

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Pride, Louisiana
December 31, 2013**

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Independent Auditor's Report

Board of Directors
Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Pride, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1, the financial statements of Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund are intended to present the financial position, changes in net assets and cash flows that are attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of Rural Hospital Coalition, Inc., as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2014 on our consideration of Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting and compliance.



May 23, 2014

**Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Statements of Financial Position
December 31, 2013 and 2012**

A s s e t s

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 1,289,573	\$ 814,317
Accounts receivable	2,693	-
Prepaid expenses	<u>11,656</u>	<u>57,406</u>
Total current assets	<u>1,303,922</u>	<u>871,723</u>
Fixed Assets		
Equipment	8,507,789	8,507,789
Less: accumulated depreciation	<u>(8,418,533)</u>	<u>(7,439,228)</u>
Total fixed assets, net	<u>89,256</u>	<u>1,068,561</u>
 Total assets	 <u>\$ 1,393,178</u>	 <u>\$ 1,940,284</u>

L i a b i l i t i e s a n d N e t A s s e t s

Current Liabilities		
Accounts payable	\$ 237,384	\$ 81,605
Deferred revenue	<u>1,066,538</u>	<u>790,118</u>
Total current liabilities	1,303,922	871,723
Net Assets		
Unrestricted	<u>89,256</u>	<u>1,068,561</u>
 Total liabilities and net assets	 <u>\$ 1,393,178</u>	 <u>\$ 1,940,284</u>

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

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Statements of Activities
Years Ended December 31, 2013 and 2012

	UNRESTRICTED	
	2013	2012
Revenue and Support		
State contract	\$ 723,579	\$ 1,081,434
Interest income	1,589	1,923
Total revenue and support	725,168	1,083,357
Expenses		
Program Services		
LSU contract services	329,212	292,049
Total program services	329,212	292,049
Operating Services		
Advertising	901	450
Dues and subscriptions	444	1,233
Maintenance of EMR systems	115,686	434,915
Office supplies	4,136	1,521
Depreciation expense	979,305	1,684,400
Postage	705	681
Printing	2,022	2,064
Rent - office space	7,200	7,200
Contract fees	251,944	320,944
Travel	8,433	9,683
Telephone	4,485	12,617
Total operating services	1,375,261	2,475,708
Total expenses	1,704,473	2,767,757
Change in Net Assets	(979,305)	(1,684,400)
Net Assets, Unrestricted		
Beginning of year	1,068,561	2,752,961
End of year	\$ 89,256	\$ 1,068,561

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

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (979,305)	\$ (1,684,400)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	979,305	1,684,400
(Increase) Decrease in assets:		
Accounts receivable	(2,693)	-
Prepaid expenses	45,750	50,377
Increase (Decrease) in liabilities:		
Accounts payable	155,779	(202,013)
Deferred revenue	<u>276,420</u>	<u>(81,434)</u>
Net cash provided by (used in) operating activities	<u>475,256</u>	<u>(233,070)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	475,256	(233,070)
Cash and Cash Equivalents, beginning of year	<u>814,317</u>	<u>1,047,387</u>
Cash and Cash Equivalents, end of year	<u>\$1,289,573</u>	<u>\$ 814,317</u>

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

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2013

Note 1-Nature of Organization and Activities

The Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund (the Fund) is a restricted fund of Rural Hospital Coalition, Inc. (the Coalition), used to report activity related to the State of Louisiana appropriations paid to the Coalition for disbursement in accordance with contractual agreements between the Coalition and the Louisiana Department of Health and Hospitals. This Fund is an integral part of the basic financial statements of the Coalition, and accordingly, is included in the Coalition's financial statements. The Fund is used to report the Coalition's receipt, custody, and disbursement of funds received from the State of Louisiana, which management considers a quasi-governmental operation.

