

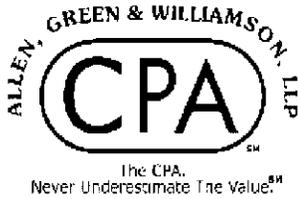
**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Annual Financial Report
As of and For the Year Ended
September 30, 2014**

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

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Independent Auditor's Report

Board of Commissioners
Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Hospital Service District Number One of the Parish of LaSalle, State of Louisiana, (the District), a component unit of the LaSalle Parish Police Jury as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital Service District Number One of the Parish of LaSalle, State of Louisiana, (the District), a component unit of the LaSalle Parish Police Jury, as of September 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information, as listed in the table of contents, and the other information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information, listed in the table of contents, 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. Such 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 accompanying supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying other information, as listed in the table of contents, 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 April 10, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Allen, Green + Williamson, LLP

ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana
April 10, 2015

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION
AND ANALYSIS (MD&A)**

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Management's Discussion and Analysis (MD&A)
September 30, 2014 and 2013**

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2014. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$8,704 (*net position*). The District reported a decrease in net position of \$1,601.

Sudden growth with the addition of many new specialties during the latter half of the fiscal year created an increase in expenses that will take 3-5 years to recover. Opportunities to grow were evaluated versus a status quo and the decision to expand services and improve the quality of health care to meet the demand of the community were deemed worth the risks and the initial financial impact.

Other negative factors included a one-time write-down of accounts receivable which created an additional approximate \$3,000,000 of deductions from revenues mainly due to increased bad debts, charity care write-offs, Medicare payment reductions (sequestration and bad debts), Medicaid recoupment (RAC audits), and managed care claims denials. Despite the current year adjustments to revenues, the hospital continues to experience record growth in gross revenues and patient volumes. The addition of many new specialty providers and accompanying outpatient surgeries has expanded the market area. Management believes that it is poised for continued record growth and positive net asset increases. However, the economic pressures of the provision of quality healthcare within the regulatory environment requires a continuous monitoring of services provided and intense efforts to challenge payers resistance to pay.

OVERVIEW OF THE FINANCIAL STATEMENTS This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The District is a special-purpose government engaged only in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements.

FUND FINANCIAL STATEMENTS A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the District is reported as a proprietary fund type.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Management's Discussion and Analysis (MD&A)
September 30, 2014 and 2013**

USING THIS ANNUAL REPORT The District's annual report consists of financial statements that show information about the District's enterprise fund.

Financial Section

Required Supplementary Information

Management's Discussion & Analysis (MD&A)

Basic Financial Statements

Notes to the Basic Financial Statements

**Supplementary Information
Schedule of Compensation Paid Board Members**

Our auditor has provided assurance in the independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the basic financial statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the other information included in this report. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts of this report.

Reporting the District's Fund The District's financial statements provide detailed information about the enterprise fund. The District's enterprise fund uses the following accounting approach:

Proprietary funds - all of the District's services are reported in enterprise funds. They are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of proprietary funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Management's Discussion and Analysis (MD&A)
September 30, 2014 and 2013**

FINANCIAL ANALYSIS The District's net position was \$8,704 at September 30, 2014. Our analysis below focuses on the net position and the change in net position of the District as a whole.

**Table 1
Net Position
(in thousands)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Other assets	\$ 10,665	\$ 10,502	\$ 8,510
Capital assets, net	8,981	8,394	7,459
Total assets	<u>19,646</u>	<u>18,896</u>	<u>15,969</u>
Other liabilities	4,768	2,103	1,730
Long-term liabilities	6,174	6,488	5,558
Total liabilities	<u>10,942</u>	<u>8,591</u>	<u>7,288</u>
Net position			
Net investment in capital assets	2,303	1,427	1,436
Restricted	324	318	38
Unrestricted	6,077	8,560	7,207
Total net position	<u>\$ 8,704</u>	<u>\$ 10,305</u>	<u>\$ 8,681</u>

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Management's Discussion and Analysis (MD&A)
September 30, 2014 and 2013**

**Table 2
Changes in Net Position
(in thousands)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Operating revenues:			
Net patient service revenues	\$ 22,115	\$ 22,297	\$ 19,840
Contributions from Ambulance Service District	134	141	118
State of Louisiana, Disproportionate Share Pool Payments	693	523	850
Vending machine commissions	-	6	6
Rental Income	-	-	14
Cafeteria sales	-	35	31
Property taxes	167	162	177
Other	142	63	52
Total operating revenues	<u>23,251</u>	<u>23,227</u>	<u>21,088</u>
Expenses:			
Operating expenses:			
Daily patient services	2,678	2,782	2,285
Nursing services	4,956	3,961	4,374
Other professional services	8,792	7,784	6,430
General services	1,908	1,692	1,670
Administrative and fiscal services	2,612	2,345	2,140
Employee benefits	3,062	2,603	2,456
Depreciation	1,385	1,073	927
Total operating expenses	<u>25,393</u>	<u>22,240</u>	<u>20,282</u>
Operating Income (Loss)	(2,142)	987	806
Nonoperating Revenues (Expenses)			
Grant Revenue	920	930	1,502
Insurance proceeds	-	-	75
Interest Revenue	1	3	2
Interest Expense	(380)	(296)	(255)
Total nonoperating revenues (expenses)	<u>541</u>	<u>637</u>	<u>1,324</u>
Change in Net position	(1,601)	1,624	2,130
Net position, beginning of year	<u>10,305</u>	<u>8,681</u>	<u>6,551</u>
Net position, end of year	<u>\$ 8,704</u>	<u>\$ 10,305</u>	<u>\$ 8,681</u>

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Management's Discussion and Analysis (MD&A)
September 30, 2014 and 2013**

Total operating revenues increased by \$24 due mainly to the addition of several new programs and services. Hardtner Medical Center is one of the few rural hospitals that provides a vast array of specialty services including general surgery, orthopedic surgery, urology surgery, ophthalmology surgery, otolaryngology surgery, podiatry surgery, and cardiology. There was also an added primary care clinic staffed with a Nurse Practitioner and Chiropractor that increased revenues. Operating revenues would have increased substantially more (+\$3 million) had it not been for one-time charges for a write-down of accounts receivable as discussed in Financial Highlights above making it more relative to the increase in operating expenses as discussed below.

