

# **East Union Hospital Service District**

Auditor's Reports and Financial Statements

March 31, 2014 and 2013



**East Union Hospital Service District**  
**March 31, 2014 and 2013**

**Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Financial Statements</b>	
Balance Sheets.....	7
Statements of Revenues, Expenses and Changes in Net Position .....	8
Statements of Cash Flows .....	9
Notes to Financial Statements .....	10
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>16</b>
<b>Schedule of Findings and Responses .....</b>	<b>18</b>
<b>Summary Schedule of Prior Year Audit Findings .....</b>	<b>19</b>

## Independent Auditor's Report

Board of Commissioners  
East Union Hospital Service District  
Farmerville, Louisiana

### Report on the Financial Statements

We have audited the accompanying financial statements of East Union Hospital Service District (the District), which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of March 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2014 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**BKD, LLP**

Waco, Texas  
September 2, 2014

# **East Union Hospital Service District**

## **Management's Discussion and Analysis**

### **Years Ended March 31, 2014 and 2013**

#### ***Introduction***

This management's discussion and analysis of the financial performance of East Union Hospital Service District (the District) provides an overview of the District's financial activities for the years ended March 31, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the District.

#### ***Financial Highlights***

- Cash and investments increased in 2014 and 2013 by \$139,173 and \$418,764, or 6% and 24%, respectively.
- The District's net position increased in each of the past two years with a \$412,879, or 11%, increase in 2014, and a \$400,960, or 12%, increase in 2013.
- The District reported operating losses in both 2014 and 2013. The operating loss in 2014 increased by \$26,720, or 14%, over the operating loss reported in 2013. The operating loss in 2013 increased by \$2,310, or 1%, from the operating loss reported in 2012.
- Net nonoperating revenues (expenses) increased by \$38,639, or 7%, in 2014 compared to 2013, and increased by \$15,422, or 3%, in 2013 compared to 2012.

#### ***Using This Annual Report***

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position***

One of the most important questions asked about any District's finances is "Is the District as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. The District's total net position—the difference between assets and liabilities—is one measure of the District's financial health or

financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the District.

### ***The Statement of Cash Flows***

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

### ***The District's Net Position***

The District's net position is the difference between its assets and liabilities reported in the balance sheets. The District's net position increased by \$412,879 in 2014 over 2013, and by \$400,960 in 2013 over 2012, as shown in Table 1.

***Table 1: Assets, Liabilities and Net Position***

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Current assets	\$ 2,398,460	\$ 2,261,927	\$ 1,947,384
Capital assets, net	<u>1,804,779</u>	<u>1,524,803</u>	<u>1,438,129</u>
Total assets	<u><u>\$ 4,203,239</u></u>	<u><u>\$ 3,786,730</u></u>	<u><u>\$ 3,385,513</u></u>
<b>Liabilities</b>			
Current and noncurrent liabilities	<u>\$ 4,620</u>	<u>\$ 990</u>	<u>\$ 733</u>
Total liabilities	<u>4,620</u>	<u>990</u>	<u>733</u>
<b>Net Position</b>			
Net investment in capital assets	1,804,779	1,524,803	1,438,129
Unrestricted	<u>2,393,840</u>	<u>2,260,937</u>	<u>1,946,651</u>
Total net position	<u>4,198,619</u>	<u>3,785,740</u>	<u>3,384,780</u>
Total liabilities and net position	<u><u>\$ 4,203,239</u></u>	<u><u>\$ 3,786,730</u></u>	<u><u>\$ 3,385,513</u></u>

The most significant change in the District's financial position in 2014 and 2013 was an increase in cash and cash equivalents. The most significant change in the District's financial position in 2012 was a decrease in current liabilities. This was due to the payoff of the note payable to Union General Hospital, Inc.

