# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury

Auditor's Reports and Financial Statements

September 30, 2014 and 2013

BKD LLP
CPAs & Advisors

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
**September 30, 2014 and 2013**

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# Independent Auditor's Report

Board of Commissioners
Hospital Service District No. 1A of the Parish of Richland
d.b.a. Richland Parish Hospital
Delhi, Louisiana

## Report on the Financial Statements

We have audited the accompanying balance sheets of Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital (the District), a component unit of Richland Parish Police Jury, as of September 30, 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 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.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital as of September 30, 2014 and 2013, and 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.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information 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 audit 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The combining statements listed in the table of contents are presented for purposes of additional

analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2015, 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

Jackson, Mississippi
March 2, 2015

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Management's Discussion and Analysis
## Years Ended September 30, 2014 and 2013

### Introduction

This management's discussion and analysis of the financial performance of Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital (the District) provides an overview of the District's financial activities for the years ended September 30, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the District.

### Financial Highlights

- Cash and investments decreased in 2014 by $1,487,895, or 22.8%, and increased in 2013 by $124,616, or 2.0%.
- The District's net position increased in each of the past two years with a $1,134,834, or 7.8% increase in 2014, and a $624,874, or 4.5% increase in 2013.
- The District reported operating losses in 2014 and 2013 of $782,790 and $938,975, respectively. The loss is due mainly to an increase in salaries and other expenses related to the Federally Qualified Health Center (FQHC) and increased grant expenses, but the related revenue is included in nonoperating revenues.
- Net nonoperating revenues, including noncapital grants and gifts, increased by $45,961, or 3.2% in 2014, compared to 2013, and increased by $272,873, or 23.4% 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.

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Management's Discussion and Analysis
## Years Ended September 30, 2014 and 2013

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

One of the most important questions asked about any hospital's finances is "Is the hospital 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 – are 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 $1,134,834, or 7.8%, in 2014 over 2013, and by $624,874, or 4.5%, in 2013 over 2012, as shown in Table 1.

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Management's Discussion and Analysis
## Years Ended September 30, 2014 and 2013

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| Patients accounts receivable, net | $ 2,648,066 | $ 2,359,105 | $ 1,586,780 |
| Other current assets | 7,916,682 | 7,689,359 | 8,327,012 |
| Capital assets, net | 6,747,056 | 5,962,314 | 5,237,519 |
| Other assets | 236,088 | 236,088 | 236,088 |
| Total assets | $ 17,547,892 | $ 16,246,866 | $ 15,387,399 |
| **Liabilities** | | | |
| Long-term debt | $ - | $ 4,365 | $ 15,566 |
| Current liabilities | 1,891,193 | 1,720,636 | 1,474,842 |
| Total liabilities | 1,891,193 | 1,725,001 | 1,490,408 |
| **Net Position** | | | |
| Net investment in capital assets | 6,488,306 | 5,581,397 | 5,211,136 |
| Restricted - expendable for specific operating activities | 21,993 | 9,276 | 21,658 |
| Unrestricted | 9,146,400 | 8,931,192 | 8,664,197 |
| Total net position | 15,656,699 | 14,521,865 | 13,896,991 |
| Total liabilities and net position | $ 17,547,892 | $ 16,246,866 | $ 15,387,399 |

The most significant change in the District's financial position in 2014 was the increase in net capital assets from 2013 to 2014 of $784,742. This increase of 13.2% is attributable to the purchase of electronic health records (EHR) software, equipment and mobile units.

In 2013, accounts receivable increased by $772,325, or 48.7%. This increase was due mainly to an increase in operating revenues and money received as a part of the EHR incentive payments. In addition, there was an increase in net capital assets from 2012 to 2013 of $724,795. This increase of 13.8% is attributable to the purchase of several properties that are contiguous to the District's facilities.

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Management's Discussion and Analysis
## Years Ended September 30, 2014 and 2013

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

In 2014, the District's net position increased by $1,134,834, as shown in Table 2. This increase is made up of several different components and represents an increase of 7.8%, compared with the increase in net position for 2013 of $624,874, or 4.5%.

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Net patient service revenue | $ 17,291,466 | $ 16,560,669 | $ 15,884,139 |
| Grant revenue | 1,029,116 | 785,185 | 203,327 |
| Electronic health records incentive and other | 1,469,104 | 856,691 | 1,584,114 |
| Total operating revenues | 19,789,686 | 18,202,545 | 17,671,580 |
| **Operating Expenses** | | | |
| Salaries and wages | 10,402,591 | 9,660,919 | 8,572,050 |
| Employee benefits | 3,019,074 | 2,591,244 | 2,785,550 |
| Purchased services and professional fees | 2,190,308 | 2,130,132 | 1,923,016 |
| Supplies and other | 4,004,632 | 3,927,284 | 3,257,203 |
| Depreciation and amortization | 955,871 | 831,941 | 662,117 |
| Gain on sale of capital assets | - | - | (800) |
| Total operating expenses | 20,572,476 | 19,141,520 | 17,199,136 |
| **Operating Income (Loss)** | (782,790) | (938,975) | 472,444 |
| **Nonoperating Revenues (Expenses)** | | | |
| Property taxes | 719,079 | 712,852 | 594,320 |
| Investment income | 21,389 | 29,650 | 26,458 |
| Interest expense | (232) | (2,510) | (1,871) |
| Noncapital grants and gifts | 743,731 | 698,014 | 546,226 |
| Net nonoperating revenues | 1,483,967 | 1,438,006 | 1,165,133 |
| **Capital Grants and Gifts** | 433,657 | 125,843 | - |
| **Increase in Net Position** | $ 1,134,834 | $ 624,874 | $ 1,637,577 |

### *Operating Results*

The first component of the overall change in the District's net position is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2014 and 2013, the District 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 Richland Parish and the surrounding area.

Grants and property taxes (nonoperating revenues) levied by the District have provided sufficient resources to enable the District to serve lower income and other residents.