Total operating expenses increased \$3,153 due mainly to the addition of urological and otolaryngology surgery capabilities, cardiology services, and chiropractic services. A new primary care clinic was also opened and staffed with a nurse practitioner. In addition, a change in healthcare plans with Blue Cross of Louisiana yielded a higher number of employees opting for the new plan causing health insurance costs to rise. Though the benefit of better contracted network discounts reduced individual claims costs, the increased number of participants created an overall increase. There were also added costs to comply with new ACA requirements. New capital investments resulted in depreciation expenses from computer upgrades to meet meaningful use for electronic health records and the completion of the thirty bed patient room renovations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2014, the District had \$8,981 invested in capital assets, including land, buildings, site improvements, furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of \$587 or 6.9% from last year due mainly to the completion of the patient room renovations. Capital assets also increased slightly due to increased investments in surgical equipment for the new specialties being added.

See Note 6 for further details on capital assets.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 27	\$ 27	\$ 27
Construction in Progress	-	925	61
Land improvements	1,009	549	549
Building	8,469	6,883	6,883
Equipment, furniture and fixtures	7,430	6,627	5,715
Less accumulated depreciation	(7,954)	(6,617)	(5,776)
Totals	<u>\$ 8,981</u>	<u>\$ 8,394</u>	<u>\$ 7,459</u>

Debt

At September 30, 2014, the District has \$6,678 in outstanding long-term debt, which includes certificate of indebtedness, revenue bonds, and capital leases. See Note 7 and Note 8 for further details on debt.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Management's Discussion and Analysis (MD&A)
September 30, 2014 and 2013**

ECONOMIC FACTORS

The efforts to get properly reimbursed for services provided to patients continue to be a challenge in the current economic and regulatory environment. With increased pressures on government payers and commercial payers there continues to be a decrease in net reimbursements. For example, due to the sequestration a 2% reduction in all Medicare payments reduced the net revenues from Medicare normally received. The implementation of the Affordable Care Act impacted the amounts previously payable by Medicare for bad debts of patients who do not pay their deductibles and coinsurance. Where that amount had been 100% is now transitioning to 65%. This shortfall creates a loss for treating Medicare patients despite the fact that "Critical Access Hospitals" are under the perception that they're receiving reimbursement for 100% of costs plus a 1% bonus. The ability of commercial insurance carriers to continuously challenge physicians and professionals with medical decisions regarding avenues of treatment has created a hardship in receiving proper payments for services provided. This results in claim denials and recoupments on an ongoing basis. It has also been proven virtually impossible to negotiate with managed care companies for any type of rate increase to cover escalating costs that are out of the hospital's control. There are contracts that have not increased their reimbursements in several years and some with actual decreases. These contracts are planned for review for determination of strategies to address shortcomings without disrupting the provision of care. Charity care for the uninsured and underinsured continues to put pressure on net revenue as well. Despite the programs in place that help alleviate uncompensated costs, the reimbursement for these costs sometimes take two or more years for recoupment. The hospital had a record amount of write-offs due to patients meeting charity care policy guidelines. Due to the effects of the above there were one-time write-downs to accounts receivable that exceeded the normal operations that created an operating loss for the current year despite a record year of growth in patient volumes and gross revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT Our financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Mr. Paul Mathews, 1102 North Pine Road, Olla, Louisiana 71465, telephone number (318) 495-3131.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

BASIC FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana

ENTERPRISE FUND
STATEMENT OF NET POSITION
September 30, 2014 and 2013

	General Fund	
	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Cash, checking	\$ 476,477	\$ 1,150,709
Restricted cash	323,700	318,413
Receivables		
Patient services, net of allowances of \$1,058,507 and \$2,280,565	4,971,471	6,321,068
Estimated third-party payor settlements	1,986,923	1,001,200
Other	2,295,860	1,152,258
Supplies	554,617	503,005
Prepaid expenses	55,838	54,943
	10,664,886	10,501,596
TOTAL CURRENT ASSETS		
CAPITAL ASSETS		
Land	26,677	26,677
Land improvements	1,008,928	548,503
Construction in progress	-	925,110
Buildings	8,468,879	6,883,320
Equipment, furniture and fixtures	7,430,915	6,627,232
Less accumulated depreciation	(7,954,237)	(6,616,566)
	8,981,162	8,394,276
TOTAL CAPITAL ASSETS		
TOTAL ASSETS	\$ 19,646,048	\$ 18,895,872

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Statement A

	<u>General Fund</u>	
	<u>2014</u>	<u>2013</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 2,211,366	\$ 874,903
Salaries payable	242,707	187,419
Group insurance payable	193,943	149,018
Current portion of capital leases	256,724	246,113
Certificates and revenue bonds payable	247,241	233,399
Accrued vacation payable	384,447	378,762
Accrued bond interest payable	31,817	33,398
Line of credit	1,200,000	-
	<u>4,768,245</u>	<u>2,103,012</u>
NONCURRENT LIABILITIES		
Certificates and revenue bonds payable	5,844,829	6,091,038
Capital leases	329,066	396,663
	<u>6,173,895</u>	<u>6,487,701</u>
	<u>10,942,140</u>	<u>8,590,713</u>
TOTAL LIABILITIES		
NET POSITION		
Net investment in capital assets	2,303,302	1,427,063
Restricted for debt service	323,700	318,413
Unrestricted	6,076,906	8,559,683
	<u>\$ 8,703,908</u>	<u>\$ 10,305,159</u>

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana

ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended September 30, 2014 and 2013

Statement B

	<u>General Fund</u>	
	2014	2013
OPERATING REVENUES		
Net patient service revenues	\$ 22,115,224	\$ 22,297,095
Contributions from Ambulance Service District	134,250	141,128
State of Louisiana, Disproportionate Share Pool Payments	692,637	522,858
Vending machine commissions	-	5,636
Rental income	-	-
Cafeteria sales	15	34,916
Property taxes	167,309	162,589
Other	141,606	62,859
Total operating revenues	23,251,041	23,227,081
OPERATING EXPENSES		
Daily patient services	2,677,766	2,782,298
Nursing services	4,955,938	3,961,947
Other professional services	8,791,690	7,783,472
General services	1,908,061	1,691,209
Administrative and fiscal services	2,612,252	2,345,260
Employee benefits	3,061,820	2,603,338
Depreciation	1,385,314	1,072,888
Total operating expenses	25,392,841	22,240,412
OPERATING INCOME (LOSS)	(2,141,800)	986,669
NONOPERATING REVENUES (EXPENSES)		
Grant revenue	918,885	930,376
Interest revenue	1,464	2,577
Insurance proceeds	-	-
Interest expense	(379,800)	(295,785)
Total nonoperating revenues (expenses)	540,549	637,168
CHANGE IN NET POSITION	(1,601,251)	1,623,837
NET POSITION, BEGINNING OF YEAR	10,305,159	8,681,322
NET POSITION, END OF YEAR	\$ 8,703,908	\$ 10,305,159

