

FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1
PARISH OF ST. MARY
FRANKLIN, LOUISIANA

SEPTEMBER 30, 2013 AND 2012

FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1

PARISH OF ST. MARY

FRANKLIN, LOUISIANA

SEPTEMBER 30, 2013 AND 2012

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1 - 2
Basic Financial Statements:	
Statement of Net Position	3 - 4
Statement of Revenues, Expenses and Changes in Fund Net Position	5
Statement of Cash Flows	6 - 7
Notes to the Financial Statements	8 - 20
Supplemental Information:	
Patient Service Revenues	21 - 22
Other Operating Revenues	23
Professional Services	24
General and Administrative Expenses	25
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	26 - 27
Schedule of Findings, Questioned Costs and Management's Corrective Action Plan	28 - 30
Schedule of Prior Year Findings	31



INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1
Parish of St. Mary, State of Louisiana
Franklin, Louisiana

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hospital Service District No. 1 Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Police Jury, ("the Hospital"), as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the activities of Hospital Service District No. 1 Parish of St. Mary, State of Louisiana as of September 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

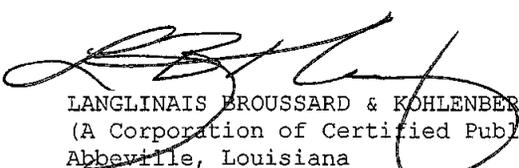
The Hospital has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules identified in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Accounting Standards*, we have also issued our report dated February 27, 2014 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 27, 2014

HOSPITAL SERVICE DISTRICT NO.1
Parish of St. Mary
Franklin, Louisiana

STATEMENT OF NET POSITION

SEPTEMBER 30,

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 4,386,041	\$ 6,494,305
Investments	4,000,198	-
Accounts receivables, less allowance for doubtful accounts of \$2,115,432 in 2013 and \$2,051,843 in 2012	2,453,799	2,966,887
Due from Third Party Payors	431,449	-
Other Receivables	1,794,990	1,862,534
Inventories	742,745	736,497
Prepaid Expenses	<u>297,905</u>	<u>359,592</u>
 Total Current Assets	 <u>14,107,127</u>	 <u>12,419,815</u>
 ASSETS WHOSE USE IS LIMITED:		
By Board	577,425	565,681
By Bond Indenture	<u>333,063</u>	<u>306,033</u>
 Total Assets Whose Use is Limited	 <u>910,488</u>	 <u>871,714</u>
 PROPERTY, PLANT AND EQUIPMENT:		
Property, Plant and Equipment Cost	32,123,220	30,362,732
Less: Accumulated Depreciation	<u>(17,411,215)</u>	<u>(15,938,149)</u>
 Total Property, Plant and Equipment	 <u>14,712,005</u>	 <u>14,424,583</u>
 OTHER ASSETS:		
Start Up Cost (Net)	<u>-</u>	<u>1,199</u>
 Total Other Assets	 <u>-</u>	 <u>1,199</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Financing Costs	<u>41,900</u>	<u>44,836</u>
 Total Deferred Outflows of Resources	 <u>41,900</u>	 <u>44,836</u>
 TOTAL ASSETS	 <u>\$ 29,771,520</u>	 <u>\$ 27,762,147</u>

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

HOSPITAL SERVICE DISTRICT NO.1
Parish of St. Mary
Franklin, Louisiana

STATEMENT OF NET POSITION

SEPTEMBER 30,

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 418,084	\$ 383,322
Accounts payable	951,883	701,177
Due to third party payors	260,271	61,559
Credit balances	96,208	237,340
Interest payable	13,933	14,112
Accrued salaries and related withholdings	552,781	501,516
Accrued vacation and holiday expense	456,064	416,012
	<u>2,749,224</u>	<u>2,315,038</u>
 TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES:		
Revenue Bonds Series 2005	4,337,411	4,415,185
Revenue Refunding Bonds Series 2010	3,353,490	3,846,401
Capital Lease Payable	40,680	-
Total Long-Term Liabilities	<u>7,731,581</u>	<u>8,261,586</u>
	<u>10,480,805</u>	<u>10,576,624</u>
 TOTAL LIABILITIES		
NET POSITION:		
Invested in capital assets, net of related debt	6,562,340	5,779,675
Restricted net position (Expendable)	910,488	871,714
Unrestricted	11,817,887	10,534,134
TOTAL NET POSITION	<u>19,290,715</u>	<u>17,185,523</u>
	<u>\$ 29,771,520</u>	<u>\$ 27,762,147</u>
 TOTAL LIABILITIES AND NET POSITION		