### **Operating Results and Changes in the District's Net Position**

In 2014, the District's net position increased by \$412,879, or 11%, as shown in Table 2. This increase is made up of several different components and represents an increase of \$11,919 compared with the increase in net position for 2013 of \$400,960. The District's change in net position increased from \$387,848 in 2012 to \$400,960 in 2013, an increase of \$13,112.

**Table 2: Operating Results and Changes in Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>			
Rent revenue	\$ 21,444	\$ 21,444	\$ 29,404
Total operating revenues	<u>21,444</u>	<u>21,444</u>	<u>29,404</u>
<b>Operating Expenses</b>			
Supplies and other	41,195	31,221	38,416
Depreciation and amortization	198,215	181,469	179,924
Total operating expenses	<u>239,410</u>	<u>212,690</u>	<u>218,340</u>
<b>Operating Loss</b>	<u>(217,966)</u>	<u>(191,246)</u>	<u>(188,936)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	707,129	710,025	720,417
Investment income	4,594	8,203	12,365
Grants	(80,878)	(126,022)	(155,998)
Total nonoperating revenues	<u>630,845</u>	<u>592,206</u>	<u>576,784</u>
<b>Increase in Net Position</b>	<u>\$ 412,879</u>	<u>\$ 400,960</u>	<u>\$ 387,848</u>

### **Operating Losses**

The first component of the overall change in the District's net position is its operating income or loss—generally, the difference between operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's recent operating history as the District was formed and is operated primarily to serve residents of Farmerville, Louisiana and the surrounding area. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2014 increased by \$26,720, or 14%, as compared to 2013. The primary component of the increased operating loss is:

- An increase in supplies and other expenses of \$9,974, or 32%.
- An increase in depreciation and amortization expense of \$16,746, or 9%.

The operating loss for 2014 of \$217,966 was greater than the operating loss of \$191,246 recognized in 2013. The operating loss for 2013 increased by \$2,310, or 1%, as compared to 2012. This change is primarily due to a \$7,195, or 19%, increase in supplies and other expenses compared to 2012.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, investment income and grants, all of which remained relatively constant from 2012 to 2013. Grant expenses decreased in 2014 by \$45,144, or 36%, as compared to 2013. The District granted funds to the Hospital for purchase of supplies and equipment to ensure quality care for local residents.

### ***The District's Cash Flows***

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2014, 2013 and 2012, discussed earlier.

### ***Capital Assets***

At the end of 2014 and 2013, the District had \$1,804,779 and \$1,524,803, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 3* to the financial statements. This represents an increase of \$279,976, or 18%, as compared to 2013. In 2014, the District purchased new equipment costing \$478,191.

### ***Contacting the District's Financial Management***

This financial report is designed to provide our suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to Juanita Sanford, at East Union Hospital Service District, 901 James Street, P.O. Box 398, Farmerville, Louisiana.

**East Union Hospital Service District**  
**Balance Sheets**  
**March 31, 2014 and 2013**

**Assets**

	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,565,164	\$ 1,425,966
Short-term investments	760,111	760,136
Property taxes receivable	23,330	24,661
Other	806	2,293
Prepaid expenses	49,049	48,871
Total current assets	2,398,460	2,261,927
<b>Capital Assets, Net</b>		
	1,804,779	1,524,803
Total assets	\$ 4,203,239	\$ 3,786,730

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Accounts payable	\$ 4,620	\$ 990
Total current liabilities	4,620	990
<b>Net Position</b>		
Net investment in capital assets	1,804,779	1,524,803
Unrestricted	2,393,840	2,260,937
Total net position	4,198,619	3,785,740
Total liabilities and net position	\$ 4,203,239	\$ 3,786,730