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**ENTERPRISE FUND
Statement of Cash Flows
For the Years Ended September 30, 2014 and 2013**

Statement C

	<u>General Fund</u>	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net receipts from patient services	\$ 22,479,098	\$ 19,562,395
State of Louisiana, Disproportionate Share Pool payments	506,798	523,665
Other receipts	443,180	1,388,034
Payments to vendors	(11,913,016)	(10,885,814)
Payments to employees	(10,704,657)	(9,963,925)
	<u>811,403</u>	<u>624,355</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS (USED) FROM NON CAPITAL FINANCING ACTIVITIES		
Proceeds from line of credit	1,200,000	-
Grants	(38,878)	930,376
	<u>1,161,122</u>	<u>930,376</u>
NET CASH PROVIDED (USED) BY NON CAPITAL FINANCING ACTIVITIES		
CASH FLOWS (USED) FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property, plant and equipment	(1,972,714)	(2,008,257)
Proceeds from interim financing	-	-
Payment on interim financing	-	-
Certificate of indebtedness and revenue bonds:		
Proceeds	-	1,285,000
Principal	(232,367)	(217,843)
Capital lease obligations:		
Proceeds	245,380	199,960
Principal	(301,852)	(322,680)
Interest paid	(381,381)	(297,198)
	<u>\$ (2,642,934)</u>	<u>\$ (1,361,018)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		

(Continued)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**ENTERPRISE FUND
Statement of Cash Flows
For the Years Ended September 30, 2014 and 2013**

Statement C

	<u>General Fund</u>	
	<u>2014</u>	<u>2013</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest received	\$ 1,464	\$ 2,577
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,464</u>	<u>2,577</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(668,945)	196,290
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,469,122</u>	<u>1,272,832</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>800,177</u></u>	<u><u>1,469,122</u></u>
RECONCILIATION TO THE BALANCE SHEET		
Cash and cash equivalents	476,477	1,150,709
Restricted cash	<u>323,700</u>	<u>318,413</u>
	<u><u>800,177</u></u>	<u><u>1,469,122</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	(2,141,800)	986,669
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	1,385,314	1,072,888
(Increase) decrease in:		
Accounts receivable: Patient services, net	1,349,597	(2,734,700)
Accounts receivable: Estimated third-party payor settlements	(985,723)	807
Accounts receivable: Other	(185,839)	980,906
Supplies	(51,612)	(31,758)
Prepaid expenses	(895)	(10,281)
Increase (decrease) in:		
Accounts payable, trade	1,336,463	239,824
Salaries payable	55,288	46,555
Group insurance payable	44,925	74,613
Accrued vacation payable	5,685	(1,168)
Total adjustments	<u>2,953,203</u>	<u>(362,314)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 811,403</u></u>	<u><u>\$ 624,355</u></u>

(Concluded)

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Notes to the Basic Financial Statements
As of and for the Years Ended September 30, 2014 and 2013**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES The Hospital Service District Number One of the Parish of LaSalle, State of Louisiana, (the District), was created by the LaSalle Parish Police Jury, and operates Hardtner Medical Center through its Board of Commissioners. Hardtner Medical Center is a 35-bed hospital located in Olla, Louisiana, providing health care services to residents of Olla and the surrounding communities. In addition, the District provides office space on a rental basis to a physician who serves patients of the hospital.

The District is governed by a Board of Commissioners composed of five members. The Hospital Administrator serves as secretary and treasurer of the Board.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles. The more significant of the Hospital Service District's accounting policies are described below.

A. REPORTING ENTITY The District is a component unit of the LaSalle Parish Police Jury, the reporting entity. The LaSalle Parish Police Jury is the governing authority of the parish of LaSalle, Louisiana, and is governed by a board of police jurors elected by the public. Under the provisions granted by the Louisiana statutes, the police jury created the District and appoints the members of its Board of Commissioners. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the LaSalle Parish Police Jury, or other governmental units that comprise the financial reporting entities.

B. ENTERPRISE FUND An enterprise fund is a proprietary fund type that accounts for activities similar to those found in the private sector, where the determination of net income is necessary and useful to sound financial administration.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Proprietary Funds The proprietary funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. With this measurement focus, all assets, liabilities, and outflows/inflows of resources associated with the operation of these funds are included on the statement of net position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds principal ongoing operations. The principal operating revenue of the District is patient related revenue. Operating expenses include the costs of providing this service. All revenues and expenses not meeting this definition are reported as non-operating.

Net Patient Service Revenue Net patient service revenue is patient revenue reported at Hardtner Medical Center's established rates less contractual adjustments, bad debt expense and policy discounts. Retroactive adjustments arising under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Bad debt allowance is determined as a percentage of gross revenue.

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The District has agreements with third-party payers that provide for reimbursement to the District at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the District's established rates for services and amounts reimbursed by third-party payers. A summary of the basis of reimbursement with major third-party payers follows:

Medicare On October 1, 2004, the District converted to a Critical Access Hospital (CAH) with a Distinct Part Psychiatric Unit. Inpatient acute care services and swing bed services rendered to Medicare program beneficiaries are reimbursed at cost plus 1%. Outpatient services are reimbursed at cost plus 1% (subject to limits and rules), while other outpatient laboratory services are reimbursed on a fee schedule. Inpatient Psychiatric services are reimbursed using a prospective methodology based upon length of stay, diagnosis and other factors. Rural health clinic services are reimbursed based on a cost per visit methodology.

The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's Medicare cost reports have been settled by the Medicare fiscal intermediary through September 30, 2011.

Medicaid Inpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates. Most outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2010.

Blue Cross Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed using prospectively determined rates that are not relative to costs or charges.

Civilian Health and Medical Program of the Uniformed Services (Tricare) Inpatient and outpatient services rendered are reimbursed using prospectively determined rates.