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

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Net Patient Service Revenue before Provision for Doubtful Accounts	\$ 21,000,211	\$ 23,957,458
Provision for Doubtful Accounts	<u>(3,384,293)</u>	<u>(3,412,485)</u>
Net Patient Service Revenue less Provision for Doubtful Accounts	17,615,918	20,544,973
Advalorem Taxes	2,569,554	2,358,843
Other Operating Revenue	<u>342,529</u>	<u>341,461</u>
TOTAL OPERATING REVENUE	<u>20,528,001</u>	<u>23,245,277</u>
OPERATING EXPENSES:		
Professional Services	12,395,984	12,579,725
General and Administrative	7,875,073	8,043,718
Depreciation and Amortization	<u>1,554,661</u>	<u>1,769,676</u>
TOTAL OPERATING EXPENSES	<u>21,825,718</u>	<u>22,393,119</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>(1,297,717)</u>	<u>852,158</u>
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenue	3,795,183	613,572
Gain/Loss on Investments	198	-
Gain/Loss on the Sale of Fixed Assets	(37,225)	-
Interest Income	12,160	8,746
Interest Expense	(370,678)	(413,290)
Other Non-Operating Revenue	<u>3,271</u>	<u>1,033</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>3,402,909</u>	<u>210,061</u>
CHANGE IN NET POSITION	<u>2,105,192</u>	<u>1,062,219</u>
TOTAL NET POSITION, BEGINNING	<u>17,185,523</u>	<u>16,123,304</u>
TOTAL NET POSITION, ENDING	<u>\$ 19,290,715</u>	<u>\$ 17,185,523</u>

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

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Patients	\$ 17,944,708	\$ 20,624,062
Ad Valorem Taxes	2,569,554	2,358,843
Cash Received from Other Sources	189,253	211,384
Cash Payments to Suppliers for Goods and Services	(9,873,173)	(10,933,945)
Cash Payments to Employees for Services	(9,997,977)	(9,605,344)
Net Cash Provided By Operating Activities	<u>832,365</u>	<u>2,655,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES:		
Acquisition of Property and Equipment	(1,960,488)	(732,611)
Proceeds from the Sale of Property and Equipment	82,710	-
Principal Payments on Long-term Debt	(560,852)	(1,829,283)
Proceeds from Borrowing	65,609	-
Interest Payments on Long-term Debt	(373,436)	(413,316)
Grant Income	3,826,433	593,745
Other Non-Operating Income	<u>3,271</u>	<u>1,033</u>
Net Cash Provided By (Used in) Capital and Related Financial Activities	<u>1,083,247</u>	<u>(2,380,432)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Deferred Financing Costs	<u>2,936</u>	<u>2,936</u>
Net Cash Flows Provided By Non-Capital Financing Activities	<u>2,936</u>	<u>2,936</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(4,000,198)	-
Interest Income	<u>12,160</u>	<u>8,746</u>
Net Cash Provided By (Used in) Investing Activities	<u>(3,988,038)</u>	<u>8,746</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,069,490)	286,250
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,366,019</u>	<u>7,079,769</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,296,529</u>	<u>\$ 7,366,019</u>

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

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	\$ (1,297,717)	\$ 852,158
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,554,661	1,769,676
Provision for Doubtful Accounts	3,384,293	3,412,485
Increase in Receivables and Due from/to Third Parties	(3,200,135)	(3,486,128)
Decrease (Increase) in Inventories and Prepaid Expenses	55,439	(234,879)
Decrease (Increase) in Other Assets	(1,199)	41,502
Increase (Decrease) in Accounts Payable and Accrued Expenses	337,023	300,186
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 832,365	\$ 2,655,000

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

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. Hospital Service District No. 1, Parish of St. Mary (the Hospital) was created by Ordinance No. 559 of the Police Jury of St. Mary Parish on September 20, 1950, to operate, control, and manage matters concerning the health care of citizens west and northwest of the Wax Lake Outlet. The Hospital is governed by a board of seven commissioners who are appointed by the St. Mary Parish Council. For this reason, the Hospital is considered to be a component unit of the St. Mary Parish Government, St. Mary Parish, Louisiana.