The operating loss for 2014 improved by approximately $156,000, compared to 2013. The primary components of the change in operating results are:

- An increase in net patient service revenue of approximately $731,000, or 4.4%. A major contributing factor was an increase in clinic visits.
- Increase in grant and EHR revenues of approximately $856,000, or 52.2%
- Increase in salaries and wages and employee benefits expenses of approximately $1,170,000, or 9.5%.

The operating results for 2013 decreased by $1,411,419, compared to 2012. The primary components of the change in operating results are:

- An increase in net patient service revenue of $676,530, or 4.3%
- A decrease in other operating revenue, including grant revenue of $145,565, or (9.2%), related mainly to the Medicare EHR incentive payments.
- An increase in operating expenses of approximately $1,942,000 due to the start-up of the FQHC.

### Nonoperating Revenues and Expenses

Nonoperating revenues (expenses) consist primarily of property taxes levied by the District and noncapital grants and gifts. In 2014, the District recognized an increase in property taxes of $6,227, or 0.9%, as compared to 2013. Noncapital grants and gifts increased by $45,717, or 6.5% in 2014, compared to 2013.

### *Capital Grants and Gifts*

The District receives both capital and operating grants from various state and federal agencies for specific programs. Capital grants and gifts received increased from $125,843 in 2013 to $433,657 in 2014. Capital grant revenue in the current year includes $410,000 related to a mobile dental unit and a mobile medical unit.

### *Grant Expenses*

The District actively applies for available state and federal grants. A majority of the grants are reimbursement grants requiring the District to spend the money for an approved purchase and then request reimbursement from the grantor. The revenues and expenses associated with these grants generally offset each other. The District recorded approximately $744,000 and $698,000 of nonoperating grant revenues in 2014 and 2013, respectively; however, the expenses associated with these grant receipts have been recorded in operating expenses for each year.

## 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 Asset and Debt Administration

### *Capital Assets*

At the end of 2014 and 2013, the District had approximately $6,747,000 and $5,962,000 of net capital assets, as detailed in *Note 5* to the financial statements. Approximately $1,741,000 and $1,557,000 was spent to acquire land and new equipment in 2014 and 2013, respectively.

### *Debt*

At September 30, 2013, the District had $15,566 in capital lease obligations outstanding which was paid during the year. The District issued no new debt in 2014. The District's formal debt issuances and revenue bonds are subject to limitations imposed by state law.

## Contacting the District's Financial Management

This financial report is designed to provide our patients, 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 the District's Chief Executive Officer at Hospital Service District No. 1A of the Parish of Richland, 407 Cincinnati Street, Delhi, Louisiana 71232 or calling 318.878.5171.

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Balance Sheets
## September 30, 2014 and 2013

### Assets

| | 2014 | 2013 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 580,274 | $ 1,210,821 |
| Short-term investments - certificates of deposit | 2,835,041 | 2,822,482 |
| Board designated - cash and cash equivalents | 782,280 | 1,672,666 |
| Board designated - short-term investments | 807,452 | 799,690 |
| Restricted cash and investments, current | 21,993 | 9,276 |
| Patients accounts receivable, net of allowance; 2014 - $1,585,000; 2012 - $996,000 | 2,648,066 | 2,359,105 |
| Estimated amounts due from third-party payers | 387,208 | - |
| Grant and electronic health records incentive receivables | 1,172,866 | 439,331 |
| Supplies | 466,123 | 399,096 |
| Prepaid expenses and other | 863,445 | 335,997 |
| Total current assets | 10,564,748 | 10,048,464 |
| **Capital Assets, Net** | 6,747,056 | 5,962,314 |
| **Other Assets** | 236,088 | 236,088 |
| Total assets | $ 17,547,892 | $ 16,246,866 |