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Net patient service revenue Following is a summary of contractual and other adjustments to arrive at net patient service revenues for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 54,405,284	\$ 47,204,613
Less bad debt expense	(2,373,601)	(1,876,378)
Less contractual adjustments:		
Medicare	(14,411,628)	(11,841,603)
Medicaid	(8,011,703)	(6,053,433)
Other third parties	(7,493,128)	(5,136,104)
Total contractual adjustments	<u>(29,916,459)</u>	<u>(23,031,140)</u>
Net patient service revenue	<u>\$ 22,115,224</u>	<u>\$ 22,297,095</u>

Approximately sixty to sixty-five percent of the net patient service revenue comes from Medicare and Medicaid billings.

Gross patient service revenues increased by 15.3% which was a record-setting year. However, due to a one-time write-down of accounts receivable in the amount of approximately \$3,000,000, net patient services revenue decreased by 0.1%. Adjustments due to Medicare reductions of 2% sequestration and bad debt (due to ACA revisions), Medicaid recoupments due to ongoing Recovery Audit Contractors (“RAC”) audits (who are paid on a contingent basis of the amounts recovered), and claims denials from resistant managed care companies, severely impacted the evaluation of remaining accounts receivable. The increased amount of uninsured or underinsured also substantially increased bad debt expenses by \$497,000.

Ad Valorem Taxes are susceptible to accrual.

Contributions Contributions from the LaSalle Parish Ambulance Service District for operation of the ambulances are treated as operating revenues. Unrestricted donations are treated as nonoperating revenues when received.

D. BUDGET PRACTICES The District maintains only enterprise funds in its accounting system and is not subject to the Louisiana Local Government Budget Act or the requirements of accounting principles generally accepted in the United States of America that require budget to actual comparisons. Therefore, budget to actual comparisons, usually found in the financial statements of governmental entities, are not included in these statements.

E. ENCUMBRANCES The District does not use a formal system of encumbrance accounting.

F. CASH AND CASH EQUIVALENTS Cash includes amounts in demand deposits and interest-bearing demand deposits, and time deposit accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. The District deposits its funds in fiscal agent banks organized under the laws of the state of Louisiana, or the laws of the United States of America.

G. INVESTMENTS Investments are bank certificates of deposit that are valued at cost which approximates market. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

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H. SUPPLIES AND INVENTORY Inventories of supplies and minor equipment are valued at lower of cost (first-in, first-out) or latest invoice price.

I. ASSETS WHOSE USE IS LIMITED Assets whose use is limited include funds set aside in accordance with agreements with third-party payers and funds held in accordance with the provisions of debt agreements.

J. PREPAID ITEMS Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

K. PROPERTY, PLANT AND EQUIPMENT Property and equipment acquisitions are recorded at cost. Property and equipment donated for the District's operations are valued at their fair market value on the date received. The threshold for capitalization is \$5,000 for individual items and \$5,000 for aggregate.

All exhaustible property and equipment are shown in the accompanying balance sheet at their original costs, less accumulated depreciation. Depreciation is recorded on the straight-line method over the estimated useful lives, as follows:

Land improvements	12-29 years
Buildings	16-40 years
Fixed equipment	5-20 years
Major moveable equipment	3-20 years

L. RESTRICTED NET POSITION Net position is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. It is the Districts policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

M. 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. VACATION In lieu of vacation, holiday and sick time, a paid time off (PTO) plan is the policy at Hardtner Medical Center. PTO is granted to all full time employees after completion of ninety (90) days of continuous service. The employee will be allowed to accumulate PTO to a maximum of one and a half (1½) years accruals. The following is a table of accrual rates per pay period and maximum accruals based on continuous years of full-time employment:

<u>Length of Service</u>	<u>Accrual Rate</u>	<u>Maximum Accrual</u>
1 day to 5 years	6.15 hours per 80 hrs. paid	240 hours
5 to 10 years	7.69 hours per 80 hrs. paid	300 hours
10 + years	9.23 hours per 80 hrs. paid	360 hours

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Regular part-time, temporary full-time and temporary part-time employees are not eligible for PTO benefits. Employees are encouraged to take their PTO time off. PTO time cannot be sold and must be taken to be compensated. Exceptions are made by administrative approval only.

NOTE 2 - DEPOSITS At September 30, 2014, the District has cash and cash equivalents of \$800,177 as follows:

Interest Rate Risk: The District's policy does not address interest rate risk.

Credit Risk: The District invests in certificates of deposit which do not have credit ratings. The District's policy does not address credit risk.

Custodial credit risk: At year end, the District's carrying amount of deposits was \$800,177 which includes \$323,700 of restricted cash and the bank balance was \$740,554. Of the bank balance, \$250,000 was covered by federal depository insurance. For the remaining bank balance, the District had securities held by the pledging financial institution's trust department or agent but not in the District's name. The District's policy does not address custodial credit risk.

NOTE 3 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS Accounts receivable - patients, include unpaid amounts billed to discharged patients and third-party payers such as insurance companies and the fiscal intermediaries of the Social Security Administration on behalf of patients eligible for benefits under Title XVIII and XIX of the Social Security Act. Also included, are unbilled charges for those patients not discharged at September 30.

Other accounts receivable as of September 30, 2014 of \$2,295,860 includes a receivable of \$708,697 for disproportionate share pool payments and \$1,587,163 for electronic health records. Other accounts receivable as of September 30, 2013 of \$1,152,258 includes a receivable of \$522,858 for disproportionate share pool payments and \$629,400 for electronic health records.

NOTE 4 - CONTINGENCIES The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

Third-Party Government-Based Revenues Cost reimbursements are subject to examination by agencies administering the programs. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management

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believes that the District is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Self-Insurance The District became partially self-insured for employees' group and health insurance coverage on June 1, 2002. In 2013 Blue Cross Blue Shield replaced IMA as the insurer. Claims are funded through employee contributions and operating funds of the District. The District maintains stop-loss coverage with an insurance company for claims in excess of \$40,000 per claim for each participant. Since changing to Blue Cross of Louisiana the number of participants have risen and resulted in increased claims of approximately \$300,000. All known claims filed and an estimate of incurred but not reported claims based on experience of the District are made and accrued as necessary in the financial statements. The estimate of incurred but not reported claims at September 30, 2014 was \$193,943 which is shown on Statement A.

The following is a summary of the self-insurance transactions for the year ended September 30, 2014:

Fiscal Year	Balance Beginning	Additions	Payments	Balance Ending
2011-2012	\$81,201	\$1,687,871	\$1,694,667	\$74,405
2012-2013	74,405	1,666,633	1,592,020	149,018
2013-2014	149,018	1,943,444	1,898,519	193,943

Litigation At September 30, 2014, the District was involved in two litigations. Although the actual outcome of these lawsuits is hard to predict, management feels that the maximum possible financial effect would be \$23,965. No liability has been recorded in the financial statements for these claims.

