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

**Bond Compliance Report**

May 31, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11/17/10

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of **Morehouse Parish Hospital Service District No. 1 (the District)** as of May 31, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated October 26, 2010.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of Section 17(a) through (r), of the Bond Resolution relating to the Hospital revenue Bonds in multiple series in the aggregate principal amount up to $13,000,000 reflecting the provisions adopted by the Morehouse Parish Hospital Service District on September 26, 2008, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such compliance.

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

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

Metairie, LA
October 26, 2010

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## Morehouse Parish Hospital Service Disctrict No. 1
## Calculation of Current Ratio

| | | Year Ended May 31, 2010 |
|---|---|---|
| Current Assets | $ | 6,957,022 |
| Current Liabilities | $ | 5,431,895 |
| **Current Ratio as Calculated** | | **1.28** |
| **Current Ratio Requirement** | | **1.20** |

**The Hospital has met the necessary 1.20% current ratio as defined in Note 1.**

## Morehouse Parish Hospital Service Disctrict No. 1
## Total Debt to Tangible Net Worth Ratio

| | | Year Ended May 31, 2010 |
|---|---|---|
| Total Debt | $ | 10,896,957 |
| Equity | $ | 2,916,517 |
| **Total Debt to Tangible Net Worth Ratio** | | **3.74** |
| **Total Debt to Tangible Net Worth Requirement** | | **9.00** |

**The Hospital has met the necessary 9.0:1.0 ratio as defined in Note 1.**

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

**MANAGEMENT LETTER**

May 31, 2010

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

October 26, 2010

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

In planning and performing our audit of the basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) for the year ended May 31, 2010 (on which we have issued our report dated October 26, 2010) in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our audit 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 Hospital's internal control. Accordingly we do not express such an opinion on the effectiveness of the Hospital'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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily indentify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

A description of the responsibility of management for establishing and maintaining internal control, and the objectives and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this letter. Our current year comments and recommendations are presented in Exhibit II and are listed in the table of contents thereto. Exhibit III details the status of prior year comments.



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Exhibit II contains descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses.

Certain control conditions that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein. Exhibit III, however, contains descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses.

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

This communication is intended solely for the information and use of management, and the Board of Commissioners, others within the Hospital, and the State of Louisiana's Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you, and, if desired, to assist you in implementing any of the suggestions.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

**MOREHOUSE GENERAL HOSPITAL**
**MANAGEMENT LETTER**
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## EXHIBIT I

## GENERAL COMMENTS

### MANAGEMENT AND STAFF COOPERATION DURING THE AUDIT

We wish to extend our thanks to the Hospital's governing board for the confidence they have placed in us once again by allowing to serve the Hospital's compliance and assurance needs. That process requires us to work closely with the Hospital management, financial and accounting staff to accomplish the stated audit objectives. Once again this year we were greatly pleased with the assistance and patience afforded us in this process.

Everyone involved on the audit team wishes to express their gratitude and recognize the efforts of the finance and accounting staff at MGH who were instrumental in bringing the audit to a successful conclusion this year. While we were greatly pleased with the cooperation we received throughout the Hospital, we wanted to specifically acknowledge the contributions of Mr. Jim Allbritton and Ms. Virginia Loveday for their efforts and assistance.

## EXHIBIT II

## ADMINISTRATIVE, INTERNAL CONTROL AND OTHER MATTERS

### 2010 - M1 Bank Statements and Reconciliations

**Observation:**

We noted in a review of the Hospital's internal controls over cash and disbursements that all of the Hospital's bank statements are received and opened by the same employee's responsible for writing checks, managing accounts payable, and reconciling the bank accounts.

**Recommendation:**

We suggest that an individual independent of the check writing and bank reconciliation process be responsible for receiving unopened bank statements. We recommend that an individual familiar with the Hospital's operations review these statements for any unusual transactions before submitting the statements to the accounting department to complete the reconciliation process.

**Management Response:**

We can ask Debbie Spann, current HR Director with prior accounting experience, to review weekly/monthly banking statements prior to the reconciliation.

Change of duties:

| | |
|---|---|
| Gail Harrison | Accounts Payable Clerk (invoices/checks) |
| Jason Bonner | Reconciliations |
| Virginia Loveday | Review and Sign Off |

### 2010 - M2 Mailing of Signed Checks

**Observation:**

We noted in a review of the Hospital's internal controls over cash and disbursements that after checks are signed by administration they are returned to the accounting department for mailing.

**Recommendation:**

We suggest that signed checks not be returned to accounting, but rather be mailed directly by someone in administration. If the check relates to an internal reimbursement, we suggest that it either be picked up by the corresponding party from administration, or be hand delivered to the corresponding party by administration.

**Management Response:**

Administration will mail or have checks picked up accordingly.

**2010 - M3 Prior Year Items Included in Accounts Payable**

**Observation:**

As was noted in prior years' comments, the Hospital has items included in its payables, that pertain to prior years. These amounts are primarily comprised of balances representing overpayments on patient accounts, or more specifically, balances due to former patients and third party payors. While these amounts are correctly reflected as liabilities of the Hospital they remain unsettled and represent a significant portion of the payables balance.

**Recommendation:**

We recommend that the Hospital take measures to compile a singular listing of all amounts that comprise this balance to indentify the combined total amount due to each payor or former patient. State laws require that amount due to patients or other payors that cannot be located be remitted to the Louisiana Department of the Treasury's Unclaimed Property Division after efforts to locate the intended recipients have proved unsuccessful, and after the passage of time as prescribed. Because of the current age of the items involved, the Hospital may wish to seek legal interpretation of related contractual matters and possible consideration of the statute of limitations.

**Management Response:**

This is a work in progress with legal counsel and payors.

EXHIBIT III

## STATUS OF PRIOR YEAR COMMENTS

### 2009 - M1 Payroll Internal Review

<u>Observation</u>:

We noted in a review of the Hospital's internal controls over payroll that the Hospital does not have an individual independent of the payroll process perform a periodic review of employees actual pay in comparison to the approved pay rate located in the employees personnel file.

<u>Recommendation</u>:

We suggest that an individual independent of the payroll process perform a periodic review of employees actual pay in comparison to the approved pay rate located in the employees personnel file. The review can be completed on a sample basis and substantiate the accuracy and reasonableness of salary expense

<u>Management Response</u>:

**Management concurs with the recommendation and will direct a disinterested party in accounting to perform this task on a limited and quarterly basis.**

<u>Status:</u>

**Resolved.** Management has indicated that this process will be implemented in the 2011 fiscal year.

### 2008 - M1 Check Signing Process

<u>Observation</u>:

We noted in a review of the Hospital's internal controls over disbursements and expenditures that all disbursements are electronically signed. At the present time, all checks irrespective of amount are valid when signed electronically.

<u>Recommendation</u>:

We recommend that policies or procedures be adopted which require a manual co-signature by an authorized check signer to accompany the electronic signature on all checks over a predetermined dollar threshold. This will significantly enhance internal control procedures over cash disbursements.

When strictly followed, this policy provides for strong control over the cash disbursements process, but it can hinder operations when there are a large number of checks requiring a manual signature and authorized check signers are unavailable. In an effort to relieve this problem while retaining strong controls, we suggest that the Hospital consider the following options:

**2008 - M1 Check Signing Process (Continued)**

- Require at least one manual signature for amounts exceeding $10,000 (the threshold is a matter of judgment. Many larger facilities have higher thresholds, not because their volume of activity is greater, but because they are able to achieve a greater segregation of duties and, therefore, often have stronger compensating controls.)

- Establish a strict list of exceptions to the manual signature requirement for normal and recurring monthly disbursements, such as rent, utilities, etc., upon identification and approval of the Board of Commissioners.

- Continue to permit both signatures to be electronically generated for disbursements under the threshold established above.

- Consider the need to add an additional authorized check signer to ensure that a manual signature can always be obtained when required. Care should be taken, however that any additional signer is separate from the purchasing and recordation functions.