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

Proprietary fund accounting. The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized using the economic resources measurement focus and the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Inventories. Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment. Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds, if any, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Use of restricted funds are determined by board resolution only.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(cont)

Ad valorem Taxes. The Hospital received approximately 10.7 percent in 2013 and 9.8 percent in 2012 of its financial support from ad valorem taxes. Current taxes are received beginning in December of each year and become delinquent after January 31 of the following year.

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; 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 three preceding years.

Accounting Standards. Pursuant to Governmental Accounting Standards Board (GASB) Statement No.20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Investments in debt and equity securities. Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Net Position. GASB 63 and GASB Codification Section P80, states that net position is equal to assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net position classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds.

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets may be restricted when there are limitations imposed on their use either through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of net position that does not meet the definition of the two preceding categories.

The Hospital first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(cont)

Net patient service revenue. The Hospital has agreements with third-party payors that provide payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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 are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating and Non-operating Revenue. Operating revenue includes net patient revenue, ad valorem taxes, cafeteria and vendor sales, rental income, and other revenues determined by management to be derived from operations of the hospital. Non-operating revenues include grant revenue, interest income and gains or losses not considered to be derived from operations of the hospital.

Grant revenue for the years ended September 30, 2013 and 2012, includes payments from the Louisiana Medicaid Upper Payment Limit program and the Electronic Health Records Incentive Program; the hospital is uncertain as to funding of these programs in future years.

Restricted Resources. Restricted funds may be designated by the board in order to comply with bond covenants, contracts, or other specific purposes. The board of commissioners must authorize use of restricted funds.

Income Taxes. The Hospital is a political subdivision and exempt from taxes.

Advertising. The Hospital expenses advertising costs as incurred.

Environmental Matters. Due to the nature of the Hospital's operations, materials handled could lead to environmental concerns. However, at this time, management is not aware of any environmental matters which need to be considered.

Reclassifications. To be consistent with current year classifications, some items from the previous year have been reclassified with no effect on net assets.

NOTE 2: MAJOR SOURCE OF REVENUE

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Hospital derived approximately 54% and 59% of its gross patient service revenue in 2013 and 2012, respectively, from patients covered by the Medicare and Medicaid programs. The Hospital received Upper Payment Limit (UPL) payments in the amount of \$3,146,928 and \$-0- for 2013 and 2012, respectively. UPL Funds are reported in grant revenue on the Statement of Revenues, Expenses and Changes in Net Position. Included in the net patient service revenue for the year ended September 30, 2012, is additional reimbursement for Medicaid Uncompensated Care Adjustments (UCC) totaling \$1,991,531. Both UPL and UCC funds are subject to audit by the State of Louisiana.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 3: NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare Inpatient services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2010.

Medicaid Inpatient services are reimbursed at a fixed rate per day for medical/surgical patients. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, with certain limitations and exceptions. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports filed by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2010.

The Louisiana Legislature, through the Healthcare Reform Act of 2007 and Act 1 of 2010, tasked the Department of Health and Hospitals (the DHH) to create a new system of care. In response, the DHH reformed its reimbursement methodology for Medicaid patients from a fee-for-service system to the use of a Coordinated Care Network (CCN). During 2011, the DHH enabled certain third-party payor companies to contract with providers under the CCN methodology. The Hospital is currently contracted and enrolled with payors participating in the Coordinated Care Network. The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred-provider organizations. The basis for payment to the Hospital under some of these agreements includes prospectively determined daily rates.

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts, recognized in the period from these major payor sources, is as follows.

Net Patient Service Revenue by Payor before Provision for Doubtful Accounts:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 8,098,707	\$ 8,733,346
Medicaid	1,175,500	6,180,257
All other payors	<u>11,726,004</u>	<u>9,043,856</u>
Total Net Patient Service Revenue Before Provision for Doubtful Accounts	<u>\$ 21,000,211</u>	<u>\$ 23,957,458</u>

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 3: NET PATIENT SERVICE REVENUE (cont)

The following schedule represents total Net Patient Service Revenue:

	2013	2012
Gross Patient Service Revenue	\$ 37,781,912	\$ 39,469,363
Less: Contractual Adjustments	(16,781,701)	(17,503,436)
Add : Medicaid Uncompensated Care	-	1,991,531
Net Patient Service Revenue Before Provision for Doubtful Accounts	21,000,211	23,957,458
Provision for Doubtful Accounts	(3,384,293)	(3,412,485)
Net Patient Service Revenue after Provision For Doubtful Accounts	\$ 17,615,918	\$ 20,544,973