*See Notes to Financial Statements*

## Liabilities and Net Position

| | 2014 | 2013 |
|---|---|---|
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ - | $ 11,201 |
| Accounts payable | 666,761 | 522,965 |
| Accrued expenses | 808,727 | 879,143 |
| Estimated amounts due to third-party payers | - | 142,486 |
| Estimated self-insured health insurance costs | 415,705 | 164,841 |
| Total current liabilities | 1,891,193 | 1,720,636 |
| **Long-term Debt** | - | 4,365 |
| Total liabilities | 1,891,193 | 1,725,001 |
| **Net Position** | | |
| Net investment in capital assets | 6,488,306 | 5,581,397 |
| Restricted - expendable for specific operating activities | 21,993 | 9,276 |
| Unrestricted | 9,146,400 | 8,931,192 |
| Total net position | 15,656,699 | 14,521,865 |
| Total liabilities and net position | $ 17,547,892 | $ 16,246,866 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Statements of Revenues, Expenses and Changes in Net Position
## Years Ended September 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Revenues** | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2014 - $2,255,000, 2013 - $1,764,000 | $ 17,291,466 | $ 16,560,669 |
| Grant revenue | 1,029,116 | 785,185 |
| Electronic health records incentive and other | 1,469,104 | 856,691 |
| Total operating revenues | 19,789,686 | 18,202,545 |
| **Operating Expenses** | | |
| Salaries and wages | 10,402,591 | 9,660,919 |
| Employee benefits | 3,019,074 | 2,591,244 |
| Purchased services and professional fees | 2,190,308 | 2,130,132 |
| Supplies and other | 4,004,632 | 3,927,284 |
| Depreciation and amortization | 955,871 | 831,941 |
| Total operating expenses | 20,572,476 | 19,141,520 |
| **Operating Loss** | (782,790) | (938,975) |
| **Nonoperating Revenues (Expenses)** | | |
| Property taxes | 719,079 | 712,852 |
| Investment income | 21,389 | 29,650 |
| Interest expense | (232) | (2,510) |
| Noncapital grants and gifts | 743,731 | 698,014 |
| Total nonoperating revenues | 1,483,967 | 1,438,006 |
| **Excess of Revenues Over Expenses Before Capital Grants and Gifts** | 701,177 | 499,031 |
| **Capital Grants and Gifts** | 433,657 | 125,843 |
| **Increase in Net Position** | 1,134,834 | 624,874 |
| **Net Position, Beginning of Year** | 14,521,865 | 13,896,991 |
| **Net Position, End of Year** | $ 15,656,699 | $ 14,521,865 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Statements of Cash Flows
## Years Ended September 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Activities** | | |
| Receipts from and on behalf of patients | $ 16,472,811 | $ 15,815,085 |
| Payments to suppliers and contractors | (6,005,199) | (6,126,995) |
| Payments to employees | (13,088,072) | (12,047,374) |
| Electronic health records incentive payments and other receipts, net | 1,077,721 | 2,466,694 |
| Net cash provided by (used in) operating activities | (1,542,739) | 107,410 |
| **Noncapital Financing Activities** | | |
| Property taxes supporting operations | 719,079 | 712,852 |
| Noncapital grants and gifts | 743,731 | 698,014 |
| Net cash provided by noncapital financing activities | 1,462,810 | 1,410,866 |
| **Capital and Related Financing Activities** | | |
| Capital grants and gifts | 433,657 | 125,843 |
| Principal paid on long-term debt | (15,566) | (10,817) |
| Interest paid on long-term debt | (232) | (2,510) |
| Purchase of capital assets | (1,847,214) | (1,532,597) |
| Net cash used in capital and related financing activities | (1,429,355) | (1,420,081) |
| **Investing Activities** | | |
| Interest and dividends on investments | 21,389 | 26,421 |
| Sale of investments | (3,645,876) | (3,576,855) |
| Proceeds from disposition of investments | 3,625,555 | 3,551,335 |
| Net cash provided by investing activities | 1,068 | 901 |
| **Increase (Decrease) in Cash and Cash Equivalents** | (1,508,216) | 99,096 |
| **Cash and Cash Equivalents, Beginning of Year** | 2,892,763 | 2,793,667 |
| **Cash and Cash Equivalents, End of Year** | $ 1,384,547 | $ 2,892,763 |
| **Reconciliation of Cash and Cash Equivalents to the Balance Sheets** | | |
| Cash and cash equivalents | $ 580,274 | $ 1,210,821 |
| Board designated - cash and cash equivalents | 782,280 | 1,672,666 |
| Restricted cash and investments, current | 21,993 | 9,276 |
| Total cash and cash equivalents | $ 1,384,547 | $ 2,892,763 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Statements of Cash Flows (Continued)
## Years Ended September 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities** | | |
| Operating loss | $ (782,790) | $ (938,975) |
| Depreciation and amortization | 955,871 | 831,941 |
| Provision for uncollectible accounts | 2,254,168 | 1,763,768 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivables | (2,543,129) | (2,536,093) |
| Estimated amounts due to/from third-party payers | (529,694) | 26,741 |
| Accounts payable and accrued expenses | 430,845 | 194,530 |
| Other assets and liabilities | (1,328,010) | 765,498 |
| Net cash provided by (used in) operating activities | $ (1,542,739) | $ 107,410 |
| **Supplemental Cash Flows Information** | | |
| Capital assets acquisitions included in accounts payable and accrued expenses | $ 258,750 | $ 365,351 |

# Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Notes to Financial Statements
## September 30, 2014 and 2013

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

### *Nature of Operations and Reporting Entity*

Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital (the District) is located in Delhi, Louisiana. The District was created on April 18, 1989, by the Richland Parish Police Jury. It is comprised of and embraces the territory contained within Ward 1 of the Parish of Richland, State of Louisiana, as constituted as of the date of the ordinance. It is a critical access hospital located in Delhi. The District provides inpatient, outpatient and emergency care services for the residents of Delhi and the surrounding area. Admitting physicians are primarily practitioners in the local area.

Effective October 1, 1989, Richland Parish Hospital Service District No. 1 transferred operations of the District in Delhi, Louisiana to Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital, along with all related assets, liabilities and equity.

The District operates and manages a Federally Qualified Health Center (FQHC) d.b.a. Delhi Community Health Center. The FQHC began operations on October 8, 2012. The FQHC earns revenues by providing primary and preventive health and dental care to indigent and low income patients in the same geographic area and grant funding from the U.S. Department of Health and Human Services in support of its commitment to provide services to a higher percentage of indigent patients. The FQHC is considered an operating division of the District.

Richland Health Services, Inc. (RHI) is legally a separate not-for-profit corporation which was organized exclusively to provide the required governance and oversight as stipulated by program guidelines for "Public Entity" models of the FQHC's operations for the delivery of primary and preventative health care services to the underserved populations in the same geographic area and does not have financial transactions. The RHI Board of Directors does not have the same composition as the District's Board of Commissioners. The District and RHI, through a co-applicant agreement, collaboratively operate the FQHC clinics. With the adoption of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* in 2013, RHI is considered an affiliate rather than a component unit of the District. The adoption of GASB 61 had no impact on the previously reported change in net position or total net position.

The District is a political subdivision of the Richland Parish Police Jury whose jurors are elected officials. The District's commissioners are appointed by the Richland Parish Police Jury. As the governing authority of the parish for reporting purposes, the Richland Parish Police Jury is the financial reporting entity for the District. Accordingly, the District was determined to be a component unit of the Richland Parish Police Jury. The accompanying financial statements present information only on the funds maintained by the District.

### *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 (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, property taxes, investment income and interest on capital assets - related debt are included in nonoperating revenues (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 are 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.

### *Cash Equivalents*

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

### *Property Taxes*

The District levies a property tax on all property subject to taxation in the service district. A 5.5 mill tax runs for a period of 10 years, beginning with the year 2001 and ending with the year 2010. In 2010, the tax continuation proposition duly carried by a majority of votes cast. Under this proposition, the District will continue to levy a tax on all property subject to taxation in the District for a period of 10 years, beginning with the year 2011 and ending with the year 2020. Such rate may be subject to adjustment from time to time due to reassessment. Mill rate for 2014 and 2013 was 8.55 and 8.49, 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 on October 1 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 on October 1. 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 January 31 of the following year.