We feel that the implementation of one or all of the above policies could strengthen the Hospital's authorization and approval process of disbursements while reducing some of the difficulties and problems associated with the implementation of the policy.

**Management Response:**

**Management will recommend the following policy changes:**

- **Require at least one manual signature for amounts exceeding a predetermined threshold.**

- **Establish a strict list of exceptions to the manual signature requirement for normal and recurring monthly disbursements.**

- **Add a third signatory to the current approved list.**

**Status:**

**In process.** The Hospital did add a third signatory to the current approved list during the year but we do not feel the issue is resolved as a result of this change. Management indicates that a policy has been drafted to address the matters mentioned above, but that it has not finalized a listing of exception in conjunction with the policy or agreed upon a threshold dollar amount. Management indicated that the Hospital would implement the policy in the near future.

**2008 - M2 Accounts Receivable Allowances for Satellites and Clinics**

**Observation:**

The Hospital does not review and adjust allowance for doubtful accounts and contractual allowances regularly for satellites and clinics.

**Recommendation:**

The Hospital should review the adequacy of the allowance during the year and appropriately adjust the allowance. This can be done by conducting an overall evaluation of the accounts and reviewing the success rate of collection efforts. These efforts should minimize the need for a year-end adjustment of this account as well as improve the accuracy of interim financial statements.

**Management Response:**

**Management concurs with this recommendation and will proceed with analysis of payments to establish proper allowances for accounting purposes.**

**Status:**

**In process.** Management is in the process of implementing the recommendations.

**2008 - M3 Accrued Paid Time Off**

**Observation:**

The Hospital does not have a policy which limits the amount of paid time off an employee can accumulate. Our audit disclosed that many employees have accrued several months of vacation time. This could cause cash flows difficulties upon the termination of certain employees.

**Recommendation:**

We recommend that the Hospital develop a policy which will limit the amount of paid time off an employee can accrue.

**Management Response:**

**Management concurs with recommendation and will establish a policy to cap PTO accruals.**

**Status:**

**In process.** Management has a policy but it is not strictly enforced, Management will review this issue and develop a strategy for this problem.

**2008 – M4 Outstanding Checks**

This comment involved old outstanding checks that had been reclassified as payables, and other amounts related to prior years' refunds to third party payors and former patients and had been replaced by comment **2010 – M3.**

**2007 - M1 Accounts Receivable Aging**

**Observation:**

Our audit disclosed that the Women Health Clinic's (WHC) computer system is not able to produce the reports needed in order to appropriately analyze account receivable. The WHC was not able to produce an aged account receivable detail which is necessary to effectively analyze and estimate an allowance for doubtful accounts.

**Recommendation:**

We recommend that policies and procedures be adopted, which will require all clinics to provide the Hospital accounting staff with an aged accounts receivable detail monthly.

**Management Response:**

**Management has received consultant report on employed physician practices and will be instituting recommendations in a timely manner.**

**Status:**

**In process.**

## APPENDIX

## MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF INTERNAL CONTROL

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

**Management's Responsibility:**

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

**Objectives:**

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

**Limitations:**

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

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

Audits of Financial Statements

May 31, 2010 and 2009

## Contents

LaPorte Sehrt
Romig Hand
Certified Public Accountants

**Independent Auditor's Report**

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

We have audited the accompanying basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the years ended May 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of May 31, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



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In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2010, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be read in conjunction with this report in considering the results of our audit.

The Hospital has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 26, 2010

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Balance Sheets**
**May 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 697,342 | $ 962,761 |
| Patient accounts receivable, less allowance for uncollectible accounts of $2,695,806 in 2010 and $1,530,419 in 2009, respectively | 5,287,434 | 4,035,421 |
| Inventories | 564,694 | 561,327 |
| Designated cash and investments required for current liabilities | 52,404 | 435,865 |
| Prepaid expenses and other assets | 355,148 | 495,601 |
| **Total current assets** | 6,957,022 | 6,490,975 |
| **Non-current assets** | | |
| Designated cash and investments | 314,938 | 492,428 |
| Investment in affiliate | - | 204,112 |
| Amounts due from physicians, net of allowance for uncollectible accounts of $146,236 in 2010 and $175,538 in 2009, respectively | 16,667 | 33,333 |
| Debt issue costs | 306,457 | 306,457 |
| Capital assets, net of accumulated depreciation of $34,980,001 in 2010 and $34,071,804 in 2009, respectively | 11,047,437 | 6,708,318 |
| **Total non-current assets** | 11,685,499 | 7,744,648 |
| **Total assets** | $ 18,642,521 | $ 14,235,623 |

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

| | 2010 | 2009 |
|---|---|---|
| **Liabilities and net assets** | | |
| **Current liabilities** | | |
| Accounts payable | **$ 2,520,441** | $ 2,593,527 |
| Employee compensation and payroll tax liabilities | **855,804** | 941,327 |
| Other accrued liabilities | **699,224** | 658,029 |
| Settlements due to third-party payors | **753,578** | 680,828 |
| Current portion of capital lease obligations | **349,006** | 38,558 |
| Current portion of long-term debt | **253,842** | 1,135,865 |
| **Total current liabilities** | **5,431,895** | 6,048,134 |
| **Non-current liabilities** | | |
| Capital lease obligations, less current portion | **843,716** | 271,348 |
| Long-term debt, less current portion | **9,450,393** | 5,707,306 |
| **Total non-current liabilities** | **10,294,109** | 5,978,654 |
| **Total liabilities** | **15,726,004** | 12,026,788 |
| **Net assets** | | |
| Invested in capital assets, net of related debt | **4,842,321** | 4,873,561 |
| Restricted net assets | **242,342** | 678,293 |
| Unrestricted net assets | **(2,168,146)** | (3,343,019) |
| **Total net assets** | **2,916,517** | 2,208,835 |
| ***Total liabilities and net assets*** | **$ 18,642,521** | $ 14,235,623 |

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

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Statements of Revenues, Expenses and Changes in Net Assets**
**For the Years Ended May 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **Operating revenue** | | |
| Net patient service revenues, net of provision for bad debts of $4,016,314 in 2010 and $2,609,550 in 2009 | $ 20,783,274 | $ 19,822,882 |
| Other operating revenue | 1,130,996 | 1,083,479 |
| **Total operating revenue** | 21,914,270 | 20,906,361 |
| **Operating expenses** | | |
| Salaries and benefits | 10,881,520 | 10,052,860 |
| Outside services | 4,107,388 | 3,805,366 |
| Medical supplies and drugs | 3,161,874 | 2,959,972 |
| Other operating expenses | 2,114,457 | 2,439,367 |
| Other supplies | 250,303 | 281,236 |
| Depreciation and amortization | 908,197 | 869,827 |
| Insurance | 378,300 | 449,683 |
| Interest | 440,638 | 511,506 |
| **Total operating expenses** | 22,242,677 | 21,369,817 |
| **Loss from operations** | (328,407) | (463,456) |
| **Non-operating revenue** | | |
| Investment earnings | 14,321 | 38,902 |
| Ad Valorem tax revenue | 715,819 | 653,494 |
| Casualty Gain - hail damage insurance proceeds | - | 165,379 |
| Grant revenue | 275,160 | 20,165 |
| Contributions | 30,789 | 7,629 |
| **Total non-operating revenue** | 1,036,089 | 885,569 |
| **Change in net assets** | 707,682 | 422,113 |
| **Net assets** | | |
| Beginning of year | 2,208,835 | 1,786,722 |
| End of year | $ 2,916,517 | $ 2,208,835 |