Energy Performance Contract The District entered into an energy performance contract in October 2005. The contract may be terminated by the District at any time by giving 30 days written notice. The contract contains an operational stipulated savings clause. The Louisiana Attorney General issued an opinion (A.G. Opinion No. 07-0002) regarding a similar contract and concluded that some of these contracts may not meet the statutory definition of a performance based energy contract.

The original contract was amended October 5, 2009 to meet the statutory definition of a performance based contract. Per the amendment, there shall be an annual review and disbursement/reconciliation of the energy related cost savings. An energy and operational savings report will be provided to the Medical Center within 60 days of each anniversary of the performance commitment date or within 30 days of receiving from the local utility provider a final utility bill for the annual reporting period.

In the event the Energy and Operational Savings achieved during any twelve-month period is less than the Energy and Operational Savings Guaranteed during the years the guarantee is in effect, the Medical Center will be paid an amount equal to the deficiency within 60 days of the annual reconciliation. If during any twelve month period the savings are greater than the guaranteed amount, the Medical Center may apply the excess savings to either additional energy savings projects pursuant to the terms of the original contract or expansion of services or to the principal debt service payment obligation.

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NOTE 5 - PENSION PLAN The District implemented a retirement plan for employees during 2008 consisting of a 401(a) plan and 457 plan. The District contributes 1% to the 401(a) plan and a 50% matching contribution (up to 4%) is made to the 457 plan. The District's contributions to the plans for 2014 as follows:

	401 A Plan	457 Plan
Employer	\$ 57,890	\$ 94,692
Employee	-	263,279

The District's contributions to the plans for 2013 were as follows:

	401 A Plan	457 Plan
Employer	\$ 53,594	\$ 88,517
Employee	-	247,374

NOTE 6 - PROPERTY PLANT AND EQUIPMENT The balances and changes in property, plant and equipment as of and for the year ended September 30, 2014 are as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Nondepreciable assets:				
Land	\$ 26,677	\$ -	\$ -	\$ 26,677
Construction in progress	925,110	1,273,188	2,198,298	-
	951,787	1,273,188	2,198,298	26,677
Depreciable assets:				
Land improvements	548,503	460,425	-	1,008,928
Buildings	6,883,320	1,585,559	-	8,468,879
Fixed Equipment	753,749	-	-	753,749
Electronic health record equipment	1,000,751	352,957	-	1,353,708
Equipment, furniture and fixtures	4,872,732	450,726	-	5,323,458
Total depreciable assets	14,059,055	2,849,667	-	16,908,722
Total	15,010,842	4,122,855	2,198,298	16,935,399
Less accumulated depreciation:				
Land improvements	171,911	70,971	-	242,882
Buildings	3,355,436	399,708	-	3,755,144
Fixed Equipment	597,186	99,502	-	696,688
Electronic health record equipment	168,754	322,966	-	491,720
Equipment, furniture and fixtures	2,323,279	444,524	-	2,767,803
Total accumulated depreciation	6,616,566	1,337,671	-	7,954,237
Property, plant and equipment, net	\$ 8,394,276	\$ 2,785,184	\$ 2,198,298	\$ 8,981,162

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The balances and changes in property, plant, and equipment as of and for the year ended September 30, 2013 are as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Nondepreciable assets:				
Land	\$ 26,677	\$ -	\$ -	\$ 26,677
Construction in progress	60,813	864,297	-	925,110
	<u>87,490</u>	<u>864,297</u>	<u>-</u>	<u>951,787</u>
Depreciable assets:				
Land improvements	548,503	-	-	548,503
Buildings	6,883,320	-	-	6,883,320
Fixed equipment	753,749	-	-	753,749
Electronic health record equipment	118,772	881,979	-	1,000,751
Moveable equipment, furniture and fixtures	4,843,706	261,981	232,955	4,872,732
Total depreciable assets	<u>13,148,050</u>	<u>1,143,960</u>	<u>232,955</u>	<u>14,059,055</u>
Total	<u>13,235,540</u>	<u>2,008,257</u>	<u>232,955</u>	<u>15,010,842</u>
Less accumulated depreciation:				
Land improvements	131,366	40,545	-	171,911
Buildings	3,038,474	316,962	-	3,355,436
Fixed equipment	469,495	127,691	-	597,186
Electronic health record equipment	3,299	165,455	-	168,754
Moveable equipment, furniture and fixtures	2,133,999	422,235	232,955	2,323,279
Total accumulated depreciation	<u>5,776,633</u>	<u>1,072,888</u>	<u>232,955</u>	<u>6,616,566</u>
Property, plant and equipment, net	<u>\$ 7,458,907</u>	<u>\$ 935,369</u>	<u>\$ -</u>	<u>\$ 8,394,276</u>

NOTE 7 - LONG-TERM DEBT

The District issued Certificate of Indebtedness, Series 2006 in the amount of \$1,660,000 with a stated interest rate of 5.75% in which the proceeds are to be used for capital improvement costs. The annual debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 73,000	\$ 74,261	\$ 147,261
2016	81,000	69,834	150,834
2017	89,000	64,946	153,946
2018	98,000	59,570	157,570
2019	107,000	53,676	160,676
2020-2024	701,000	159,131	860,131
2025-2027	179,000	5,147	184,147
Total	<u>\$ 1,328,000</u>	<u>\$ 486,565</u>	<u>\$ 1,814,565</u>

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In 2012, the District issued Hospital Revenue Bonds, Series 2011A and 2011B, in the amount of \$3,859,000 with a stated interest rate of 3.75% on Series 2011A for \$2,859,000 and a stated interest rate of 7% on Series 2011B for \$1,000,000. These bonds are related to the construction of the new clinic. The annual debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 107,241	\$ 163,203	\$ 270,444
2016	112,337	158,108	270,445
2017	117,697	152,747	270,444
2018	123,341	147,104	270,445
2019	129,283	141,161	270,444
2020-2024	747,289	604,934	1,352,223
2025-2029	952,091	400,132	1,352,223
2030-2034	920,825	160,778	1,081,603
2035-2037	395,966	18,333	414,299
Total	<u>\$ 3,606,070</u>	<u>\$ 1,946,500</u>	<u>\$ 5,552,570</u>