The District received approximately 3.3% in 2014 and 3.6% in 2013 of its financial support from property taxes. These funds were used to support operations.

### *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; 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

### *Investments and Investment Income*

Investments in nonnegotiable certificates of deposit are carried at amortized cost.

Investment income consists primarily of interest income from certificates of deposit.

### *Patient Accounts Receivable*

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### *Supplies*

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

### *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. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term, or their respective estimated useful lives. The following estimated useful lives are being used by the District.

| | |
|---|---|
| Land improvements | 10 - 20 years |
| Buildings and leasehold improvements | 5 - 40 years |
| Equipment | 3 - 20 years |
| Furniture | 3 - 5 years |

### *Compensated Absences*

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

### *Net Position*

Net position of the District is classified in three 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. Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### *Net Patient Service Revenue*

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated

basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

### *Charity Care*

The District provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

### *Income Taxes*

As an essential government function of the parish, 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.

Prior to June 2010, the District was recognized as a not-for-profit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code. In June 2010, the Internal Revenue Service (IRS) informed the District that the 501(c)(3) designation was issued to the District in error. Effective June 2010, the IRS revoked the 501(c)(3) designation.

### *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 (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the District is subject to penalties that would reduce future payments for services. 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. 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 District has recognized incentive payment revenue received for qualified EHR technology expenditures during 2014, which was the period during which management was reasonably

assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The District recorded revenue of approximately $1,078,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position. In 2013, the District recorded $422,000 in EHR revenue.

### *Reclassifications*

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

## Note 2: Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

**Medicare** - The District is certified as a CAH by Medicare. As a CAH, the District is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the District's licensed beds are limited to 25, and the District's acute average length of stay may not exceed 96 hours. The District is reimbursed for substantially all services at tentative rates, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

**Medicaid** - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The District is reimbursed for cost reimbursable services at tentative rates, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately 72% and 73% of gross patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for

payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The District receives a disproportionate share payment for uncompensated care. This payment is based upon estimated uncompensated care cost and is subject to audit by the Louisiana Department of Health and Hospitals. The District received $1,181,326 and $1,032,750 in disproportionate share payments for the years ended September 30, 2014 and 2013, respectively.

## Note 3: 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 or other qualified investments. At September 30, 2014 and 2013, the District's bank balances were as follows:

| | 2014 | 2013 |
|---|---|---|
| Insured by Federal Deposit Insurance Corporation (FDIC) | $ 1,000,000 | $ 1,000,000 |
| Collateralized by securities held by the pledging financial institution's Trust Department in the District's name | 4,556,380 | 5,623,635 |
| Total depository balance | $ 5,556,380 | $ 6,623,635 |

### *Summary of Carrying Values*

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

| | 2014 | 2013 |
|---|---|---|
| Carrying value | | |
| Deposits | $ 5,027,040 | $ 6,514,935 |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | $ 580,274 | $ 1,210,821 |
| Short-term investments - certificates of deposit | 2,835,041 | 2,822,482 |
| Board designated | | |
| Cash and cash equivalents | 782,280 | 1,672,666 |
| Short-term investments | 807,452 | 799,690 |
| Restricted cash and investments, current | 21,993 | 9,276 |
| | $ 5,027,040 | $ 6,514,935 |

## Note 4: Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30 consisted of:

| | 2014 | 2013 |
|---|---|---|
| Medicare | $ 1,205,419 | $ 1,482,335 |
| Medicaid | 413,601 | 250,923 |
| Other third-party payers | 500,013 | 355,759 |
| Patients | 2,114,500 | 1,265,637 |
| | 4,233,533 | 3,354,654 |
| Less allowance for uncollectible accounts | (1,585,467) | (995,549) |
| | $ 2,648,066 | $ 2,359,105 |

## Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers and Adjustments | Ending Balance |
| Land | $ 1,227,560 | $ - | $ - | $ - | $ 1,227,560 |
| Land improvements | 219,598 | 22,122 | - | - | 241,720 |
| Buildings and leasehold improvements | 6,488,859 | 6,770 | (7,326) | - | 6,488,303 |
| Equipment | 6,827,165 | 1,284,143 | (698,722) | | 7,412,586 |
| Vehicles | - | 418,437 | - | 90,000 | 508,437 |
| Furniture | 52,995 | 9,141 | - | - | 62,136 |
| Construction in progress | 90,000 | - | - | (90,000) | - |
| | 14,906,177 | 1,740,613 | (706,048) | - | 15,940,742 |
| Less accumulated depreciation | | | | | |
| Land improvements | 57,998 | 13,577 | - | - | 71,575 |
| Buildings and leasehold improvements | 3,877,840 | 354,185 | (7,326) | - | 4,224,699 |
| Equipment | 4,968,162 | 565,403 | (698,722) | - | 4,834,843 |
| Vehicles | - | 12,107 | - | - | 12,107 |
| Furniture | 39,863 | 10,599 | - | - | 50,462 |
| | 8,943,863 | 955,871 | (706,048) | - | 9,193,686 |
| Capital assets, net | $ 5,962,314 | $ 784,742 | $ - | $ - | $ 6,747,056 |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers and Adjustments | Ending Balance |
| Land | $ 405,415 | $ 822,145 | $ - | $ - | $ 1,227,560 |
| Land improvements | 107,310 | 112,288 | - | - | 219,598 |
| Buildings and leasehold improvements | 6,482,055 | 6,804 | - | - | 6,488,859 |
| Equipment | 6,301,666 | 525,499 | - | - | 6,827,165 |
| Furniture | 52,995 | - | - | - | 52,995 |
| Construction in progress | - | 90,000 | - | - | 90,000 |
| | 13,349,441 | 1,556,736 | - | - | 14,906,177 |
| Less accumulated depreciation | | | | | |
| Land improvements | 50,839 | 7,159 | - | - | 57,998 |
| Buildings and leasehold improvements | 3,512,938 | 364,902 | - | - | 3,877,840 |
| Equipment | 4,518,881 | 449,281 | - | - | 4,968,162 |
| Furniture | 29,264 | 10,599 | - | - | 39,863 |
| | 8,111,922 | 831,941 | - | - | 8,943,863 |
| Capital assets, net | $ 5,237,519 | $ 724,795 | $ - | $ - | $ 5,962,314 |

## Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30 consisted of:

| | 2014 | 2013 |
|---|---|---|
| Payable to suppliers and contractors | $ 666,761 | $ 522,965 |
| Payable to employees (including payroll taxes and benefits) | 790,243 | 801,743 |
| Other | 18,484 | 77,400 |
| | $ 1,475,488 | $ 1,402,108 |

## Note 7: Medical Malpractice Claims

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

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

## Note 8: Employee Health Claims

Substantially all of the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. The District is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $45,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on

consideration of prior claims' experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

Activity in the District's accrued employee health claims liability is summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Balance, beginning of year | $ 164,841 | $ 152,260 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 1,620,632 | 1,330,782 |
| Claims and expenses paid | (1,369,768) | (1,318,201) |
| Balance, end of year | $ 415,705 | $ 164,841 |

## Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the District for the years ended September 30:

| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Capital lease obligations | $ 15,566 | $ - | $ (15,566) | $ - | $ - |
| **2013** | | | | | |
| Capital lease obligations | $ 26,383 | $ - | $ (10,817) | $ 15,566 | $ 11,201 |

## Note 10: Restricted and Designated Net Position

At September 30, restricted expendable net position is available for the following purposes:

| | 2014 | 2013 |
|---|---|---|
| Specific operating activities | $ 21,993 | $ 9,276 |

At September 30, 2014 and 2013, $1,589,732 and $2,472,356, respectively, of unrestricted net position has been designated by the District's Board for capital acquisitions and other operating costs. Designated net position remains under the control of the Board, which may, at its discretion, later use net position for other purposes.

## Note 11: Operating Leases

The District leases various equipment and facilities under operating leases expiring at various dates through 2024. Total rental expense in 2014 and 2013 for all operating leases was approximately $142,000 and $134,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2014, that have initial or remaining lease terms in excess of one year:

| | |
|---|---|
| 2015 | $ 177,241 |
| 2016 | 128,640 |
| 2017 | 128,640 |
| 2018 | 112,830 |
| 2019 - 2024 | 65,178 |
| Future minimum lease payments | $ 612,529 |

## Note 12: Pension Plan

The District elected to withdraw from the Social Security System effective January 1, 1993. In place of the Social Security System, the District established a defined contribution annuity plan. Employees were eligible to participate upon date of employment and were fully vested in the

employer's matching contribution. Contributions to the plan by the District were determined by the Board of Commissioners at a minimum of 6.2% of the participant's compensation.

As discussed in *Note 1*, effective June 2010, the District's 501(c)(3) status was revoked. Upon receiving notification from the IRS, the District froze the defined contribution annuity plan and began the process of establishing a combination of a 401(a) pension plan and a 457 pension plan. Under the plans, employees are eligible to participate upon date of employment and are immediately vested in the employer's matching contribution. Contributions to the plans by the District are determined by the Board of Commissioners at a minimum of 6.2% of the participant's compensation. Contribution rates for plan members and the District expressed as a percentage of covered payroll were 6.3% and 6.1% for 2014 and 6.3% and 6.2% for 2013, respectively. Contributions actually made by plan members and the District aggregated $654,090 and $633,058 during 2014 and $609,311 and $598,426 during 2013, respectively.

## Note 13: Risks and Uncertainties

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Louisiana has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the District's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of PPACA cannot currently be estimated, it is possible it will have a negative impact on the District's net patient service revenue. In addition, it is possible the District will experience payment delays and other operational challenges during PPACA's implementation.

## Note 14: Joint Venture

The District entered into a cooperative endeavor agreement on August 15, 2001, with Delhi Homecare, LLC. The agreement's intention was to ensure that home health services were readily available to the residents of the District's service area. The District participated in profits and losses equal to 71% within its service area and 29% outside of the District's service area. The District's liability for losses was limited to the amount of annual rent paid by Delhi Homecare, LLC. The District did not have an equity interest in the cooperative endeavor; therefore, accounts for this arrangement used the cost method.

Effective October 1, 2003, the District terminated the cooperative endeavor and entered into a new agreement. Under the terms of the new agreement, the District agreed to change its profit sharing percentages from 71% and 29% to 33% in exchange for $315,000 and a 33% equity interest in Delhi Homecare, LLC. At September 30, 2014 and 2013, the investment was $82,686 and $95,486, respectively, with $5,267 and $18,067, respectively, being current amounts due from Delhi Homecare, LLC. For the years ended September 30, 2014 and 2013, the District recorded gains on the investment of $66,994 and $124,949, respectively.

## Note 15: Affiliated Organizations

Affiliated organizations include Richland Parish Service District No. 1, Richland Parish Hospital Service District No. 1B and the Richland Parish Police Jury. The districts are related because they are all political subdivisions of the Richland Parish Police Jury who appoints their commissioners.

## Note 16: 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 self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. 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.