NOTE 4: ACCOUNTS RECEIVABLE - PATIENTS

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with Medicaid, Commercial, and Self-Pay patients, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience and on the age of the receivable balance. The aged balance indicates that third-party claims have reached an age where the probability of payment is low and that self-pay patients are unable or unlikely to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patients Accounts Receivable consists of the following:

	2013	2012
Total Patient Accounts Receivable	\$ 5,940,077	\$ 6,869,067
Less: Allowances for Doubtful Accounts and Contractual Allowances	(3,486,278)	(3,902,180)
Net Patient Accounts Receivable	\$ 2,453,799	\$ 2,966,887

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 5: ACCOUNTS RECEIVABLE - OTHER

Other Accounts Receivable consists of the following:

	2013	2012
Accrued Ad Valorem Tax Revenue	\$ 1,780,860	\$ 1,795,645
All Other	14,130	66,889
Total Accounts Receivable - Other	\$ 1,794,990	\$ 1,862,534

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, by major category, is as follows:

	Asset life in years	Beginning Balance	Additions	Deletions	Ending Balance
Land		\$ 625,739	\$ -	\$ -	\$ 625,739
Land Improvements	5 - 25	865,767	-	-	865,767
Buildings	10 - 40	15,713,490	-	164,665	15,548,825
Fixed Equipment	5 - 25	472,095	-	35,335	436,760
Movable Equipment	5 - 25	12,378,318	500,918	-	12,879,236
Leasehold Improvements	5	26,672	-	-	26,672
Construction in Progress		280,651	1,459,570	-	1,740,221
Total Cost		30,362,732	1,960,488	200,000	32,123,220
Less: Accumulated Depreciation		15,938,149	1,553,466	80,400	17,411,215
Net Property, Plant and Equipment		\$14,424,583	\$ 407,022	\$ 119,600	\$14,712,005

Total depreciation expense for the years ended September 30, 2013 and 2012 is \$1,553,466 and \$1,731,251, respectively. Total amortization expense for the years ended September 30, 2013 and 2012 is \$1,195 and \$38,425, respectively.

Equipment in the amount of \$65,609 is under capital lease for the period ended September 30, 2013. There is no related amortization/depreciation expense recognized for this period.

In January of 2013, the board approved a construction contract in the amount of \$2,650,000 to build a new medical office building. Due to a change order the construction contract was reduced to \$2,515,518. The board is financing this project using operating funds. Funds spent as of September 30, 2013, are included in construction in progress reflected above.

NOTE 7: OPERATING LEASES

The Hospital leases equipment, storage space, and office space through operating leases. Total lease expense for September 30, 2013 and 2012, respectively, for all operating leases was \$171,820 and \$186,252.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 8: LONG TERM DEBT

Long-term debt at September 30, 2013 and 2012, consists of the following:

	2013	2012
Revenue Bonds - face value \$5,000,000, dated September 5, 2007, bearing interest at 4.25%, collateralized by hospital revenue, maturing monthly with the final maturity October 5, 2047.	\$ 4,414,094	\$ 4,488,647
Revenue Refunding Bonds - face value \$6,295,462 April 30, 2010, bearing interest at 4.45%, collateralized by Hospital operating revenue, maturing monthly with the final maturity December 1, 2027.	3,682,262	4,156,261
Capital Lease Payable, dated October 4, 2012, bearing interest of 3.25%, maturing October 4, 2017, with principal due monthly collateralized by lab equipment	53,309	-
	8,149,665	8,644,908
Less: Current Portion	418,084	383,322
Long-Term Portion	<u>\$ 7,731,581</u>	<u>\$ 8,261,586</u>

A summary of long-term debt activity for the year ended is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds 2005	\$ 4,488,647	\$ -	\$ 74,552	\$ 4,414,095
Revenue Bonds 2010	4,156,261	-	474,000	3,682,261
Capital Lease Payable	-	65,609	12,300	53,309
Total	<u>\$ 8,644,908</u>	<u>\$ 65,609</u>	<u>\$ 560,852</u>	<u>\$ 8,149,665</u>

Balance due within one year:

	2013	2012
Revenue Bonds 2005	\$ 76,683	\$ 73,461
Revenue Bonds 2010	328,771	309,861
Capital Lease Payable	12,630	-
Total	<u>\$ 418,084</u>	<u>\$ 383,322</u>