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

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Statements of Cash Flows**
**For the Years Ended May 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from patients and third-party payors | $ 20,951,216 | $ 21,121,250 |
| Payments to employees and for employee-related costs | (10,967,043) | (9,932,883) |
| Payments for operating expenses | (9,912,705) | (12,010,217) |
| **Net cash provided by (used in) operating activities** | 71,468 | (821,850) |
| **Cash flows from capital and related financing activities** | | |
| Purchases of property, building and equipment | (4,360,210) | (1,070,002) |
| Payments on capital lease obligations | (219,290) | (653,774) |
| Payments on note payable and long-term debt | (1,574,110) | (392,940) |
| Proceeds from insurance settlement | - | 165,379 |
| Increase in debt issue costs | - | (214,815) |
| Interest expense paid | (409,516) | (491,822) |
| **Net cash used in capital and related financing activities** | (6,563,126) | (2,657,974) |
| **Cash flows from non-capital financing activities** | | |
| Ad Valorem taxes received | 715,819 | 653,494 |
| Proceeds from hospital revenue bonds | 5,012,394 | 4,643,050 |
| Proceeds from certificates of indebtedness | - | 700,000 |
| Payments on certificates of indebtedness | (577,220) | (2,000,000) |
| Grants received | 215,160 | 20,165 |
| Contributions received | 30,789 | 7,629 |
| Interest expense paid | (20,000) | (20,000) |
| **Net cash provided by non-capital financing activities** | 5,376,942 | 4,004,338 |
| **Cash flows from investing activities** | | |
| Decrease (increase) in designated cash and investments, principally restricted cash and equivalents | 560,952 | (115,692) |
| Proceeds from sale of investment in affiliate | 274,024 | - |
| Investment income received | 14,321 | 38,901 |
| **Net cash provided by (used in) investing activities** | 849,297 | (76,791) |
| **(Decrease) increase in cash and cash equivalents** | (265,419) | 447,723 |
| **Cash and cash equivalents** | | |
| Beginning of year | 962,761 | 515,038 |
| End of year | $ 697,342 | $ 962,761 |

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

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Statements of Cash Flows (Continued)**
**For the Years Ended May 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities** | | |
| Loss from operations | $ (328,407) | $ (463,456) |
| Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities | | |
| Depreciation and amortizaton | 908,197 | 869,827 |
| Interest expense paid | 429,516 | 511,506 |
| Provision for uncollectible accounts | 4,016,314 | 2,609,550 |
| Loss on disposal of capital assets | - | 54,434 |
| Loss on sale of investment in affiliate | 12,097 | - |
| Changes in: | | |
| Patient accounts receivable | (5,268,327) | (3,325,621) |
| Inventories, prepaid expenses and other assets | 153,752 | 599,339 |
| Investment in affiliate | 204,112 | - |
| Third-party payor settlements | 72,750 | 876,526 |
| Accounts payable | (73,086) | (1,563,650) |
| Employee compensation, payroll taxes, and other accrued liabilities | (55,450) | (990,305) |
| **Net cash provided by (used in) operating activities** | $ 71,468 | $ (821,850) |
| | | |
| **Supplemental disclosure of non-cash financing and investing activities** | | |
| Capital lease obligations incurred for acquisition of equipment | $ 887,106 | $ 333,852 |

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

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

### Reporting Entity

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

### Use of Estimates

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

### Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. As a governmental entity, the Hospital also follows certain accounting and disclosure requirements promulgated by the GASB.

### Cash and Cash Equivalents

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

### Capital Assets

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

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

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

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

**Cost of Borrowing**
Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest costs allocated to building and construction in progress was $58,158 and $-0-, for the years ended May 31, 2010 and 2009, respectively.

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

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

**Net Assets**
Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 6. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**Operating Revenues and Expenses**
The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues, when present. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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

**Compensated Absences**
The Hospital's employees earn paid time off (PTO) at varying rates depending upon length of service and other factors. Amounts earned, but not yet used totaled $524,217 and $660,027, as of May 31, 2010 and 2009, respectively. These amounts are reported as a component of *employee compensation and payroll tax liabilities* on the Hospital's balance sheets.

**Risk Management**
The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the four preceding years.

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

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

Investments in debt and equity securities, when present, are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenue when earned. Unrealized gains (losses) reflected in investment income were not significant in 2010 and 2009.

Investments in associated companies are accounted for by the equity method of accounting under which the Hospital's share of the net income of the associated companies is recognized as income in the Hospital's statements of revenue, expenses and changes in net assets and are added to the investment account. In October 2009, the Hospital sold their interests in a company that operates a home health agency, discussed in Note 13.

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

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

### Net Patient Service Revenue

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

### Charity Care

The Hospital provides care without charge, or at amounts less than established rates, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone ($99,344 in 2010, and $39,340 in 2009, respectively) for services and supplies furnished under its charity care policy.

## Note 2. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Hospital's provision for bad debts is classified as a reduction to net patient service revenue. During the years ended May 31, 2010 and 2009, approximately 75% and 76% respectively, of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

The Hospital is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Hospital.

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

## Note 2. Net Patient Service Revenue (Continued)

As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Settlements through May 31, 2006, for the Medicare program and through May 31, 2005, for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates. These adjustments resulted in an increase in net patient service revenue of $17,924 in 2010, and a decrease in net patient service revenue of $31,303 in 2009, respectively. The effect of any adjustments that might be made to cost reports still subject to review will be reported in the Hospital's financial position or results of operations as such determinations are made.

The Hospital receives payments from the Louisiana State Department of Health and Hospitals for Medicaid and self-pay uncompensated care service costs. The Hospital receives interim amounts each October that are appropriated in the State's current fiscal year based on an estimate utilizing the facility's costs incurred in the previous fiscal year. The Hospital recognized interim amounts of $2,285,376 and $2,184,876, in the fiscal years ended May 31, 2010 and 2009, respectively.

Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid in each fiscal year. Any overpayments will be recouped by Medicaid. The Hospital recognized an adjustment of fiscal year ended May 31, 2008 Uncompensated Care funding of $670,301, which resulted in a decrease of net patient service revenue in the fiscal year ended May 31, 2009. The Hospital has not made any provisions for any further such recoupments. Management contends that interim amounts paid reasonably estimate the settlement. To the extent managements' estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

## Note 3. Deposits and Investments

Louisiana state statutes authorize the Hospital to invest in direct obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal office in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

In 2006, the Hospital adopted GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, which requires additional disclosures of investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Hospital are reflected below.

### Interest Rate Risk

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

**Note 3. Deposits and Investments (Continued)**

**Credit Risk**
Louisiana's statutes also require that all the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's bank deposits consist of demand deposit accounts and certificates of deposit. These bank deposits are included in cash and cash equivalents and designated cash, and, as of May 31, 2010, the Hospital's deposits were fully insured or collateralized with securities held by the agent of the pledging banks in the Hospital's name. Statutes authorize the Hospital to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and bankers' acceptances.

**Concentration of Credit Risk**
The Hospital places no limit on the amount it may invest in any one issuer. At May 31, 2010, the Hospital's invested funds consisted of certificates of deposit included in cash and cash equivalents. The Hospital maintained deposits in one financial institution in excess of FDIC insurance limits, however, as discussed above, the funds were covered by collateral held by the financial institution in the Hospital's name.