### *Worker's Compensation*

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

## Note 17: Board Members

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

| Name | Office | Residence | Compensation |
|---|---|---|---|
| Paul Lipe | Chairman | Delhi, Louisiana | None |
| Nathan Monroe | Vice-Chairman | Delhi, Louisiana | None |
| Paul Grandon, M.D. | Member | Monroe, Louisiana | None |
| Barbara Roark | Member | Delhi, Louisiana | None |
| Charles Black | Member | Delhi, Louisiana | None |

# Supplementary Information

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Schedule of Expenditures of Federal Awards
## Year Ended September 30, 2014

| Cluster/Program | Federal Agency/ Pass-through Entity | CFDA Number | Grant or Identifying Number | Amount Expended |
|---|---|---|---|---|
| Consolidated Health Centers | U.S. Department of Health and Human Services | 93.527 | H80 CS 24167 | $ 882,639 |
| Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program | U.S. Department of Health and Human Services | 93.912 | D04RH23582/ H9CRH22866 | 785,774 |
| Affordable Care Act Grants for Capital Development in Health Centers | U.S. Department of Health and Human Services | 93.526 | C12CS25537 | 403,907 |
| Small Rural Hospital Improvement Grant Program | U.S. Department of Health and Human Services/ State of Louisiana Department of Health and Hospitals | 93.301 | N/A | 8,977 |
| Healthy Workforce Grant | Delta Regional Authority | 90.200 | HW-0004 | 81,237 |
| National Bioterrorism Hospital Preparedness Program | U.S. Department of Health and Human Services/ Louisiana Hospital Association | 93.889 | N/A | 6,465 |
| | | | | $ 2,168,999 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Notes to Schedule of Expenditures of Federal Awards
## Year Ended September 30, 2014

### *Notes to Schedule*

1. This schedule includes the federal awards activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Of the federal expenditures presented in this schedule, the District provided federal awards to subrecipients as follows:

| Program | CFDA Number | Subrecipient | Amount Provided |
|---|---|---|---|
| Rural Health Care Services | 93.912 | Franklin Medical Center | $ 30,155 |
| Outreach, Rural Health Network | | Madison Parish Hospital | 30,155 |
| Development and Small Health | | Morehouse General Hospital | 30,155 |
| Care Provider Quality Improvement Program | | Union Parish Hospital | 30,155 |
| | | | $ 120,620 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury

## Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer

## Year Ended September 30, 2014

**Agency Head Name: Michael W. Carroll, CEO**

| Purpose | Amount |
|---|---|
| Salary | $ 176,640 |
| Benefits - insurance | 19,848 |
| Benefits - retirement | 15,897 |
| Benefits - other | 1,717 |
| Car allowance | - |
| Vehicle provided by government | - |
| Per diem | - |
| Reimbursements | - |
| Travel | - |
| Registration fees | - |
| Conference travel | - |
| Continuing professional education fees | 79 |
| Housing | - |
| Unvouchered expenses | - |
| Special meals | - |

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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 the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Hospital Service District No. 1A of the Parish of Richland
d.b.a. Richland Parish Hospital
Delhi, 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 Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital (the District), a component unit of Richland Parish Police Jury, which comprise the balance sheet as of September 30, 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 March 2, 2015.

## *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 was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

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### *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*.

We noted certain matters that we reported to the District's management in a separate letter dated March 2, 2015.

### *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 District's internal control or 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

Jackson, Mississippi
March 2, 2015

BKD LLP
CPAs & Advisors

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# Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

## Independent Auditor's Report

Board of Commissioners
Hospital Service District No. 1A of the Parish of Richland
d.b.a. Richland Parish Hospital
Delhi, Louisiana

## Report on Compliance for Each Major Federal Program

We have audited the compliance of Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital (the District), a component unit of Richland Parish Police Jury, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

### *Opinion on Each Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

### Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
March 2, 2015

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury

## Schedule of Findings and Questioned Costs

## Year Ended September 30, 2014

***Summary of Auditor's Results***

1. The opinion expressed in the independent auditor's report was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury

## Schedule of Findings and Questioned Costs (Continued)

## Year Ended September 30, 2014

7. The District's major programs were:

| Cluster/Program | CFDA Number |
|---|---|
| Consolidated Health Centers | 93.527 |
| Affordable Care Act Grants for Capital Development in Health Centers | 93.526 |

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

9. The District qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☐ Yes ☒ No

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury

## Schedule of Findings and Questioned Costs (Continued)

## Year Ended September 30, 2014

### Findings Required to be Reported by *Government Auditing Standards*

| Reference Number | Finding | Questioned Costs |
|---|---|---|
| | No matters are reportable. | |

### Findings Required to be Reported by OMB Circular A-133

| Reference Number | Finding | Questioned Costs |
|---|---|---|
| | No matters are reportable. | |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury

## Summary Schedule of Prior Year Audit Findings

## Year Ended September 30, 2014

| Reference Number | Fiscal Year Finding Initially Occurred | Summary of Finding | Partial Corrective Action Taken |
|---|---|---|---|
| **Section I – Internal Control and Compliance Material to the Financial Statements** | | | |
| No matters are reportable. | | | |
| **Section II – Management Letter** | | | |
| OM 2013-01 | 2013 | There were some issues in calculating income, applying the sliding fee scale appropriately and consistently, and maintaining appropriate documentation. | No carryforward |
| OM 2013-02 | 2013 | District does not require employees to allocate their time between multiple cost centers or grants. This is done by supervisors upon review of the weekly time sheets. | No carryforward |
| 2013-01 | 2010 | There are conflicting duties in the areas of cash inflows, cash outflows, payroll and information technology | Management has established certain compensating controls to reduce the magnitude and frequency of potential misstatements resulting from these duties conflicts. |
| 2013-02 | 2013 | District had two mobile units built and accrued those costs into FY 2013 but title and ownership had not passed as of the last day of the fiscal year. | Resolved |
| 2013-03 | 2013 | Although other qualifying grant expenses had been paid and not yet requested, cash was drawn down on a specific invoice before the invoice | Resolved |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Summary Schedule of Prior Year Audit Findings
## Year Ended September 30, 2014

| Reference Number | Fiscal Year Finding Initially Occurred | Summary of Finding | Partial Corrective Action Taken |
|---|---|---|---|
| | | had been paid and the grant was a reimbursement based grant. | |
| 2013-04 | 2013 | District's procurement policy for the hospital does not contain all of the components to comply with federal requirements. | No carryforward |
| 2013-05 | 2013 | In several instances, written evidence of reviews could not be provided. | No carryforward |