In 2013, the District issued Hospital Revenue Bonds, Series 2012, in the amount of \$1,285,000 with a stated interest rate of 4.50% with a maturity date of October 1, 2027. These bonds are related to the renovation of patient rooms in the Hospital. The annual debt service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 67,000	\$ 52,110	\$ 119,110
2016	71,000	49,095	120,095
2017	74,000	45,900	119,900
2018	77,000	42,570	119,570
2019	80,000	39,105	119,105
2020-2024	460,000	137,925	597,925
2025-2028	329,000	30,016	359,016
Total	<u>\$ 1,158,000</u>	<u>\$ 396,721</u>	<u>\$ 1,554,721</u>

Following is a schedule of changes in long term debt for the year ended September 30, 2014:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Certificates of indebtedness, Series 2006	\$ 1,394,000	\$ -	\$ 66,000	\$ 1,328,000	\$ 73,000
Revenue Bonds Payable	4,930,437	-	166,367	4,764,070	174,241
Capital leases	642,776	244,815	301,801	585,790	256,724
Compensated absences	378,762	327,562	321,877	384,447	384,447
	<u>\$ 7,345,975</u>	<u>\$ 572,377</u>	<u>\$ 856,045</u>	<u>\$ 7,062,307</u>	<u>\$ 888,412</u>

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	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Certificates of indebtedness, Series 2006	\$ 1,453,000	\$ -	\$ 59,000	\$ 1,394,000	\$ 66,000
Revenue Bonds Payable	3,804,280	1,285,000	158,843	4,930,437	167,399
Capital leases	765,496	199,960	322,680	642,776	246,113
Compensated absences	379,930	219,767	220,935	378,762	378,762
	<u>\$ 6,402,706</u>	<u>\$ 1,704,727</u>	<u>\$ 761,458</u>	<u>\$ 7,345,975</u>	<u>\$ 858,274</u>

Under the terms of the series 2011 hospital revenue bond, the following requirements are stated:

Sinking Fund-A monthly payment of 1/12 of the current year principal and interest installment must be made into the Sinking Fund account.

Reserve Fund-The Reserve Fund is required to be funded to an amount equal to the highest scheduled principal and interest falling due in any year on all bonds payable from the Sinking Fund. Pursuant to the Bond Resolution, the hospital is to deposit monthly or before the 20th of each month a sum at least equal to 10% of the amount to be paid into the Sinking Fund, to continue until such time there has been accumulated therein a sum equal to the Reserve Fund requirement. The deposits were not made by the 20th of each month but the amount deposited for the fiscal year met the required amount.

Depreciation and Contingency Fund-A Depreciation and Contingency Fund is required to be created for extensions, renewals and replacements. The hospital is required to deposit monthly in this fund an amount equal to 5% of the amount to be paid into the Sinking Fund. The payments are to continue until an amount equal to the Reserve Fund requirement is on deposit in the Reserve Fund, then each month a sum equal to 10% of the Sinking Fund payment is to be made into the Contingency Fund. These deposits are to be made before the 20th of each month. The deposits were not made by the 20th of each month and the cash in this account was moved to the general checking account at the end of the fiscal year.

Restricted cash of \$323,700 is the total of these three funds.

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NOTE 8 - CAPITAL LEASE OBLIGATIONS The District records items under capital leases as an asset and an obligation in the accompanying financial statements. The following is an analysis of equipment under capital leases at September 30, 2014:

<u>Type</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
GE Anesthesia Unit	\$ 36,799	\$ 2,636	\$ 34,163
Olympus Surgial Equipment	208,016	16,869	191,147
X-Ray Machine	227,179	156,971	70,208
C-Arm	128,458	81,228	47,230
Rapicide Scope	13,992	8,863	5,129
Nursing Admn Building	118,466	22,112	96,354
Olympus Ortho Attachment	70,639	28,294	42,345
i1000 Blood Analyzer	82,050	42,415	39,635
Restech from Hewlett Packard	199,960	56,756	143,204
Total	<u>\$ 885,599</u>	<u>\$ 359,388</u>	<u>\$ 526,211</u>

The following is an analysis of equipment under capital leases at September 30, 2013:

<u>Type</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Ultrasound equipment	\$ 100,904	\$ 85,768	\$ 15,136
CT scanner	456,199	387,769	68,430
X-Ray Machine	227,179	109,803	117,376
C-Arm	128,458	55,665	72,793
Rapicide Scope	13,992	6,063	7,929
Nursing Admn Building	118,466	16,344	102,122
Olympus Ortho Attachment	70,639	14,128	56,511
i1000 Blood Analyzer	82,050	25,982	56,068
Restech from Hewlett Packard	199,960	26,095	173,865
Total	<u>\$ 1,397,847</u>	<u>\$ 727,617</u>	<u>\$ 670,230</u>

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Notes to the Basic Financial Statements
As of and for the Years Ended September 30, 2014 and 2013**

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of September 30, 2014:

Years ending September 30,	X-Ray	Nursing	Rapicide	i1000	Olympus	Anesthesia	Surgical	HP Financial	Total	
	Machine	C-Arm	Admn Bldg	Scope	Blood Analyzer	Ortho Attachment	Equipment	Restech		
2015	\$ 52,534	\$ 29,722	\$ 27,696	\$ 3,475	\$ 18,898	\$ 21,490	\$ 8,272	\$ 75,939	\$ 45,601	\$ 283,627
2016	35,023	27,246	6,924	3,213	18,898	-	8,272	75,939	45,600	221,115
2017	-	-	-	-	15,682	-	8,272	12,657	45,600	82,211
2018	-	-	-	-	-	-	8,271	-	30,401	38,672
2019	-	-	-	-	-	-	6,203	-	-	6,203
Total minimum lease payments	87,557	56,968	34,620	6,688	53,478	21,490	39,290	164,535	167,202	631,828
Less amounts representing interest	(4,487)	(3,334)	(1,416)	(538)	(5,428)	(579)	(4,133)	(10,606)	(15,517)	(46,038)
Present value of net minimum lease payments	\$ 83,070	\$ 53,634	\$ 33,204	\$ 6,150	\$ 48,050	\$ 20,911	\$ 35,157	\$ 153,929	\$ 151,685	\$ 585,790

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of September 30, 2013:

Years ending September 30,	Ultrasound	X-Ray	Nursing	Rapicide	i1000 Blood	Olympus	HP Financial	Total		
	Equipment	CT Scanner	Machine	C-Arm	Admn Bldg	Ortho Attachment	Restech			
2014	\$ 12,834	\$ 58,863	\$ 52,534	\$ 29,722	\$ 27,696	\$ 3,475	\$ 19,408	\$ 25,788	\$ 45,601	\$ 275,921
2015	-	-	52,535	29,722	27,696	3,475	19,408	21,490	45,601	199,927
2016	-	-	35,023	27,246	6,924	3,213	19,408	-	45,600	137,414
2017	-	-	-	-	-	-	14,152	-	45,600	59,752
2018	-	-	-	-	-	-	-	-	30,401	30,401
Total minimum lease payments	12,834	58,863	140,092	86,690	62,316	10,163	72,376	47,278	212,803	703,415
Less amounts representing interest	(121)	(662)	(11,062)	(7,459)	(4,370)	(1,179)	(8,578)	(2,613)	(24,595)	(60,639)
Present value of net minimum lease payments	\$ 12,713	\$ 58,201	\$ 129,030	\$ 79,231	\$ 57,946	\$ 8,984	\$ 63,798	\$ 44,665	\$ 188,208	\$ 642,776

NOTE 9 - LINE OF CREDIT The District opened a line of credit with Southern Heritage Bank on March 25, 2014 in the amount of \$1,200,000. The balance on this line of credit as of September 30, 2014 was \$1,200,000 which is due on March 25, 2015.

NOTE 10 - INCOME TAXES The District is a governmental entity and is not subject to federal and state income taxes.

NOTE 11 - BEHAVIORAL HEALTH UNIT The District established a Behavioral Health Unit (BHU) in 1996. The BHU provides programs for the treatment of emotional problems and psychiatric disorders and operates out of a ten-bed wing in the Hospital.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Notes to the Basic Financial Statements
As of and for the Years Ended September 30, 2014 and 2013**

NOTE 12 - AD VALOREM TAX The District levies taxes on real and business personal property located within LaSalle Parish's boundaries. Property taxes are levied by the District on property values assessed by the LaSalle Parish Tax Assessor and approved by the State of Louisiana Tax Commission.

The LaSalle Parish Sheriff's Office bills and collects property taxes for the District. Collections are remitted to the District monthly.

Property Tax Calendar

Millage rates adopted	July 29, 2013
Levy date	January 1, 2013
Tax bills mailed	November 15, 2013
Total taxes are due	December 31, 2013
Lien date	January 1, 2014
Penalties and interest are added	January 31, 2014
Tax sale - 2013 delinquent property	May 28, 2014

Assessed values are established by the LaSalle Parish Tax Assessor each year on a uniform basis at the following ratios of assessed value to fair market value.

10% land	15% machinery
10% residential improvements	15% commercial improvements
15% industrial improvements	25% public service properties, excluding land

A revaluation of all property is required after 1978 to be completed no less than every four years. The last revaluation was completed for the roll of January 1, 2012. Total gross assessed value was \$23,482,962 in calendar year 2013. Louisiana state law exempts the first \$75,000 of assessed value of a taxpayer's primary residence from parish property taxes. This homestead exemption was \$4,849,320 of the assessed value in calendar year 2013.

State law requires the sheriff to collect property taxes in the calendar year in which the assessment is made. Property taxes become delinquent January 1 of the following year. If taxes are not paid by the due date, taxes bear interest at the rate of 1.25% per month until the taxes are paid. After notice is given to the delinquent taxpayers, the sheriff is required by the *Constitution of the State of Louisiana* to sell the least quantity of property necessary to settle the taxes and interest owed.

All property taxes are recorded in the enterprise fund on the basis explained in Note 1. Revenues in this fund are recognized in the accounting period in which they become measurable and when there exists an enforceable legal claim. The District considers January 1 the lien date, as the date that an enforceable legal claim exists. Estimated uncollectible taxes are those taxes based on past experience which will not be collected in the subsequent year and are primarily due to subsequent adjustments to the tax roll.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Notes to the Basic Financial Statements
As of and for the Years Ended September 30, 2014 and 2013**

Historically, virtually all ad valorem taxes receivable were collected since they are secured by property. Therefore, there is no allowance for uncollectible taxes.

The following is a summary of authorized and levied (tax rate per \$1,000 assessed value) ad valorem tax:

	<u>Authorized Millage</u>	<u>Levied Millage</u>	<u>Expiration Date</u>
Parish-wide tax:			
Operations and maintenance	10.13	9.28	2024

NOTE 13 – PRIOR PERIOD ADJUSTMENT The balance of cash at September 30, 2013 was reduced by \$224,816 to record health insurance expense which was not recorded. Cash was reduced by \$224,816 and employee benefits expense was increased by \$224,816.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

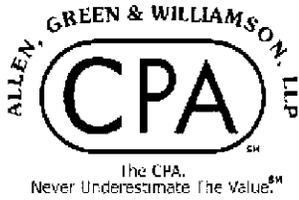
SUPPLEMENTARY INFORMATION

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Schedule of Compensation Paid Board Members
For the Year Ended September 30, 2014**

Board members who served during the fiscal year and the amount of compensation received by each are presented below in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

Lee Richardel, Chairman	\$ 480
Steve Tannehill	480
Rick Smotherman	480
Joe Wilson	480
Mike Duke, Vice Chairman	<u>480</u>
 Total	 <u>\$2,400</u>



ALLEN, GREEN & WILLIAMSON, LLP

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Amy Tynes, CPA
Aimee Buchanan, CPA
Principal: Cindy Thomason, CPA

Nancy Tiser Blankenship, CPA
Matt Carmichael, CPA
Jaime Esswein, CPA, CFE
Diane Ferschoff, CPA
Jaunicia Mercer, CPA, CFE

Ernest L. Allen, CPA
(Retired) 1963 - 2000

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

Independent Auditor's Report

Board of Commissioners
Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hospital Service District Number One of the Parish of LaSalle, State of Louisiana, (the District) a component unit of the LaSalle Parish Police Jury as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

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

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan for Current Year Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Office of the Louisiana Legislative Auditor as a public document.

Allen, Green + Williamson, LLP

ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana
April 10, 2015

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Schedule of Findings and Questioned Costs
As of and For the Year Ended September 30, 2014**

Reference # and title: **2014-001** **Financial Management**

Criteria or specific condition: Internal control over financial reporting requires that the accounting records contain up-to-date, accurate and complete information to ensure that the financial data can be relied upon to monitor the financial condition of the District. The general ledger should be reviewed monthly and significant accounts should be analyzed to ensure that all transactions have been posted and all postings are accurate.