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 8: LONG TERM DEBT (cont)

Scheduled repayments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 418,084	\$ 330,264	\$ 748,348
2015	465,909	324,485	790,394
2016	487,398	304,059	791,457
2017	509,516	282,700	792,216
2018	522,206	260,340	782,546
2019-2023	2,267,502	947,190	3,214,692
2024-2028	639,074	674,926	1,314,000
2029-2033	790,088	523,912	1,314,000
2034-2038	976,788	337,212	1,314,000
2039-2043	<u>1,073,100</u>	<u>107,605</u>	<u>1,180,705</u>
Total	<u>\$ 8,149,665</u>	<u>\$ 4,092,693</u>	<u>\$ 12,242,358</u>

NOTE 9: BOND DEFEASANCE

On April 30, 2010, the Hospital issued \$6,295,462 in Revenue Bonds (Refunding Bonds, Series 2010) with interest rate of 4.45% and annual debt service payments from \$515,052 to \$519,545. These bonds were issued through a current refunding totaling \$6,295,457 of outstanding 2005A Revenue Bonds (R-1 and R-2) bearing interest rates of 7.83% and 6.50%, respectively. The net proceeds were used to immediately refund the Series 2005A Revenue Bonds.

As a result, the 2005A Revenue Bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$51,687. This amount has been amortized and has a net carrying value of \$41,900 and \$44,836 for September 30, 2013 and 2012, respectively, and is reflected on the Statement of Net Position as Deferred Outflows of Resources. It is being amortized over the remaining life of the refunded debt, which has a shorter life than the original bonds. At the time of the current refunding, aggregate debt service payments were reduced by \$1,048,787, and the Hospital obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,313,547. The effective interest rate on the new issue is 4.49%.

NOTE 10: CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2013</u>	<u>2012</u>
Medicare	18%	22%
Medicaid	14	18
Commercial and other third-party payors	<u>68</u>	<u>60</u>
Total	<u>100%</u>	<u>100%</u>

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 11: ASSETS WHOSE USE IS LIMITED

Pursuant to a resolution by the Board of Commissioners of the hospital made in February of 2008, a board-designated plant fund was established to be utilized for replacement of existing capital assets and the purchase of new capital assets.

In relation to the revenue bonds issued on September 7, 2005 with a face value of \$5,000,000, the hospital entered into an agreement with the United States Department of Agriculture to reserve cash funds as follows:

"Borrowers issuing bonds or other evidences of debt pledging facility revenues as a security will plan their reserve to provide for at least an annual reserve payment equal to one-tenth of an average annual loan installment, with payments made monthly and evenly divided between a reserve fund and a depreciation and contingency fund, until an amount equal to the highest annual debt service in any future year is accumulated in the reserve fund..."

In relation to the revenue bonds issued April 30, 2010 with a face value of \$6,295,462, the hospital entered into an agreement with Capital One, N. A., to reserve cash funds as follows:

Debt Service (Sinking) Fund:

"The maintenance of the 'Hospital Revenue Bond Sinking Fund' sufficient in amount to pay promptly and fully the principal of and the interest on the Outstanding Parity Bonds and Bonds, including any pari passu bonds issued hereafter in accordance with Outstanding Parity Bond resolution, as said bonds severally become due and payable by transferring from the Operating fund to the paying agent, monthly in advance ... a monthly amount of moneys sufficient to provide payment of principal and/or interest and premium, if any, on the Outstanding Parity Bonds and Bonds at the time such payment is due...It is not expected that any amounts will remain in the Debt Service Fund after all payments in a Bond Year have been made therefrom."

Reserve Fund:

"The maintenance of the 'St. Mary Parish Hospital Service District No. 1 Reserve Fund', by transferring...monthly in advance...a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund..."

Contingency Fund:

"The maintenance of the 'St. Mary Parish Hospital District Depreciation and Contingency Fund'...by transferring...monthly in advance...a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund...When a sum equal to the Debt Service Reserve Requirement has been accumulated in the Reserve Fund, the monthly payments into the Contingency Fund shall be increased to an amount equal to 10% of the amount being paid monthly into the Sinking Fund said payments to continue over the life of the bonds."