# Other Information

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury

## Combining Balance Sheet

## September 30, 2014

| | Hospital and Clinics | Delhi Community Health Center | Eliminations | Combined |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ 391,600 | $ 188,674 | $ - | $ 580,274 |
| Short-term investments - certificates of deposit | 2,835,041 | - | - | 2,835,041 |
| Board designated - cash and cash equivalents | 782,280 | - | - | 782,280 |
| Board designated - short-term investments | 807,452 | - | - | 807,452 |
| Restricted cash and investments, current | 21,993 | - | - | 21,993 |
| Patient accounts receivable, net of allowance | 2,559,838 | 88,228 | - | 2,648,066 |
| Due from affiliate | 283,060 | - | (283,060) | - |
| Estimated amounts due from third-party payers | 388,037 | (829) | - | 387,208 |
| Grant and electronic health records incentive receivables | 1,087,061 | 85,805 | - | 1,172,866 |
| Supplies | 466,123 | - | - | 466,123 |
| Prepaid expenses and other | 846,229 | 17,216 | - | 863,445 |
| Total current assets | 10,468,714 | 379,094 | (283,060) | 10,564,748 |
| **Capital Assets, Net** | 6,194,475 | 552,581 | - | 6,747,056 |
| **Other Assets** | 236,088 | - | - | 236,088 |
| Total assets | $ 16,899,277 | $ 931,675 | $ (283,060) | $ 17,547,892 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Combining Balance Sheet (Continued)
## September 30, 2014

| | Hospital and Clinics | Delhi Community Health Center | Eliminations | Combined |
|---|---|---|---|---|
| **Liabilities and Net Position** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable | $ 666,761 | $ - | $ - | $ 666,761 |
| Accrued expenses | 781,378 | 27,349 | - | 808,727 |
| Estimated self-insured health insurance costs | 415,705 | - | - | 415,705 |
| Due to affiliate | - | 283,060 | (283,060) | - |
| Total current liabilities | 1,863,844 | 310,409 | (283,060) | 1,891,193 |
| **Net Position** | | | | |
| Net investment in capital assets | 5,935,725 | 552,581 | - | 6,488,306 |
| Restricted - expendable for specific operating activities | 21,993 | - | - | 21,993 |
| Unrestricted | 9,077,715 | 68,685 | - | 9,146,400 |
| Total net position | 15,035,433 | 621,266 | - | 15,656,699 |
| Total liabilities and net position | $ 16,899,277 | $ 931,675 | $ (283,060) | $ 17,547,892 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Combining Statement of Revenues, Expenses and Changes in Net Position
## Year Ended September 30, 2014

| | Hospital and Clinics | Delhi Community Health Center | Eliminations | Combined |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Gross patient service revenue | $ 18,461,036 | $ 1,084,598 | $ - | $ 19,545,634 |
| Provision for uncollectible accounts | (2,188,845) | (65,323) | - | (2,254,168) |
| Net patient service revenue | 16,272,191 | 1,019,275 | - | 17,291,466 |
| Grant revenue | - | 1,029,116 | - | 1,029,116 |
| Electronic health records incentive and other | 1,469,104 | - | - | 1,469,104 |
| Total operating revenues | 17,741,295 | 2,048,391 | - | 19,789,686 |
| **Operating Expenses** | | | | |
| Salaries and wages | 9,053,325 | 1,349,266 | - | 10,402,591 |
| Employee benefits | 2,694,131 | 324,943 | - | 3,019,074 |
| Purchased services and professional fees | 2,187,058 | 3,250 | - | 2,190,308 |
| Supplies and other | 3,720,802 | 283,830 | - | 4,004,632 |
| Depreciation and amortization | 934,280 | 21,591 | - | 955,871 |
| Total operating expenses | 18,589,596 | 1,982,880 | - | 20,572,476 |
| **Operating Income (Loss)** | (848,301) | 65,511 | - | (782,790) |
| **Nonoperating Revenues (Expenses)** | | | | |
| Property taxes | 719,079 | - | - | 719,079 |
| Investment income | 20,930 | 459 | - | 21,389 |
| Interest expense | (232) | - | - | (232) |
| Noncapital grants and gifts | 743,731 | - | - | 743,731 |
| Total nonoperating revenues (expenses) | 1,483,508 | 459 | - | 1,483,967 |
| **Excess of Revenues Over Expenses Before Capital Grants and Gifts** | 635,207 | 65,970 | - | 701,177 |
| **Capital Grants and Gifts** | - | 433,657 | - | 433,657 |
| **Increase in Net Position** | 635,207 | 499,627 | - | 1,134,834 |
| **Net Position, Beginning of Year** | 14,400,226 | 121,639 | - | 14,521,865 |
| **Net Position, End of Year** | $ 15,035,433 | $ 621,266 | $ - | $ 15,656,699 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Combining Statement of Cash Flows
## Year Ended September 30, 2014

| | Hospital and Clinics | Delhi Community Health Center | Combined |
|---|---|---|---|
| **Operating Activities** | | | |
| Receipts from and on behalf of patients | $15,405,457 | $ 1,067,354 | $16,472,811 |
| Payments to suppliers and contractors | (5,711,615) | (293,584) | (6,005,199) |
| Payments to employees | (11,405,596) | (1,682,476) | (13,088,072) |
| Electronic health records incentive payments and other receipts, net | 278,117 | 799,604 | 1,077,721 |
| Net cash used in operating activities | (1,433,637) | (109,102) | (1,542,739) |
| **Noncapital Financing Activities** | | | |
| Property taxes supporting operations | 719,079 | - | 719,079 |
| Noncapital grants and gifts | 743,731 | - | 743,731 |
| Net cash provided by noncapital financing activities | 1,462,810 | - | 1,462,810 |
| **Capital and Related Financing Activities** | | | |
| Capital grants and gifts | - | 433,657 | 433,657 |
| Principal paid on long-term debt | (15,566) | - | (15,566) |
| Interest paid on long-term debt | (232) | - | (232) |
| Purchase of capital assets | (1,406,339) | (440,875) | (1,847,214) |
| Net cash used in capital and related financing activities | (1,422,137) | (7,218) | (1,429,355) |
| **Investing Activities** | | | |
| Interest and dividends on investments | 20,930 | 459 | 21,389 |
| Purchase of investments | (3,645,876) | - | (3,645,876) |
| Proceeds from disposition of investments | 3,625,555 | - | 3,625,555 |
| Net cash provided by investing activities | 609 | 459 | 1,068 |
| **Decrease in Cash and Cash Equivalents** | (1,392,355) | (115,861) | (1,508,216) |
| **Cash and Cash Equivalents, Beginning of Year** | 2,588,228 | 304,535 | 2,892,763 |
| **Cash and Cash Equivalents, End of Year** | $ 1,195,873 | $ 188,674 | $ 1,384,547 |
| **Reconciliation of Cash and Cash Equivalents to the Balance Sheets** | | | |
| Cash and cash equivalents | $ 391,600 | $ 188,674 | $ 580,274 |
| Board designated - cash and cash equivalents | 782,280 | - | 782,280 |
| Restricted cash and investments, current | 21,993 | - | 21,993 |
| Total cash and cash equivalents | $ 1,195,873 | $ 188,674 | $ 1,384,547 |