As of May 31, 2010 and 2009, all of the Hospital's deposits and short-term investments were considered cash and cash equivalents and are included in the Hospital's balance sheets as follows for May 31st:

| | 2010 | 2009 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 697,342 | $ 962,761 |
| Designated cash and equivalents required for current liabilities | 52,404 | 435,865 |
| **Non-current assets** | | |
| Designated cash and equivalents | 314,938 | 492,428 |
| | $ 1,064,684 | $ 1,891,054 |

## Note 4. Designated Cash and Investments

The terms of the Hospital's 1997 and 2008 Revenue Bonds require funds to be maintained on deposit in certain accounts with the trustee (see Note 6). The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the bond resolution. In addition, the Hospital's Board of Commissioners has designated certain assets to be used for future expansion and equipment additions. The composition of assets whose use is limited as of May 31, 2010 and 2009, was as follows:

| | 2010 | 2009 |
|---|---|---|
| By board for specific purposes | | |
| Certificates of deposit | $ 125,000 | $ 250,000 |
| Trusteed funds (principally interest bearing cash and certificates of deposits) | | |
| Debt service fund | 1,981 | 40,117 |
| Debt service reserve fund | 40,642 | 478,327 |
| Litigation reserve fund | 51,500 | 51,500 |
| Depreciation reserve fund | 148,219 | 108,349 |
| | 242,342 | 678,293 |
| **Total designated cash and investments** | 367,342 | 928,293 |
| Less: amount required for current liabilities | (52,404) | (435,865) |
| **Non-current designated cash and investments** | $ 314,938 | $ 492,428 |

## Note 5. Capital Assets

Capital assets activity as of and for the year ended May 31, 2010, is as follows:

| | May 31, 2009 | Additions | Transfers and Disposals | May 31, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 341,296 | $ - | $ - | $ 341,296 |
| Construction in progress | 238,200 | 4,253,669 | (1,053,196) | 3,438,673 |
| **Total capital assets, not being depreciated** | 579,496 | 4,253,669 | (1,053,196) | 3,779,969 |
| Capital assets, being depreciated | | | | |
| Land improvements | 625,500 | - | - | 625,500 |
| Buildings | 15,176,295 | 26,349 | 55,495 | 15,258,139 |
| Equipment | 24,398,831 | 967,298 | 997,701 | 26,363,830 |
| **Total capital assets, being depreciated** | 40,200,626 | 993,647 | 1,053,196 | 42,247,469 |
| Less: accumulated depreciation | (34,071,804) | (908,197) | - | (34,980,001) |
| Total capital assets, being depreciated, net | 6,128,822 | 85,450 | 1,053,196 | 7,267,468 |
| **Hospital capital assets, net** | $ 6,708,318 | $ 4,339,119 | $ - | $ 11,047,437 |

## Note 5. Capital Assets (Continued)

Capital assets activity as of and for the year ended May 31, 2009, is as follows:

| | May 31, 2008 | Additions | Transfers and Disposals | May 31, 2009 |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 272,384 | $ 76,740 | $ (7,828) | $ 341,296 |
| Construction in progress | 444,464 | 726,883 | (933,147) | 238,200 |
| **Total capital assets, not being depreciated** | 716,848 | 803,623 | (940,975) | 579,496 |
| Capital assets, being depreciated | | | | |
| Land improvements | 625,500 | - | - | 625,500 |
| Buildings | 14,426,991 | 15,051 | 734,253 | 15,176,295 |
| Equipment | 23,781,501 | 585,179 | 32,151 | 24,398,831 |
| **Total capital assets, being depreciated** | 38,833,992 | 600,230 | 766,404 | 40,200,626 |
| Less: accumulated depreciation | (33,322,114) | (869,827) | 120,137 | (34,071,804) |
| Total capital assets, being depreciated, net | 5,511,878 | (269,597) | 886,541 | 6,128,822 |
| **Hospital capital assets, net** | $ 6,228,726 | $ 534,026 | $ (54,434) | $ 6,708,318 |

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

## Note 6. Long-Term Liability and Subsequent Refinancing Activity

Long-term liability activity as of and for the years ended May 31, 2010 and 2009, was as follows:

| | May 31, 2009 | Additions | Reductions | May 31, 2010 | Due Within One Year | Long-Term Portion |
|---|---|---|---|---|---|---|
| **Bonds payable and capital leases** | | | | | | |
| Hospital revenue bonds, Series 1997 | $ 1,524,851 | $ - | $ (1,524,851) | $ - | $ - | $ - |
| Hospital revenue bonds, Series 2008A | 4,618,320 | - | (49,259) | 4,569,061 | 52,404 | 4,516,657 |
| Hospital revenue bonds, Series 2009 | - | 5,012,394 | - | 5,012,394 | 78,658 | 4,933,736 |
| Certificate of indebtedness, Series 2009 | 700,000 | - | (577,220) | 122,780 | 122,780 | - |
| Capital lease obligations | 309,906 | 1,102,106 | (219,290) | 1,192,722 | 349,006 | 843,716 |
| Total bonds payable and capital leases | $ 7,153,077 | $ 6,114,500 | $ (2,370,620) | $ 10,896,957 | $ 602,848 | $ 10,294,109 |

| | May 31, 2008 | Additions | Reductions | May 31, 2009 | Due Within One Year | Long-Term Portion |
|---|---|---|---|---|---|---|
| Bonds payable and capital leases | | | | | | |
| Hospital revenue bonds, Series 1997 | $ 1,892,361 | $ - | $ (367,510) | $ 1,524,851 | $ 387,237 | $ 1,137,614 |
| Hospital revenue bonds, Series 2008A | - | 4,643,050 | (24,730) | 4,618,320 | 48,628 | 4,569,692 |
| Certificate of indebtedness, Series 2007 | 2,000,000 | - | (2,000,000) | - | - | - |
| Certificate of indebtedness, Series 2009 | - | 700,000 | - | 700,000 | 700,000 | - |
| Capital lease obligations | 629,830 | 333,852 | (653,776) | 309,906 | 38,558 | 271,348 |
| Total bonds payable and capital leases | $ 4,522,191 | $ 5,676,902 | $ (3,046,016) | $ 7,153,077 | $ 1,174,423 | $ 5,978,654 |

Long-term debt as of May 31, 2010 and 2009, consisted of the following:

| | | 2010 | 2009 |
|---|---|---|---|
| Hospital revenue bonds, Series 1997 | (A) | $ - | $ 1,524,851 |
| Hospital revenue bonds, Series 2008A | (B) | 4,569,061 | 4,618,320 |
| Hospital revenue bonds, Series 2009 | (C) | 5,012,394 | - |
| Revenue anticipation notes, Series 2009 and prior | (D) | 122,780 | 700,000 |
| Capital lease obligations | (E) | 1,192,722 | 309,906 |
| | | 10,896,957 | 7,153,077 |
| Less: current maturities | | (602,848) | (1,174,423) |
| | | $ 10,294,109 | $ 5,978,654 |

**Note 6. Long-Term Liability and Subsequent Refinancing Activity (Continued)**

Long-Term Debt Details

(A) The Hospital Revenue Bonds, Series 1997, were term bonds with an annual interest rate of 5.24%. Payment of the scheduled principal and interest on these bonds was due in monthly installments of $38,159. The 1997 Revenue Bonds were obligations of the Hospital secured by a pledge of the Hospital's revenue. Under the terms of the bond indenture, the Hospital was required to maintain, among other provisions, a specified minimum debt service coverage ratio. The Hospital was in compliance with the specified debt service coverage ratio as of May 31, 2010. The Series 1997 bonds were refunded on November 3, 2009, upon issuance of the Bond Anticipation Note, Series 2009 as detailed below.

(B) As a component of its plan for physical plant improvements, other capital assets acquisition, and overall financial restructuring, on September 26, 2008, the Hospital issued a Taxable Hospital Revenue Bond (USDA-90% Guaranteed), Series 2008A in the amount of $4,643,050 as authorized by a resolution enacted September 24, 2008. The bond matures September 26, 2037 and is secured by (i) an irrevocable pledge and assignment of the net revenues (as defined in the bond resolution) of the Hospital; (ii) a first mortgage on the Hospital; and (iii) a first security interest in equipment (as defined in the Bond Resolution). The pledge of net revenues was subject to the lien of the existing outstanding debt obligations detailed above prior to the refunding of those obligations in November 2009. The bond is guaranteed by the United States Department of Agriculture-Rural Development-Business and Cooperative Programs at a rate of 90% of the principal and interest of any loss that might occur, subject to stipulated conditions. The proceeds from the issuance are being used to settle certain existing accounts payable, accrued expenses and capital lease obligations of the Hospital. Terms of scheduled repayment require a total of 348 payments due on the first of each month. Payments begin October 1, 2008 and are currently scheduled in the amount of $32,767. The issue bears interest at a fixed rate of 7.5% through October 1, 2014. Beginning October 2, 2014, the interest rate will switch to a variable rate and the amount of the monthly payments will be adjusted as required. The Bond is subject to optional redemption by the Hospital at redemption processes and dates as defined in the bond resolution.