The composition of assets limited as to use at September 30, 2013 and 2012 are set forth in the following table:

	<u>2013</u>	<u>2012</u>
Internally designated for capital acquisitions	\$ 577,425	\$ 565,681
By Bond Indenture	<u>333,063</u>	<u>306,033</u>
Total Assets Whose Use is Limited	<u>\$ 910,488</u>	<u>\$ 871,714</u>

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 12: BANK DEPOSITS AND INVESTMENTS

The Hospital had bank balances as follows:

	2013	2012
Insured (FDIC)	\$ 250,000	\$ 422,268
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	7,746,916	7,746,916
Total	\$ 7,996,916	\$ 8,169,184
 Carrying Value	 \$ 5,457,601	 \$ 7,604,496

The hospital's investment policy states that it must at all times conform to Louisiana R.S. 33:2955, as amended from time to time, which is the main statute that governs investments that local political subdivisions are allowed to make in Louisiana. In addition, Act 264 of the 2012 Regular Session enacted R.S. 46:1073 which allows hospital service districts (as defined in R.S. 46:1072) to invest its funds in the same manner as provided by law for investment of funds of the Louisiana Employees Retirement System (LASERS) including but not limited to R.S. 11:263 (the "prudent man rule"). However, any such investment may be made only in compliance with rules and regulations established by the Hospital's Board of Commissioners and in compliance with the provisions of R.S. 11:263 and any other law which provides for the investment of funds in which the funds of LASERS may be invested.

The hospital's investment policy also states that all investment decisions shall be the responsibility of the Board and that all investment decisions are to be made using reasonable efforts to control risk.

Investments are reported at their fair values in the statement of revenues, expenses, and change in net position. Unrealized gains and losses are included in the change in net position in the statement of revenues, expenses, and changes in net position. Investments consisted of the following as of September 30, 2013:

	2013	
	Cost	Market Value
Federated Prime Obligation Fund, .01% (AAAm/Standard & Poor)	\$ 3,800,000	\$ 3,800,000
 Arkansas ST Dev Fin Auth Econ Dev Revenue Taxable Bonds 1% Maturity 10/01/2015 (A/Standard & Poor)	 200,000	 200,198
	\$ 4,000,000	\$ 4,000,198

There was no balance in investments at September 30, 2012.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 12: BANK DEPOSITS AND INVESTMENTS (cont)

Fair Value of Financial Instruments

FASB Accounting Standards Codification Topic 820, "Fair Value Measurements (Topic 820)." Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements.

These levels are:

Level 1 - inputs are based upon adjusted quoted prices for identical instruments traded in active markets.

Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.

Level 3 - inputs are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

All investments are based on Level 1 inputs. The hospital relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities.

NOTE 13: NET POSITION

Net position for the years ended September 30, are as follows:

	<u>2013</u>	<u>2012</u>
Invested in Capital Assets, net of related debt	\$ 6,562,340	\$ 5,779,675
Restricted for:		
Capital Projects (Expendable)	577,425	565,681
Bond Indenture (Expendable)	333,063	306,033
Unrestricted	<u>11,817,887</u>	<u>10,534,134</u>
Total Net Position	<u>\$ 19,290,715</u>	<u>\$ 17,185,523</u>

NOTE 14: GOVERNING BOARD EXPENSES

The board of commissioners of Hospital Service District No. 1, Parish of St. Mary received no compensation for the years ended September 30, 2013 and 2012.

NOTE 15: CHARITY CARE

The Hospital provides services without charge or at amounts less than its rates to patients who meet the criteria of its charity care policy. The criteria for charity care consider items such as family income, net worth, extent of financial obligations for healthcare services, etc. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported in revenue.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 15: CHARITY CARE (cont)

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges forgone, based on established rates, were approximately \$169,501 and \$18,757 for the years ended September 30, 2013 and 2012, respectively.

Management estimates that approximately \$97,917 and \$12,266 of costs were related to charity care for the years ended September 30, 2013 and 2012, respectively. This estimate is based on a ratio of total cost to gross patient charges applied to gross uncompensated charges associated with providing care to charity patients.

NOTE 16: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. The amendments to the codification requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The Hospital has implemented these amendments for fiscal years ending September 30, 2013 and 2012.