# Hospital Service District No. 1A of the Parish of Richland
# d.b.a. Richland Parish Hospital
# A Component Unit of Richland Parish Police Jury
## Combining Statement of Cash Flows (Continued)
## Year Ended September 30, 2014

| | Hospital and Clinics | Delhi Community Health Center | Combined |
|---|---|---|---|
| **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities** | | | |
| Operating income (loss) | $ (848,301) | $ 65,511 | $ (782,790) |
| Depreciation and amortization | 934,280 | 21,591 | 955,871 |
| Provision for uncollectible accounts | 2,188,845 | 65,323 | 2,254,168 |
| Changes in operating assets and liabilities | | | |
| Patient accounts receivables | (2,525,056) | (18,073) | (2,543,129) |
| Estimated amounts due to/from third-party payers | (530,523) | 829 | (529,694) |
| Accounts payable and accrued expenses | 439,112 | (8,267) | 430,845 |
| Other assets and liabilities | (1,091,994) | (236,016) | (1,328,010) |
| Net cash used in operating activities | $ (1,433,637) | $ (109,102) | $ (1,542,739) |
| **Supplemental Cash Flows Information** | | | |
| Capital assets acquisitions included in accounts payable and accrued expenses | $ 258,750 | $ - | $ 258,750 |

BKD LLP
CPAs & Advisors

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Board of Commissioners
Hospital Service District No. 1A of the Parish of Richland
d.b.a. Richland Parish Hospital
Delhi, Louisiana

As part of our audits of the financial statements and compliance of Hospital Service District No. 1A of the Parish of Richland d.b.a. Richland Parish Hospital (the District), a component unit of Richland Parish Police Jury, as of and for the year ended September 30, 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, and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations*

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, and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 that could have a direct and material effect on a major federal program occurred. 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 and compliance audits 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 audits. 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.

Audits of the financial statements and compliance do 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.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

***Alternative Accounting Treatments***

No matters are reportable.

***Management Judgments and Accounting Estimates***

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

- Allowance for uncollectible accounts
- Self-insured health claims
- Stop loss receivables

***Financial Statement Disclosures***

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

- Net patient service revenue

## *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***

- Inventory
- Patient accounts receivable
- Other receivables

***Proposed Audit Adjustments Not Recorded***

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

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

No matters are reportable.

### *Significant Issues Discussed with Management*

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Issues surrounding the new electronic health system, including capitalization, payment for and accruing the related incentive payment.

### *Other Material Written Communication*

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 audits of the financial statements of the District as of and for the year ended September 30, 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, and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, 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. 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 deficiencies.

### *Deficiencies*

#### *Segregation of Duties*

Segregation of duties is an essential element of internal controls involving the separation of custody of assets from related recording and monitoring of transactions. To reduce the possibility of errors or fraud going undetected in the normal course of business, we encourage you to limit, to the extent possible, performance of incompatible duties. We recommend management continue to evaluate the cost-benefit of these limitations on segregation of duties.

- Admission clerks receive cash and have the ability to post to patient accounts. The business office manager provides electronic funds transfer information to third-party payers, authorizes bad debt adjustments and has ability to post to patient accounts.

- Accounts payable clerk has the ability to change vendor master files, add new vendors, enter invoices into accounts payable system, process checks and reconcile accounts payable account to the general ledger.

- Human Resources Director has the ability to change employee master files, including rates and direct deposit information, and make changes to hours worked. The Chief Operating Officer has the ability to change employee master files, authorize direct deposits and review payroll.

- Information Systems Director has data entry capabilities and system administrative ability.

- Purchasing Department has the ability to both purchase and receive items.

## Internal Control Over Compliance

In planning and performing our audits, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test

and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

We observed the following matter that we consider to be a deficiency.

## *Deficiency*

### *Documentation of Review*

During our testing of controls over compliance, we noted there were several controls where a report, invoice or a cash drawdown was reviewed and/or approved by a key management official, but there was no documentation the review was done. We recommend the review and/or approval of reports, drawdowns and invoices be documented and maintained to ensure the control is followed on a regular basis.

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

BKD, LLP

March 2, 2015

DELHI
HOSPITAL

**Richland Parish Hospital**

407 Cincinnati St. Delhi, LA 71232
(318)878-6327 Fax: (318)878-6427

Michael W. Carroll
*Administrator*

Dear Ms. Trifone,

In response to Audit finding relating to Internal Control Over Compliance: Documentation of Review pertaining to grant drawdowns:

- All Requests for Payment as related to grant drawdowns are reviewed and approved by the Grants Management Director, Jinger Greer, CPA. This review and approval will be documented and maintained by the Accounting Department to ensure the control is followed on a regular basis.

In response to the Audit finding relating to Internal Control Over Financial Reporting: Segregation of Duties:

- Management has established certain compensating controls to reduce the magnitude and frequency of potential misstatements resulting from these duties conflicts.

Please contact me if you need additional information.

Thank you,

Linda Goode

Linda Goode
Assistant Administrator