The bond resolution contains a number of restrictive covenants including a 1.2 to 1.0 current ratio, and a debt to tangible net worth of the Hospital not to exceed 9.0 to 1.0 ratio as determined in accordance of Generally Accepted Accounting Principles. As of May 31, 2010, the Hospital was in compliance with all of the restrictive covenants included in the bond resolution.

(C) The Hospital anticipates to issue $7,874,000 of additional parity bonds (Series B Bonds) to be purchased directly by the United States Department of Agriculture Rural Development-Community Facilities Program for the purposes of constructing and acquiring improvements, extensions and replacements to facilities and the advance refunding of existing long-term debt obligations. Interim financing obligations in anticipation of the Series B issuance will also be issued on a parity with the Series A issue.

## Note 6. Long - Term Liability and Subsequent Refinancing Activity (Continued)

Long-Term Debt Details (Continued)

The Hospital board passed resolutions to issue $7,874,000 of Bond Anticipation Notes, Series 2009 (the Notes) to provide the interim financing prior to the issuance of the Series B Bonds described in the preceding paragraph. These Notes will be utilized for the purposes stated above and will be retired upon the issuance of the Series B Bonds; currently anticipated in November 2010. The first Note Issuance was on November 3, 2009 in the amount of $1,230,000 and was used to refund, in their entirety, the Series 1997 Hospital Revenue Bonds, detailed in (A) above, and pay other project related costs. As of May 31, 2010, the Notes issued totaled $5,012,394. The Notes bear interest at a variable rate, which shall accrue and become payable at maturity. The Notes are subject to mandatory redemption upon issuance of the Series B Bonds.

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

As of May 31, 2010 and 2009, the Hospital had capitalized $306,457, for debt issue costs in connection with the issuance of the debt obligations. Amortization of these costs is anticipated to begin upon issuance of the Series B Bonds.

(D) The Hospital adopted a resolution during February 2009, issuing $700,000 of certificates of indebtedness (revenue anticipation notes), Series 2009, dated February 5, 2009, secured by and payable from a pledge of all revenues accruing to the Hospital for the calendar year ending December 31, 2009. The obligation matures June 1, 2010. The previous (Series 2008) $2,000,000 obligations matured and were retired during the fiscal year ended May 31, 2009. The 2008 issue bore interest at 6.00% per annum. The interest per annum on the 2009 issue will not exceed 8.00% per annum and is payable upon maturity.

(E) The Hospital entered into capital leases for various types of equipment. Under the terms of the leasing arrangements, the Hospital is obligated to pay a monthly rental payment over the primary terms of the leases, which initially ranged from three to seven years.

On May 27, 2010, the Hospital adopted a resolution for incurring of debt and issuance of $1,500,000 of Certificate of Indebtedness, Series 2010. The proceeds from the issuance will be used for the purpose of paying Hospital current expenses including cost of operation and maintenance of Hospital facilities. The issue bears interest at a fixed rate of 4% and matures May 1, 2011. As of May 31, 2010, there was a $-0- balance on the issuance. In June 2010, the Hospital drew the entire $1,500,000.

## Note 6. Long-Term Liability and Subsequent Refinancing Activity (Continued)

Long-term debt principal and interest maturities, inclusive of capital leases, as of May 31, 2010, are as follows:

| Year ending May 31: | Principal | Interest |
|---|---|---|
| 2011 | $ 602,848 | $ 546,672 |
| 2012 | 414,947 | 609,161 |
| 2013 | 441,335 | 582,773 |
| 2014 | 469,532 | 554,576 |
| 2015 | 348,360 | 529,474 |
| Thereafter | 8,619,935 | 6,473,739 |
| **Total** | $ 10,896,957 | $ 9,296,395 |

The scheduled debt service of the Series B bonds is currently unknown, the maturities reflected above are expected to reasonably approximate future principal and interest debt service requirements.

The future minimum rental commitments payable as if May 31, 2010, on capital lease obligations are as follows:

| Year ending May 31: | Amount |
|---|---|
| 2011 | $ 416,567 |
| 2012 | 271,584 |
| 2013 | 271,584 |
| 2014 | 271,584 |
| 2015 | 125,310 |
| Thereafter | 21,205 |
| **Total minimum lease payments** | 1,377,834 |
| Less: amount representing interest | (185,112) |
| **Present value of minimum lease payments** | $ 1,192,722 |

During the year ended May 31, 2009, the Hospital used a portion of the proceeds of the Series 2008A bond issuance to acquire a substantial amount of equipment that was previously held under capital lease obligations. The cost of all leased assets included under the equipment caption on the balance sheet totaled $1,220,958 and $333,852, at May 31, 2010 and 2009, respectively. The related accumulated amortization was $227,299 and $31,795 at May 31, 2010 and 2009, respectively.

The Hospital has also entered into various cancelable operating leases for equipment. Operating lease expense was approximately $101,354 and $169,497, for the years ended May 31, 2010 and 2009, respectively.

## Note 7. Employee Retirement Plans

The Hospital sponsors two pension plans. Under the provisions of the Hospital's pension plan documents, the Hospital is required to contribute 7.5% of the eligible employee's salary and 7.5% of the non-eligible employee's salary annually. The plans provide for the contributions (and interest allocated to the employee's account) to become partially vested after three years of continuous employment and fully vested after seven years of continuous employment.

The unvested portion of an account of an employee who terminates employment before becoming fully vested is used to reduce the Hospital's current year contribution. The Hospital's required contribution was $636,353 for 2010, and $606,382 for 2009.

Contributions made during the periods for the plans discussed above were $606,382 and $1,690,821, in 2010 and 2009, respectively. The Hospital's contribution payable related to the plan of $636,353 and $606,382 at May 31, 2010 and 2009, respectively, is included in accounts payable and accrued expenses on the accompanying balance sheets. Total payroll for all employees was $9,214,802 and $8,714,619, for the years ended May 31, 2010 and 2009, respectively. Substantially all employees of the Hospital are covered by the plan discussed above.

The Hospital established the Morehouse General Hospital Tax Deferred Savings Plan. This plan, which qualifies as a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code, covers all employees who elect to participate. The plan allows participants to defer a portion of their annual compensation. The amount of annual contributions to the plan by participants is subject to certain limitations as defined in the plan agreement. The participants vest 100% immediately in their contributions and investment earnings of the plan. The plan agreement allows discretionary employer contributions to be made to the plan. No employer contributions were made during the years ended May 31, 2010 and 2009.

Retirement expense, net of forfeitures, related to the above plans included in salaries and benefits in the accompanying statements of revenues, expenses, and changes in net assets was $636,353 and $606,382, for the years ended May 31, 2010 and 2009, respectively.

## Note 8. Commitments and Contingencies

The Hospital is a defendant in a number of legal actions arising in the ordinary course of business. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Hospital's financial statements. The Hospital has been named a defendant in lawsuits alleging medical malpractice. Since November 1, 2002, the Hospital has been self-insured for individual claims up to $100,000. For individual malpractice claims in excess of $100,000, the Hospital participates in the State of Louisiana Patient Compensation Fund (the "Fund"). The Fund provides malpractice insurance coverage on a claims-made basis for claims up to the statutory maximum exposure of $500,000, which currently exists under Louisiana law, plus interest and future medical costs. The Hospital has purchased additional malpractice insurance providing coverage up to $900,000 in the aggregate.

**Note 8. Commitments and Contingencies (Continued)**

The Hospital has purchased commercial insurance that provides first-dollar coverage for workers' compensation claims and health insurance claims.

**Note 9. Government Regulations**

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, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years.

Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, 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.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Hospital. Federal health care reform legislation proposals debated in Congress in recent years have included significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or captivated payment arrangements with many, if not all, of the Hospital's principal payors.

