. It was recommended to management to complete the necessary account write-offs and adhere to a standard write-off policy.

Current Status: Resolved. Management has significantly reduced the number of uncollectible receivables in the accounts receivable ledger through the write-off process.

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

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

Current Status: Unresolved. The accountant's access to make changes to the accounts payable vendor master file has been revoked and thus corrected; however, in rearranging the roles and responsibilities amongst the limited staff, a new control deficiency was created. See finding 2016-002.

Prior Year Management Letter Comments and Status:

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

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

Status: Unresolved. See finding 2016-004.