Condition found: The financial packet presented to Board members for the September 2014 fiscal year end reflected net profit. Numerous entries were made after the presentation of the financials which resulted in a net loss for the District of \$1,601,251 which is significantly different than the financial statements before year end entries were made.

Possible asserted effect (cause and effect):

Cause: The District does not have procedures in place for monthly reporting. The bank accounts were not reconciled until after year end which resulted in numerous entries to record transactions that were not previously recorded. No analysis of significant accounts is made to identify errors.

Effect: Monthly financial reports could contain significant errors.

Recommendation to prevent future occurrence: Monthly closing procedures should be established and followed. These procedures should include reconciliation of all bank accounts before the monthly financial statements are compiled. Procedures should also include reconciliation and review of significant balance sheet accounts and income and expense accounts.

View of Responsible Official: The activities of the hospital with increased volumes and additional programs created complexities that intensified accounting procedures. The addition of an accountant during the fiscal year was to help alleviate the issues but the position was vacated only five months later. There were undone tasks and unrecorded or erroneous entries found during the year end validation of accounts. The District also reviewed the valuation of accounts receivable and determined a one-time write-down or cleanup of balances were necessary to properly assess collectible accounts. This action was the result of exhausted collection efforts, retroactive denials by managed care plans, RAC audits, and technical billing issues.

Reference # and title: **2014-002** **Bank Reconciliations**

Criteria or specific condition: Proper internal controls require that all bank statements be reconciled monthly and that all unusual reconciling items be investigated and properly handled in a timely manner.

Condition found: None of the District bank accounts are reconciled on a monthly basis. The general operating account was only reconciled at year end and the reconciliation was not accurate. Numerous entries were made at year end to record transactions that went through the bank accounts but were not recorded on the general ledger.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

**Schedule of Findings and Questioned Costs
As of and For the Year Ended September 30, 2014**

Possible asserted effect (cause and effect):

Cause: The District had a software conversion during the September 30, 2013 fiscal year and have not established procedures to capture the information needed to properly reconcile the bank accounts.

Effect: Cash balances were not accurate at year end and the transactions that were not recorded significantly changed the profit (loss).

Recommendation to prevent future occurrence: Bank reconciliations for all bank accounts should be performed monthly and any unusual reconciling items should be investigated and handled promptly. All transfers between bank accounts should also be recorded as the transfers are made. The software does have a cash management module and that can be utilized to perform bank reconciliations.

View of Responsible Official: The addition of an accountant during the fiscal year was transferred this responsibility to help alleviate the issues but the position was vacated only five months later which was one month before year end and created confusion. The monthly reconciliations were part of the new accountants duties but were either found incomplete or in error. The new Cash Management Module was being used but inaccurately and created erroneous entries.

**Hospital Service District Number One
Of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury
Olla, Louisiana**

OTHER INFORMATION

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury**

**Summary Schedule of Prior Year Audit Findings and Questioned Costs
As of and for the Year Ended September 30, 2014**

Reference # and title: **2013-001** **General Accounting**

Condition: Proper internal controls require that the general ledger be reviewed and that balance sheet and income accounts be reconciled timely throughout the year and that all adjusting year end journal entries and accruals be made before the trial balance is sent to the external auditors. Supporting documentation for all material accounts should be readily available when the external audit is performed.

The 2012 adjusting entries posted by the auditors had not been posted by the District when the trial balance for 2013 was sent to the external auditors. Numerous balance sheet and income accounts had improper balances and had not been reconciled when the auditors began field work.

Corrective action planned: See 2014-001.

Reference # and title: **2013-002** **State Bid Law-Declaration of an Emergency**

Condition: Louisiana revised statute R.S. 38:2212D requires that when a governmental entity declares an emergency so that the normal bid process can be waived, the governmental entity must advertise the declaration of the emergency in the official journal within 10 days of the declaration.

The District declared an emergency due to roof damage above the surgical area, but did not put the required notice in the official journal.

Corrective action taken: The hospital management was unaware of the requirement for declaration of emergencies to be published within 10 days of the declaration. A policy has been put in place to assure that any declaration of emergencies be published within 10 days of the declaration. This finding is considered cleared.

**Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
A Component Unit of the LaSalle Parish Police Jury**

**Corrective Action Plan for Current Year Findings and Questioned Cost
As of and For the Year Ended September 30, 2014**

Reference # and title: **2014-001** **Financial Management**

Condition: Internal control over financial reporting requires that the accounting records contain up-to-date, accurate and complete information to ensure that the financial data can be relied upon to monitor the financial condition of the District. The general ledger should be reviewed monthly and significant accounts should be analyzed to ensure that all transactions have been posted and all postings are accurate.

The financial packet presented to Board members for the September 2014 fiscal year end reflected net profit. Numerous entries were made after the presentation of the financials which resulted in a net loss for the District of \$1,601,251 which is significantly different than the financials before year end entries.

Corrective action planned: The District has now secured a full time accountant and the procedures for monthly reporting are in place. A record amount of revenues and billings continue to be experienced and the valuation of accounts receivable are being closely monitored to assure proper and accurate valuation of collectibles.

Person responsible for corrective action plan:

Paul Mathews, Administrator
Hardtner Medical Center
1102 North Pine Road
Olla, LA 71465

Telephone: 318-495-3131
Fax: 318-495-3229

Anticipated completion date: Immediately.

Reference # and title: **2014-002** **Bank Reconciliations**

Condition: Proper internal controls require that all bank statements be reconciled monthly and that all unusual reconciling items be investigated and properly handled in a timely manner.

None of the District bank accounts are reconciled on a monthly basis. The general operating account was only reconciled at year end and the reconciliation was not accurate. Numerous entries were made at year end to record transactions that went through the bank accounts but were not recorded on the general ledger.

Corrective action planned: A replacement accountant is in place and accounting procedures are being followed. All bank accounts are to be reconciled monthly and adjustments made as needed. The current software system has a Cash Management Module that the hospital will now fully utilize on its' primary cash accounts. Any discrepancies will be investigated and adjustments made as necessary to assure accurate statement of balances.

Person responsible for corrective action plan:

Paul Mathews, Administrator
Hardtner Medical Center
1102 North Pine Road
Olla, LA 71465

Telephone: 318-495-3131
Fax: 318-495-3229

Anticipated completion date: Immediately.