**East Union Hospital Service District**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Rent revenue	\$ 21,444	\$ 21,444
Total operating revenues	21,444	21,444
<b>Operating Expenses</b>		
Supplies and other	41,195	31,221
Depreciation and amortization	198,215	181,469
Total operating expenses	239,410	212,690
<b>Operating Loss</b>	(217,966)	(191,246)
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	707,129	710,025
Interest income	4,594	8,203
Grants	(80,878)	(126,022)
Total nonoperating revenues	630,845	592,206
<b>Excess of Revenues over Expenses and Increase in Net Position</b>	412,879	400,960
<b>Net Position, Beginning of Year</b>	3,785,740	3,384,780
<b>Net Position, End of Year</b>	\$ 4,198,619	\$ 3,785,740

**East Union Hospital Service District**  
**Statements of Cash Flows**  
**Years Ended March 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Activities</b>		
Payments to suppliers and contractors	\$ (37,744)	\$ (77,401)
Other receipts, net	21,444	23,212
	<u>(16,300)</u>	<u>(54,189)</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	708,460	710,025
Grants	(80,878)	(126,023)
	<u>627,582</u>	<u>584,002</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(478,191)	(268,143)
	<u>(478,191)</u>	<u>(268,143)</u>
<b>Investing Activities</b>		
Interest on investments	6,107	7,157
	<u>6,107</u>	<u>7,157</u>
<b>Increase in Cash and Cash Equivalents</b>	139,198	268,827
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,425,966</u>	<u>1,157,139</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,565,164</u>	<u>\$ 1,425,966</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (217,966)	\$ (191,246)
Depreciation and amortization	198,215	181,469
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	3,630	258
Other assets and liabilities	(179)	(44,670)
	<u>(16,300)</u>	<u>(54,189)</u>
Net cash used in operating activities	<u>\$ (16,300)</u>	<u>\$ (54,189)</u>

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**Years Ended March 31, 2014 and 2013**

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

***Nature of Operations and Reporting Entity***

East Union Hospital Service District (the District) was created by an ordinance of the Union Parish Police Jury on June 8, 1971. The District is a political subdivision in the state of Louisiana. The District's commissioners are appointed by the Union Parish Police Jury.

Since December 1, 1983, when the District discontinued operating Union General Hospital, Inc. (the Hospital), its operations consist of administration of the facilities through a cooperative endeavor agreement as discussed further in *Note 4*, rental of adjoining physicians' offices, collection and administration of tax receipts.

***Basis of Accounting and Presentation***

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions 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, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

***Use of Estimates***

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

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**Years Ended March 31, 2014 and 2013**

***Cash Equivalents***

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2014 and 2013, cash equivalents consisted primarily of a money market account.

***Property Taxes***

The District levies a property tax on all property subject to taxation in the service district. Millage rates for 2014 and 2013 were 5.45 and 5.56 mills, respectively. The purpose of the tax is for constructing, maintaining, improving and operating the District. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the District.

Property taxes are levied by the District no later than November 15 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied between September 15 and November 15. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after December 31.

The District received substantially all of its financial support from property taxes in 2014 and 2013. These funds were used to support operations and support provided to the Hospital.

***Risk Management***

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

Land improvements	5 – 25 years
Buildings and improvements	25 – 40 years
Equipment	3 – 25 years

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**Years Ended March 31, 2014 and 2013**

***Net Position***

Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

***Income Taxes***

As an essential government function, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

***Operating Revenues and Expenses***

The statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with rental and maintenance of the Hospital facility, the District's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to maintain the facility in accordance with agreements, other than financing costs.

**Note 2: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Louisiana; bonds of any city, county, school district or special road district of the state of Louisiana; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At March 31, 2014 and 2013, none of the District's bank balances of \$2,325,310 and \$2,186,474, respectively, were exposed to custodial credit risk. The carrying value of deposits are included in the balance sheets as follows:

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**Years Ended March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 1,565,164	\$ 1,425,966
Short-term investments	760,111	760,136
	<b>\$ 2,325,275</b>	<b>\$ 2,186,102</b>

**Note 3: Capital Assets**

Capital assets activity for the years ended March 31 was:

	<b>2014</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land	\$ 115,554	\$ -	\$ -	\$ -	\$ 115,554
Land improvements	44,453	-	-	92,262	136,715
Buildings and improvements	3,736,953	-	-	-	3,736,953
Equipment	2,081,896	368,756	-	52,680	2,503,332
Construction in progress	144,942	109,435	-	(144,942)	109,435
	6,123,798	478,191	-	-	6,601,989
Less accumulated depreciation:					
Land improvements	30,053	10,118	-	-	40,171
Buildings and improvements	2,516,964	84,781	-	-	2,601,745
Equipment	2,051,978	103,316	-	-	2,155,294
	4,598,995	198,215	-	-	4,797,210
Capital assets, net	<b>\$ 1,524,803</b>	<b>\$ 279,976</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,804,779</b>

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**Years Ended March 31, 2014 and 2013**

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 115,554	\$ -	\$ -	\$ -	\$ 115,554
Land improvements	44,453	-	-	-	44,453
Buildings and improvements	3,632,728	35,700	-	68,525	3,736,953
Equipment	1,944,637	87,501	-	49,758	2,081,896
Construction in progress	118,283	144,942	-	(118,283)	144,942
	<u>5,855,655</u>	<u>268,143</u>	<u>-</u>	<u>-</u>	<u>6,123,798</u>
Less accumulated depreciation:					
Land improvements	27,623	2,430	-	-	30,053
Buildings and improvements	2,434,710	82,254	-	-	2,516,964
Equipment	1,955,193	96,785	-	-	2,051,978
	<u>4,417,526</u>	<u>181,469</u>	<u>-</u>	<u>-</u>	<u>4,598,995</u>
Capital assets, net	<u>\$ 1,438,129</u>	<u>\$ 86,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,524,803</u>

**Note 4: Operating Agreements**

On November 22, 1983, the District entered into a cooperative endeavor agreement with a newly formed nonprofit corporation named "Union General Hospital, Inc." The agreement states Union General Hospital, Inc. (the Hospital) would operate the District's hospital facility known as Union General Hospital in Farmerville, Louisiana, as well as all related moveable property. The Hospital is a Louisiana nonprofit corporation, which has received exemption from income taxes as an organization described under section 501(c)(3) of the Internal Revenue Code.

The current agreement, dated September 8, 2010, has a "primary term" beginning September 8, 2010, and continuing until March 31, 2019. Thereafter, the agreement will automatically renew for an additional ten (10) year term renewal with the same terms and conditions unless either the Hospital or District provides 180 days advanced notice of non-renewal. The Hospital has agreed to maintain at its expense certain insurance, capital additions, and make necessary and proper repairs.

The District provided grants to the Hospital of \$80,878 and \$126,023 for the years ended March 31, 2014 and 2013, respectively.

**East Union Hospital Service District**  
**Notes to Financial Statements**  
**Years Ended March 31, 2014 and 2013**

**Note 5: Contingencies**

***Litigation***

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

**Note 6: Board Members**

Board members of the District and their compensation for 2014 and 2013 are as follows:

<u>Member</u>	<u>Compensation</u>
Darien Brown	None
Howard Allen	None
Alice Bailey	None
Calvin Jones	None
Bruce Matte	None
Beverly Loyd	None
Joel Taylor	None

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

Board of Commissioners  
East Union Hospital Service District  
Farmerville, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of East Union Hospital Service District (the District), which comprise the balance sheet as of March 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 2, 2014.

### ***Internal Control over Financial Reporting***

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 would not necessarily 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 as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2014-01 that we consider to be a significant deficiency in internal control.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

***East Union Hospital Service District's Response to Findings***

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

We also noted certain additional matters that we have reported to the District's management in a separate letter dated September 2, 2014.