NOTE 17: PRIOR PERIOD ADJUSTMENTS

Beginning net position for the year ended September 30, 2012 has been restated to reflect the recording of deferred financing costs (see Note 9) for the Revenue Refunding Bonds issued in the fiscal year ended September 30, 2010. As a result of the restatement, net deferred financing costs have increased \$44,836, interest expense has increased \$2,935 and unrestricted net position has decreased by \$2,935 for the year ended September 30, 2012. The cumulative effect in the change of net position as of the beginning of the September 30, 2012 fiscal year is an increase \$47,772.

The Governmental Accounting Standards Board (GASB) recently issued *GASBS 65-Items Previously Reported as Assets and Liabilities*. Although the provisions of this statement are effective for financial statements for the periods beginning after December 15, 2012, the hospital has elected to implement these provisions early. GASBS 65 changes the way debt issuance costs are reported - from amortizing over the life of the bond, to expensing in the period incurred. This change in the accounting treatment of debt issuance costs has resulted in a prior period adjustment to the beginning net position for the year ended September 30, 2012. As a result of the restatement, net bond issue costs have decreased by \$85,181, amortization expense has decreased by \$4,107, and unrestricted net position has increased by \$4,107. The cumulative effect in the change of net position as of the beginning of September 30, 2012 as a result of this adjustment is a decrease in net position of \$89,289.

The net effect of the total prior period adjustments is a decrease of \$41,517 in the net position as of the beginning of the fiscal year dated September 30, 2012.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 18: UNCOMPENSATED CARE REVENUE

The Hospital received a disproportionate share payment for uncompensated care for the year ended September 30, 2012. This payment is based upon established uncompensated care cost and is subject to audit by the Louisiana Department of Health and Hospitals. Coverage for uncompensated care is based on the State's fiscal year.

The Medicaid Uncompensated Care Adjustment was replaced by Upper Payment Limit (UPL) funding for the year ended September 30, 2013. UPL funds of \$3,146,928 are recognized in grant revenues on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended September 30, 2013.

NOTE 19: SUBSEQUENT EVENTS

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through February 27, 2014, the date the financial statements were available to be issued.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

SCHEDULE OF PATIENT SERVICE REVENUE FOR THE YEARS ENDED SEPTEMBER 30,

INPATIENT SERVICE REVENUES	2013	2012
Daily Patient Services:		
Room and Board	\$ 2,118,806	\$ 2,468,732
Total	<u>2,118,806</u>	<u>2,468,732</u>
Other Nursing Services:		
Central Supplies	2,666,901	3,055,399
Emergency Service	43,583	28,807
Labor and Delivery	294,462	259,671
Observation	-	517
Operating Room	<u>808,776</u>	<u>926,586</u>
Total	<u>3,813,722</u>	<u>4,270,980</u>
Other Professional Services:		
Anesthesiology	79,731	98,488
Blood	220,570	132,320
Cardiac Rehab	-	2,124
EKG	163,102	183,034
Inhalation Therapy	955,176	981,962
Laboratory	1,079,571	1,168,776
Pharmacy	1,983,852	2,273,401
Physical Therapy	236,270	241,474
Professional Fees	414,607	669,664
Radiology	336,981	438,357
Wound Care	<u>14,233</u>	<u>1,674</u>
Total	<u>5,484,093</u>	<u>6,191,274</u>
TOTAL INPATIENT SERVICE REVENUE	<u>11,416,621</u>	<u>12,930,986</u>

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

SCHEDULE OF PATIENT SERVICE REVENUE FOR THE YEARS ENDED SEPTEMBER 30,

OUTPATIENT SERVICE REVENUES	<u>2013</u>	<u>2012</u>
Other Nursing Services:		
Central Supplies	1,451,650	1,576,419
Emergency Services	5,720,287	4,487,231
Labor and Delivery	1,353	1,524
Observation	37,339	35,811
Operating Room	<u>2,131,129</u>	<u>2,191,035</u>
Total	<u>9,341,758</u>	<u>8,292,020</u>
Other Professional Services:		
Anesthesiology	155,654	172,044
Blood	111,803	47,770
Cardiac Rehab	14,256	22,958
Clinics	3,394,686	3,724,046
EKG	556,008	597,229
Inhalation Therapy	138,513	169,499
Laboratory	5,151,597	5,255,644
Pharmacy	1,586,365	2,153,604
Physical Therapy	348,511	267,025
Professional Fees	541,187	579,367
Radiology	5,003,593	5,257,171
Wound Care	<u>21,360</u>	<u>-</u>
Total	<u>17,023,533</u>	<u>18,246,357</u>
TOTAL OUPATIENT SERVICE REVENUE	<u>26,365,291</u>	<u>26,538,377</u>
GROSS PATIENT SERVICE REVENUE	37,781,912	39,469,363
Less: Contractual Adjustments	<u>16,781,701</u>	<u>17,503,436</u>
Net Patient Service Revenue before Medicaid Uncompensated Care	21,000,211	21,965,927
Medicaid Uncompensated Care	<u>-</u>	<u>1,991,531</u>
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR DOUBTFUL ACCOUNTS	<u>\$ 21,000,211</u>	<u>\$ 23,957,458</u>