The Coalition has a cooperative endeavor agreement with the Louisiana Department of Health and Hospitals (DHH) to increase access to primary medical care for residents in rural areas of Louisiana. The Coalition, in conjunction with DHH and the Louisiana State University Health Sciences Center - Shreveport (LSUHSC-S), established an infrastructure known as the Louisiana Rural Health Information Exchange, or LARHIX, to achieve a public purpose: "to continue the collaboration with rural physicians and rural hospitals in North Louisiana by sponsorship of continuing medical education, furnishing medical consultation to and with physicians and rendering other support as may be appropriate." The Network includes LSUHSC-S and rural hospitals located in Louisiana north of an east/west line drawn through Bunkie, Louisiana, and any other health care providers that the Network deems appropriate (Catchment Area). The Coalition, in conjunction with LSUHSC-S, select the rural hospitals operating in the Catchment Area which may receive technical and financial support made available, pursuant to the Act, for acquisition of a hospital information system (IT System), after signing an agreement, the form of which was pre-approved by DHH and the Coalition. Procurement of IT Systems follows a process similar to that specified in the Telecommunications and Data Processing Procurement Law (LSA RS 38:2234). If a hospital fails to fully participate in the Network or timely acquire or utilize the health information system, the Coalition may select a replacement hospital and transfer any unobligated funds and, to the extent possible, transfer the acquired IT System hardware and software to a replacement hospital. The Coalition, through LARHIX, provides the Network with an Integration Engine (provides communication software whereby hospitals using different software may communicate with other healthcare providers) during this Agreement that is to be used for the public purpose. Should DHH in conjunction with the Coalition and LSUHSC-S determine the Integration Engine and Network are no longer utilized in furtherance of the public purpose, the Integration Engine shall revert to the State. Each annual cooperative endeavor agreement provides a budget and guidance regarding the disbursement of funds from the State of Louisiana. Amounts are deposited into a restricted, interest bearing account, all of which must be used consistent with the annual agreement in furtherance of the public purpose.

The Coalition's contract with DHH terminates June 30, 2014, contingent upon and limited by annual appropriations.

Note 2-Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation

The accompanying financial statements have been presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2013

Note 2-Summary of Significant Accounting Policies (Continued)

A. Basis of Accounting and Presentation (Continued)

The Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets include those net assets whose use by the Fund is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those net assets whose use by the Fund has been limited by donors (a) to later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions limiting the Fund's use of the assets. At December 31, 2013 and 2012, the Fund had no temporarily or permanently restricted net assets.

B. Use of Estimates

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

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

D. Fixed Assets

The Fund follows the practice of capitalizing, at cost, all expenses for fixed assets in excess of \$1,000. Depreciation is provided for on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives of five years.

E. Revenue and Support

Revenue is earned through contracts with the State of Louisiana and interest earned on deposits. The use of these funds is specified in the agreements between the Coalition and DHH. The agreements define services allowable within the scope of work applicable to the appropriation. Revenue is deferred until expenses are incurred.

F. Expenses

Expenses are reported in categories similar to those prescribed within the Fund's budgets, as approved by DHH. Contract fees and LSU contract services are contract labor costs. As such, payroll taxes and benefit costs are the responsibility of the contractor. Because funding varies from year-to-year, it is impractical to hire staff and establish benefit packages necessary to hire qualified staff as employees.

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2013

Note 2-Summary of Significant Accounting Policies (Continued)

G. Income Taxes

The Fund is an integral part of the Coalition, which is exempt from income taxes under Internal Revenue Code Section 501(c)(6). The Fund's activity is considered to be an activity related to the Coalition's exempt purpose and accordingly, no income taxes are reported.

Management has determined that there are no uncertain tax positions that would require recognition in the financial statements. If the Coalition were to incur an income tax liability attributable to the Fund in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax would be reported as income taxes. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations, and interpretations thereof as well as other factors. Generally, tax returns may be examined for three years from the filing date and the current and prior three years remain subject to examination as of December 31, 2013.

Note 3-Concentration of Risk

At various times during the year, accounts on deposit with one banking institution exceeded the amount insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with the Fund's balances in cash and cash equivalents, to minimize this potential risk.

Note 4-Economic Dependency

The LARHIX program is funded through contracts with the State of Louisiana. No new funding is anticipated for 2014.

Note 5-Subsequent Events

Management of the Fund has evaluated all subsequent events through May 23, 2014, the date the financial statements were available to be issued. As a result, management noted no subsequent events that required adjustment to, or disclosure in, these financial statements.

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**Independent Auditor's 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***

Board of Directors
Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Pride, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2014.

Internal Control Over Financial Reporting

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

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

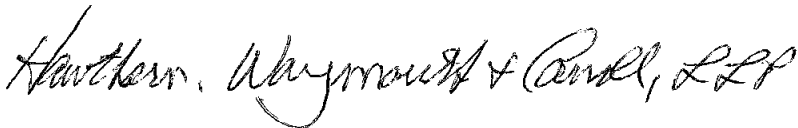
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Hawthorn, Wynn & Co., LLP". The signature is written in black ink and is positioned above the date.

May 23, 2014

**Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013**

Findings - Financial Statement Audit

None.

**Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2013**

Findings - Financial Statement Audit

None.