***Purpose of this Report***

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

**BKD, LLP**

Waco, Texas  
September 2, 2014

**East Union Hospital Service District**  
**Schedule of Findings and Responses**  
**Year Ended March 31, 2014**

Reference Number	Finding
2014-01	<p>Preparation of Financial Statements and Accompanying Notes</p> <p><i>Criteria</i> – Auditing standards have clarified that the components of internal controls are the same for all entities, regardless of their size.</p> <p><i>Condition</i> – The District relied on auditors to prepare both the financial statements and accompanying notes.</p> <p><i>Context</i> – Auditors prepare both the financial statements and accompanying notes in addition to the annual audit.</p> <p><i>Effect</i> – Potentially material misstatements in the financial statements and accompanying notes could occur and not be prevented or detected by the District’s internal control structure.</p> <p><i>Cause</i> – This is largely due to the staff and resource limitations.</p> <p><i>Recommendation</i> – We suggest the District ensure that appropriate personnel are in place and that they have the appropriate knowledge and tools to be an effective element of the internal control process either through training or addition of in-house personnel or through the use of outside consultants other than your auditors.</p> <p><i>Views of responsible officials and planned corrective actions</i> – The District acknowledges the limitations of the existing staffing levels and as a result we have chosen to allow the audit firm to prepare the financial statements and notes.</p>

**East Union Hospital Service District**  
**Summary Schedule of Prior Year Audit Findings**  
**Year Ended March 31, 2013**

<b>Reference Number</b>	<b>Summary of Findings</b>
2013-01	<p>Preparation of Financial Statements and Accompanying Notes</p> <p><i>Criteria</i> – Auditing standards have clarified that the components of internal controls are the same for all entities, regardless of their size.</p> <p><i>Condition</i> – The District relied on auditors to prepare both the financial statements and accompanying notes.</p> <p><i>Context</i> – Auditors prepare both the financial statements and accompanying notes in addition to the annual audit.</p> <p><i>Effect</i> – Auditors have become part of internal controls.</p> <p><i>Cause</i> – This is largely due to the staff and resource limitations.</p> <p><i>Recommendation</i> – We suggest the District ensure that appropriate personnel are in place and that they have the appropriate knowledge and tools to be an effective element of the internal control process either through training or addition of in-house personnel or through the use of outside consultants other than your auditors.</p> <p><i>Views of responsible officials and planned corrective actions</i> – The District acknowledges the limitations of the existing staffing levels and as a result we have chosen to allow the audit firm to prepare the financial statements and notes.</p> <p><i>Status</i> – This continues to be an issue in the current year. BKD has prepared both the financial statements and related notes for the 2014 fiscal year.</p>

# **East Union Hospital Service District**

Audit Results

March 31, 2014



**East Union Hospital Service District**  
**March 31, 2014**

**Contents**

**Required Communications ..... 1**

**Management Representation Letter..... 6**

Board of Commissioners  
East Union Hospital Service District  
Farmerville, Louisiana

As part of our audit of the financial statements of East Union Hospital Service District (the District) as of and for the year ended March 31, 2014, we wish to communicate the following to you.

## **AUDIT SCOPE AND RESULTS**

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

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

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

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

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

#### **Significant Accounting Policies**

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

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

No matters are reportable.

Management Judgments and Accounting Estimates

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

No matters are reportable.

Financial Statement Disclosures

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

No matters are reportable.

**Audit Adjustments**

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

Areas in which adjustments were proposed include:

*Proposed Audit Adjustments Recorded*

- Net position
- Property taxes receivable and related revenue
- Depreciation expense

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

No matters are reportable.

### **Other Material Written Communications**

Listed below is another material written communication between management and us related to the audit:

- Management representation letter (*attached*)

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of the District as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the District's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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

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

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

### **Significant Deficiencies**

Refer to the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

### **Deficiencies**

#### Rental Contracts

Regarding rental contracts, the District charges each physician a fixed monthly amount for utilities based on square footage. However, the terms of each rental contract does not include utility payments. We suggest the District evaluate whether it is legally and fiscally responsible to amend these contracts.