It is not possible at this time to determine the impact on the Hospital of government plans to reduce Medicare and Medicaid spending, government implementation of national and state health care reform, or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results, cash flows, and estimated debt service coverage of the Hospital in future years. The Health Insurance Portability and Accountability Act ("HIPAA") was enacted August 21, 1996, to assure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations were required to be in compliance with certain HIPAA provisions beginning in April 2004. Provisions not yet finalized are required to be implemented two years after the effective date of the regulation. Organizations are subject to significant fines and penalties if found to be not compliant with the provisions outlined in the regulations.

## Note 10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables due from patients and third-party payors was as follows for May 31st:

| | 2010 | 2009 |
|---|---|---|
| Medicare | **40%** | 38% |
| Medicaid | **20** | 23 |
| Managed Care | **9** | 12 |
| Self-Pay | **31** | 27 |
| | **100%** | 100% |

## Note 11. Cooperative Endeavor Agreement

Effective May 23, 2006, the Hospital entered into a cooperative endeavor agreement with Morehouse Community Medical Centers, Inc. (MCMCI), a domestic corporation organized under the laws of the State of Louisiana which serves to operate a health center to deliver preventative and primary care to patients regardless of their ability to pay. MCMCI, like the Hospital, was formed for the sole purpose of serving the public interest of providing and delivering healthcare services to the citizens of northeast Louisiana. The considerations exchanged by each entity with the other are asserted to be proportionately equivalent, when the consideration paid is compared to the benefit received. Both the Hospital and MCMCI further show that the consideration paid, and the benefits received by each ultimately inure to the benefit of the public and public interest.

Under the terms of the agreement the Hospital provides human resources and payroll services, general accounting, purchases and material management, and facility and custodial services to MCMCI on a monthly basis in exchange for a monthly reimbursement of $5,196.

Additionally, the Hospital has supplied MCMCI with medical and administrative staffing during its first year of operations. These services were billed to MCMCI at the cost of the individual salaries and related benefits. Finally, two clinic buildings were leased to MCMCI. The facilities used by MCMCI for operation of the pediatric and family medicine clinics are leased from the Hospital for a total combined rental of $26,980 per year. As of May 31, 2010 and 2009, the Hospital had receivables of $226,338, due from MCMCI in connection with this agreement and included as a component of "other assets" on the balance sheet. The agreement was terminated in November 2007 and the Hospital is pursuing payment for the remaining balance from MCMCI. As of May 31, 2010, the Hospital has set up of reserve for the entire outstanding receivable balance.

## Note 12. Property Tax Revenue

In October 2007, the voters of Morehouse Parish, Louisiana approved a five year, five-millage property tax to be levied on the 2007 tax roll on all property subject to taxation by the Morehouse Parish Hospital Service District.

**Note 12. Property Tax Revenue (Continued)**

This important component of the Hospital's fiscal recovery plan is currently estimated to provide annual tax revenues estimated at $673,000 and is to be used by the hospital for operations and maintenance. During fiscal year 2010, the Hospital received property tax revenues in the amount of $715,819.

**Note 13. Investment in Affiliate**

In March of 2007, the Hospital sold the license for its home health unit and received proceeds of $468,750 in connection with the sale. In addition to the cash proceeds, the Hospital received a 25% ownership interest in the newly formed entity, Trucare Home Health LLC (the LLC). The Hospital accounts for this investment under the equity method of accounting. As of May 31, 2009, the Hospital recorded an asset on its balance sheet for its investment interest in the LLC in the amount of $204,112.

In September of 2009, the Hospital acquired an independent valuation of the Hospital's 25% ownership interest in the LLC which was utilized in conjunction with sale of the Hospital's ownership interest in the LLC. The independent valuation determined the fair market value of the Hospital's 25% non-marketable, non-controlling ownership interest in the LLC as of June 30, 2009 to be $239,061. In October of 2009, the Hospital sold their remaining 25% ownership interest for $239,061. In addition, the Hospital was paid $34,961 for the repayment of the loan and interest from the LLC.

**Note 14. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements**

During the year ended May 31, 2010, the Hospital adopted the following new pronouncements issued by the Governmental Accounting Standards Board, which had no significant effect on the Hospital's financial statements:

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* issued July 2007, was effective for the Hospital beginning with its year ending May 31, 2010. This Statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* issued June 2008, was effective for the Hospital with its year ending May 31, 2010. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities.

Statement No. 55, *The Hierarchy of General Accepted Accounting Principles for State and Local Governments*, issued March 2009, was effective for the Hospital with its year ending May 31, 2010. The objective of this statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Statements Board's (GASB) authoritative literature.

## Note 14. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement of Auditing Standards*, issued March 2009, was effective for the Hospital with its year ending May 31, 2010. The objective of the statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants Statements on Auditing Standards.

As of May 31, 2010, the Governmental Accounting Standards Board has issued several statements not yet implemented by the Hospital. The Statements which might impact the Hospital are as follows:

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Hospital with its year ending May 31, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, issued March 2009, will be effective for the Hospital with its year ending May 31, 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued December 2009, will be effective for the Hospital with its year ending May 31, 2013. The objective of this statement is to address issues related to the use of the alternative measurement method and frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

Statement No. 58, *Accounting for Financial Reporting for Chapter 9 Bankruptcies*, issued December 2009, will be effective for the Hospital with its year ending May 31, 2011. The objective of this statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy court confirms (that is, approves) a new payment plan.

Statement No. 59, *Financial Instruments Omnibus*, will be effective for the Hospital with its year ending May 31, 2012. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investments pools for which significant issues have been identified in practice.

The Hospital's management has not yet determined the effect these Statements will have on the Hospital's financial statements.

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report
on Supplementary Information**

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

Our report on our audits of the basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) for the years ended May 31, 2010 and 2009, appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown on pages 26 - 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand
A Professional Accounting Corporation

October 26, 2010



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**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Schedule of Board of Commissioners and Compensation**
**For the Year Ended May 31, 2010**

| Commissioner | Total Paid |
|---|---|
| Mike Wooden (Chairman) | $ 480 |
| Bobby Nugent | 480 |
| Dorothy Thomas | 320 |
| Alfred Twymon | 160 |
| Mike Costello | 80 |
| Nicollette Releford | 80 |
| Dr. Carter Cox | - |
| **Total** | $ 1,600 |

See independent auditor's report on supplementary information.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Schedule of Insurance Coverages**
**For the Year Ended May 31, 2010**

| COVERAGE | MAJOR LIMITS OF LIABILITY | DEDUCTIBLE | POLICY PERIOD | INSURANCE CARRIER | POLICY NUMBER |
|---|---|---|---|---|---|
| **Professional / General Liability** | | | | | |
| Each Occurrence Limit | $1,000,000.00 | $500,000.00 | 11/01/09-11/01/10 | Homeland Insurance Co. of NY | MPP-2671-09 |
| Annual Aggregate Limit | $3,000,000.00 | $500,000.00 | | | |
| Personal & Advertising Injury Limit | $1,000,000.00 | $50,000.00 | | | |
| Products / Completed Operations Aggregate Limit | Included | $50,000.00 | | | |
| Fire Legal Liability | $50,000.00 | $50,000.00 | | | |
| Medical Payments - Off Premises Care | | | | | |
| Per Person | Excluded | | | | |
| Per Accident | Excluded | | | | |
| Retroactive Date: Prof - 11/01/2005 GL - 11/01/2005 | | | | | |
| Physicians: | | | | | |
| Dr. Janos Gouth Retro Date: 1/16/07 | $1M/$3M | $25,000.00 | | | |
| Dr. John Peter Robert, Retro Date: 11/1/08 | $1M/$3M | $25,000.00 | | | |
| Employee Benefits Liability Retro Date: 11/01/07 | $1M/$3M | $1,000.00 | | | |
| Claims Expense inside the Limit of Liability | | | | | |
| **Excess Professional Liability** | | | | | |
| Each Occurrence Limit | N/A | | | | |
| Annual Aggregate Limit | | | | | |
| **Umbrella Policy** | | | | | |
| Excess Professional / General Liability, Auto and Employers' Liability | N/A | | | | |
| Retroactive Date: | | | | | |
| **Directors & Officers Liability** | | | | | |
| Liability Limit (A & B) | $2,000,000.00 | $0/$25,000 | 05/31/09 to 05/31/2010 | Travelers Casualty & Surety Company of America | 104426170D |
| Entity Coverage (C) | Included | $25,000 | | | |
| Employment Practice Liability | $2,000,000 | $50,000 | | | |
| EMTALA Coverage | $250,000.00 | | | | |
| Excess Benefit Transaction Tax | $50,000.00 | | | | |
| Regulatory Action: 25% Coinsurance | $250,000.00 | $100,000 | | | |
| Pending & Prior Proceeding Date: 5/31/2003 | | | | | |
| Continuity Date: 5/31/09 | | | | | |
| **Directors & Officers Liability** *continued* | | | | | |
| HIPAA Violation Coverage | $50,000 | | | | |
| Third Party Liability | EXCLUDED | EXCLUDED | | | |
| Internal Revenue Code Violation | $100,000 | | | | |
| Anti-Trust 25% co-ins. | $2,000,000 | $100,000 | | | |
| **Property Damage** | | | | | |
| Direct Damage / Real and Personal Property | $43,999,328 | $5,000 | 03/01/10-03/01/11 | The American Ins. Co. | DZG80917121 |
| Business Loss of Income | $22,100,000 | $5,000 | | | |
| Extra Expense | $5,000,000 | $5,000 | | | |
| Earthquake | $50,000,000 | $25,000 | | | |
| Flood | Excluded at Main Hospital All Other: $3,598,772 | $25,000 | | | |

See independent auditor's report on supplementary information.

## MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
## (d/b/a MOREHOUSE GENERAL HOSPITAL)
## Schedule of Insurance Coverages (Continued)
## For the Year Ended May 31, 2010

| COVERAGE | MAJOR LIMITS OF LIABILITY | DEDUCTIBLE | POLICY PERIOD | INSURANCE CARRIER | POLICY NUMBER |
|---|---|---|---|---|---|
| **Boiler & Machinery (Equipment Breakdown)** | | | | | |
| Direct Damage / Real and Personal Property | $66,099,328 | $10,000 | 03/01/10-03/01/11 | The American Ins. Co. | DZG80917121 |
| Business Interruption / Extra Expense/Service Interruption | Included | 24 hrs after time of loss or 24 hrs before notice to company, whichever is later | | | |
| Perishable Stock | $10,000,000 | | | | |
| Hazardous Substance | $250,000 | | | | |
| Expediting Expense | Included | | | | |
| Data Restoration | $50,000 | | | | |
| **Automobile and/or Ambulance Liability** | | | | | |
| Liability Limit | $1,000,000 CSL | N/A | 03/04/10-03/04/11 | Fireman's Fund Ins. Co. | MZA80277806 |
| Hired and Non-Owned Liability | $1,000,000 CSL | | | | |
| Medical Payments | $5,000 | | | | |
| Uninsured / Underinsured Motorist | $1,000,000 CSL | | | | |
| **Automobile and/or Physical Damage** | | | | | |
| Comprehensive | ACV | $500 | 03/04/10-03/04/11 | Fireman's Fund Ins. Co. | MZA80277806 |
| Collision | | $500 / Ambulance $1,000 | | | |
| Non-Owned / Hired Car Physical Damage | | $500 | | | |
| Rental Reimbursement | $1,500 for a period of 45 days or less | 24 hour | | | |
| **Crime** | | | | | |
| Employee Theft - A1 | $750,000 | $10,000 | 11/11/09-11/11/11 | Travelers Casualty & Surety Company of America | 105209484 |
| Third Party Liability - A3 | Excluded | Excluded | | | |
| Forgery of Alteration - B | $750,000 | $10,000 | | | |
| Theft, Disappearence & Destruction - C&D | $750,000 | $10,000 | | | |
| Money Orders & Counterfeit Currency - E | Excluded | Excluded | | | |
| Computer Fraud - F1 | $750,000 | $10,000 | | | |
| Funds Transfer - G | $750,000 | $10,000 | | | |
| Claims Expense - I | 5000 | $ - | | | |
| **Fiduciary Liability** | | | | | |
| Liability Limit | $1,000,000 | $ - | 11/11/09-11/11/11 | Travelers Casualty & Surety Co of America | 105209484 |
| **ERISA Fidelity Bond - A2** | | | | | |
| Liability Limit | $500,000 | $ - | 11/11/09-11/11/11 | Travelers Casualty & Surety Co of America | 105209484 |
| **Workers' Compensation & Employers' Liability** | | | | | |
| Employers' Liability | | | | | |
| Each Employee | $1,000,000 | $ - | 1/1/10 - 1/1/11 | LCTA | 19926 |
| Each Accident | $1,000,000 | $ - | | | |
| Policy Limit | $1,000,000 | $ - | | | |
| Experience Mod. - .89 | | | | | |

See independent auditor's report on supplementary information.

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Schedule of Designated Cash and Investment Fund Activity**
**For the Year Ended May 31, 2010**

| | Beginning Balance May 31, 2009 | Series 1997 Bond Deposits | Series 2008 Bond Deposits | Earnings | Withdrawls | Transfers | Ending Balance May 31, 2010 |
|---|---|---|---|---|---|---|---|
| By board for specific purposes: | | | | | | | |
| Certificates of deposit | $ 250,000 | $ - | $ - | $ - | $ (125,000) | $ - | $ 125,000 |
| Trusteed funds (principally interest bearing cash and certificates of deposits): | | | | | | | |
| Debt service fund | 40,117 | 267,113 | - | 23 | (305,272) | - | 1,981 |
| Debt service reserve fund | 478,327 | - | 19,656 | 570 | - | (457,911) | 40,642 |
| Litigation reserve fund | 51,500 | - | - | - | - | - | 51,500 |
| Depreciation reserve fund | 108,349 | 9,540 | 30,000 | 330 | - | - | 148,219 |
| | 678,293 | 276,653 | 49,656 | 923 | (305,272) | (457,911) | 242,342 |
| Total designated cash and investments: | $ 928,293 | $ 276,653 | $ 49,656 | $ 923 | $ (430,272) | $ (457,911) | $ 367,342 |

Notes:
Interest earned from litigation reserve fund is deposited to general fund (hospital revenue fund).
Debt service reserve fund transfers were for debt service in June 2009 and January 2010.
Debt service reserve funds deposits related to Series 2008 Bond requirements consist of 12 deposits of $1,638.35.
Depreciation reserve fund deposits realted to Series 2008 Bond requirements consist of 10 deposits of $2,500.00.

See independent auditor's report on supplementary information.

LaPorte Sehrt
Romig Hand
CERTIFIED PUBLIC ACCOUNTANTS

# 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*

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

We have audited the basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 2010, and have issued our report thereon dated October 26, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting 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 Hospital internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 misstatements on a timely basis.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency. We consider the deficiencies 2010-01 and 2010-02 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.



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A significant 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. However, we believe the significant deficiencies referred above are not material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 did not disclose any instances of non-compliance that is required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management in a separate letter dated October 26, 2010.

This report is intended for the information of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 26, 2010

LAPORTE SEHRT ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

# REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

**Compliance**

We have audited the compliance of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that would have a direct and material effect on each of its major federal programs for the year ended May 31, 2010. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

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 Hospital'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. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2010.