#### Management's Response and Corrective Action Plan

We agree with the finding. We are currently working with our attorneys to complete these contracts.

#### Segregation of Duties

Management is responsible for establishing and maintaining effective internal controls over financial reporting. When designing an internal control structure, conflicts in the segregation of duties among different accounting functions should be limited. Generally, access; monitoring and recording responsibilities should be assigned to different individuals. In instances where these duties are not segregated, potential internal control weaknesses exist. We identified the following matters where duty conflicts exist.

#### Entity Level

The District has no employees and only one contracted accountant is performing all duties within the accounting function. While the financials are reviewed at board meetings with CPA approval, there is no verification process to ensure all journal entries are listed for the CPA's review. We recommend the District consider adding additional oversight procedures to mitigate and limit the opportunity for misappropriation.

Revenue Cycle

The contracted accountant has access to cash receipts and has responsibility to record the receipts as well as reconcile the bank statement. When employees have the ability to access payments received, responsibility to record the deposits, and responsibility to reconcile the bank accounts, there is generally a risk of misappropriation. While the financials are reviewed at board meetings with CPA approval, there are no procedures in place to catch checks received but not deposited. We recommend management evaluate the cash receipt process and consider adding additional oversight procedures to mitigate this risk.

Purchasing Cycle

The contracted accountant has access to all aspects of the purchasing cycle including the ability to generate checks, record accounts payable transactions and change vendor master files. While financials are reviewed monthly and a board member must approve and sign all checks, this employee is also responsible for adjusting the general ledger and reconciling bank accounts and related accounts payable general ledger accounts. We recommend the District consider adding additional oversight procedures to mitigate and limit the opportunity for misappropriation.

While management has segregated certain specific functions and attempts to provide control through involvement of board members, the overall control of accounting data is more concentrated than desirable. This problem is common in small organizations that are forced to control costs at the expense of appropriate internal controls.

Management's Response and Corrective Action Plan

We agree with the finding. While we have established additional controls which include direct board member oversight, we will continue to evaluate the cost and benefit of further segregation of duties, although a complete segregation of duties may not be practical.

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

*BKD, LLP*

Waco, Texas  
September 2, 2014

# EAST UNION HOSPITAL SERVICE DISTRICT

P. O. BOX 398  
FARMERVILLE, LA 71241  
(318) 368 - 9751

September 2, 2014

**BKD, LLP**  
Certified Public Accountants  
7901 Woodway Drive  
Waco, TX 76712

We are providing this letter in connection with your audits of our financial statements as of and for the years ended March 31, 2014 and 2013. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

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

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

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated February 11, 2014, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

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

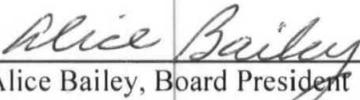
The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

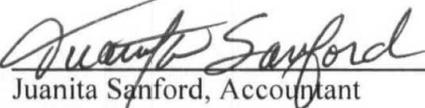
11. Except as reflected in the financial statements, there are no:
  - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
  - (b) Material transactions omitted or improperly recorded in the financial statements.
  - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
  - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
  - (e) Agreements to purchase assets previously sold.
  - (f) Restrictions on cash balances or compensating balance agreements.
  - (g) Guarantees, whether written or oral, under which the District is contingently liable.
12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
14. Adequate provisions and allowances have been accrued for any material losses from:
  - (a) Uncollectible receivables.
  - (b) Purchase commitments in excess of normal requirements or above prevailing market prices.
15. Except as disclosed in the financial statements, we have:
  - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

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

21. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
22. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
23. We have a process to track the status of audit findings and recommendations.
24. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
25. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
26. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
27. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

**East Union Hospital Service District**

  
\_\_\_\_\_  
Alice Bailey, Board President

  
\_\_\_\_\_  
Juanita Sanford, Accountant