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**Internal Control Over Compliance**

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in an entity's 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Audit Committee, Board of Commissioners, management, Louisiana Department of Health and Human Services, and the Legislative Auditor of the State of Louisiana, and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

October 26, 2010

**MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1**
**(d/b/a MOREHOUSE GENERAL HOSPITAL)**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended May 31, 2009**

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Entity No. | Federal Revenue/ Expenditures Recognized |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Direct Award | | | |
| Business and Industry Guaranteed Loan Program | 10.768 | NA | $ - |
| Community Facilities Loans and Grants Program | 10.766 | NA | 5,012,394 |
| **Total U.S. Department of Agriculture** | | | 5,012,394 |
| **Total Expenditures of Federal Awards** | | | $ 5,012,394 |

CFDA = Catalog of Federal Domestic Assistance

See accompanying notes to schedule of expenditur es of federal awards.

## Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hospital 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.

## Note 2. USDA Business and Industry Guaranteed Loan Program

During the year ended May 31, 2009, the Hospital issued its Series 2008A taxable revenue bond in the amount of $4,643,050. The bond matures September 26, 2037 and is guaranteed by the United States Department of Agriculture-Rural Development-Business and Cooperative Programs at a rate of 90% of the principal and interest for any loss that might occur, subject to stipulated conditions. The proceeds from the issuance are being used to settle certain existing accounts payable, accrued expenses and capital lease obligations of the Hospital.

## Note 3. USDA Community Facilities Loans and Grants Program

The Hospital anticipates issuing $7,874,000 of additional parity bonds (Series B Bonds) to be purchased by the United States Department of Agriculture Rural Development-Community Facilities Program for the purposes of constructing and acquiring improvements, extensions and replacements to facilities and the advance refunding of existing long-term debt obligations. Interim financing obligations in anticipation of the Series B issuance will also be issued on a parity with the Series A issue. As of May 31, 2010, the Notes issued totaled $5,012,394. Expenditures recognized on the schedule of expenditures of federal awards in the amount of $5,012,394 represent the total loan proceeds outstandi ng during the fiscal year ended May 31, 2010.

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

## Schedule of Findings and Questioned Costs

**I. Summary of Independent Auditor's Results**
***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

| | | |
|---|---|---|
| • Material weakness identified? | ____ Yes | X No |
| • Significant deficiency identified that is not considered to be a material weakness? | X Yes | ____ None Reported |
| Noncompliance material to financial statements noted? | ____ Yes | X No |

***Federal Awards***

Internal control over major programs:

| | | |
|---|---|---|
| • Material weakness identified? | ____ Yes | X No |
| • Significant deficiency identified that is not considered to be a material weakness? | ____ Yes | X None Reported |

Type of auditor's report issued on compliance for major programs: Unqualified

| | | |
|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | ____ Yes | X No |

Identification of major programs

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 10.766 | United States Department of Agriculture Community Facilities Loans and Grants Program |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs | $ 300,000 | |
| Auditee qualified as low-risk auditee? | ____ Yes | X No |

## II. Findings Related to the Basic Financial Statements

### 2010 - 01 Segregation of Duties - Purchasing

**Condition:** Our audit disclosed that one individual is responsible for entering purchase orders, receiving inventory, and updating the ledger. This combination of duties represents a concentration of incompatible functions and significantly increases the chance of an error or irregularity going undetected.

**Cause:** The Hospital has a limited budget available to maintain staffing levels to optimize segregation of duties in certain areas.

**Effect:** The condition results in a weakness in the Hospital's internal controls over purchasing, procurement and asset management.

**Recommendation:** We believe these are incompatible functions and suggest that these functions be segregated among other employees to protect the assets of the organization.

**Management Response and Corrective Action:** **We agree with the recommendation but with the limited staff available and other available resources, a complete segregation of duties may not be practical at this time.**

**Status** - IN PROCESS

### 2010 - 02 Allowance for Contractual Adjustments and Doubtful Accounts

**Condition:** While the Hospital has a standard methodology in place to both analyze record allowances for patient receivables on a monthly basis, certain classification errors in aged receivable reports, and a trend to a higher proportion of uninsured payors have necessitated substantial adjustment to those balances at year end.

**Cause:** Controls to insure the accuracy of input data and update of assumptions used in the calculation were not functioning as intended.

**Effect:** The condition results in a weakness in the Hospital's internal controls over financial reporting.

**Recommendation:** The allowance for contractual adjustments and the allowance for doubtful accounts collectively represent the Hospital's estimate of the net realizable value of its patient accounts receivable balances. The allowance for doubtful accounts in particular represents a significant estimation process. While we recognize that the update of collection percentages used in calculations may not be feasible on a monthly basis, we do recommend that management formally review its contractual adjustments and bad debts historical data at least quarterly to determine the proper percentage to be used in establishing the allowances. Over time the collection rate for a particular outstanding balance diminishes. It's a common practice to have a policy that requires that all balances be fully reserved a predetermined length of time has elapsed. Six months is often used by many health care providers. Implementation of such a policy should help to conservatively reflect the balances of patient accounts receivable on the Hospital's balance sheet.

**Management Response and Corrective Action: Contractual adjustment percentages are reviewed on an ongoing basis to best approximate the allowance calculated each month. This analysis is subject to additional review at the CFO level whenever a change in reimbursement is evident; such as change of per diem, base rate for PPS etc. or when we change our rates. We specifically reserved for a buildup in the Cost Report account (which alternatively could have been recorded to receivables allowance) for the outpatient Medicaid payments based on percentage of charges. We recognize the importance of the estimation process in establishment of the bad debt allowance in an attempt to conservatively and adequately reflect receivables at the net realizable value and will continue to monitor the allowances established based on our estimate of collectability. We believe a portion of the balances subject to the allowance provision may be collectible, and plan to continue to aggressively pursue collection of all recoverable balances regardless of age. We will monitor any needed change to our methodology as the mix of payors continues to change.**

## III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

## Schedule of Prior Audit Findings

### 2009 - 01 Segregation of Duties - Purchasing

**Condition:** Our audit disclosed that one individual is responsible for entering purchase orders, receiving inventory, and updating the ledger. This combination of duties represents a concentration of incompatible functions and significantly increases the chance of an error or irregularity going undetected.

**Cause:** The Hospital has a limited budget available to maintain staffing levels to optimize segregation of duties in certain areas.

**Effect:** The condition results in a weakness in the Hospital's internal controls over purchasing, procurement and asset management.

**Recommendation:** We believe these are incompatible functions and suggest that these functions be segregated among other employees to protect the assets of the organization.

**Management Response and Corrective Action: We agree with the recommendation but with the limited staff available and other available resources, a complete segregation of duties may not be practical at this time.**

**Status – This condition has been repeated in the current year as finding 2010-01.**

### 2009 - 02 Compliance with Bond Resolution

**Condition:** We noted that the Hospital was not in compliance with Section 17 of the Bond Resolution relating to the $4,643,050 Series 2008A Hospital Revenue Bonds requiring the maintenance of restrictive covenants including a 1.2 to 1.0 ratio of current assets to current liabilities. Subsequent to year end the Hospital obtained a satisfactory waiver of this instance of noncompliance.

**Cause:** The Hospital maintained the required ratio however, recorded certain unplanned liabilities associated with notification of adjustment of a prior year's receipt of Uncompensated Care funding from the State Medicaid program, and a previously unrecorded final payment associated with a prior year's equipment lease obligation.

**Effect:** The condition results in an instance of noncompliance.

**Recommendation:** We recognize that liabilities such as those described above will arise, but encourage management to continue its efforts to improve liquidity to minimize the impact of such adjustments should they occur, and reduce the potential that these items will lead to difficulties with maintaining compliance with covenants contained in the bond resolution.

**Management Response and Corrective Action: Management fully intends to comply with the requirements of all bond resolutions, but asserts that the unexpected timing of the recognition of the obligations which lead to the noncompliance with the stated ratio was difficult to predict or plan for. Management continues its efforts to increase the liquidity and overall financial position of the Hospital and believes it will be back in compliance with this requirement upon receipt of the current Uncompensated Care funding in November 2009 and the subsequent settlement of these obligations.**

**Status - Resolved**