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary

Franklin, Louisiana

SCHEDULE OF OTHER OPERATING REVENUES

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2013</u>	<u>2012</u>
Cafeteria and Vendor sales	\$ 153,275	\$ 130,077
Rental Income	108,127	104,738
Other	<u>81,127</u>	<u>106,646</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 342,529</u>	<u>\$ 341,461</u>

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary

Franklin, Louisiana

SCHEDULE OF PROFESSIONAL SERVICES FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2013</u>	<u>2012</u>
Salaries and Fees:		
Anesthesiology	\$ 335,402	\$ 339,696
Central Supply	103,253	100,039
Clinics	2,308,274	2,223,093
Emergency Room	1,298,800	1,208,186
Inhalation Therapy	443,026	445,475
Labor and Delivery	488,840	459,372
Laboratory	714,105	715,674
Nursing and Hospitalist	1,793,969	1,999,294
Occupational Therapy	92,640	98,208
Operating Room	580,038	546,080
Pharmacy	261,784	256,510
Physical Therapy	287,867	256,541
Radiology	992,462	999,743
Speech Therapy	80,378	67,933
Other	104,650	119,714
Total Professional Salaries and Fees	<u>9,885,488</u>	<u>9,835,558</u>
Supplies and Other Expenses:		
Anesthesiology	10,764	16,320
Central Supply	306,408	295,153
Clinics	294,609	309,514
Emergency Room	74,045	70,929
Inhalation Therapy	37,905	48,007
Labor and Delivery	19,689	25,480
Laboratory	260,959	252,263
Nursing	104,321	125,277
Operating Room	481,865	669,855
Pharmacy	773,603	822,281
Physical Therapy	7,310	8,821
Radiology	83,681	50,162
Other	55,337	50,105
Total Professional Supplies and Other Expenses	<u>2,510,496</u>	<u>2,744,167</u>
TOTAL PROFESSIONAL SERVICES	<u>\$ 12,395,984</u>	<u>\$ 12,579,725</u>

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2013</u>	<u>2012</u>
Salaries and Fees:		
Administrative	\$ 2,877,917	\$ 2,953,936
Dietary	180,914	172,626
Housekeeping	248,411	251,455
Maintenance	204,811	182,201
Medical Records	186,191	190,629
Total General and Administrative Salaries and Fees	<u>3,698,244</u>	<u>3,750,847</u>
Supplies and Other Expenses:		
Administrative	3,171,357	3,129,513
Dietary	226,286	217,842
Housekeeping	34,357	38,453
Maintenance	699,765	873,949
Medical Records	45,064	33,114
Total General and Administrative Supplies and Other Expenses	<u>4,176,829</u>	<u>4,292,871</u>
TOTAL GENERAL AND ADMINISTRATIVE SERVICES	<u>\$ 7,875,073</u>	<u>\$ 8,043,718</u>



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS

Board of Commissioners
Hospital Service District No. 1
Parish of St. Mary, State of Louisiana
Franklin, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Police Jury (the Hospital), as of and for the year ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated February 27, 2014.

INTERNAL CONTROL OVER FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designated to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we identified findings which are described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan". We consider all findings to be significant deficiencies and material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests identified findings of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are listed as 2013-1 and 2013-2.

PURPOSE OF THIS REPORT

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

This report is intended for the information and use of the Board of Commissioners and management of the Hospital, others within the organization, federal awarding agencies, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties.

Sincerely,



LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, Louisiana

February 27, 2014

HOSPITAL SERVICE DISTRICT NO. 1
PARISH OF ST. MARY
FRANKLIN, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION
PLAN

For the years ended September 30, 2013 and 2012

We have audited the financial statements of Hospital Service District Number 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Police Jury (the Hospital), as of and for the years ended September 30, 2013 and 2012, and have issued our report thereon dated February 27, 2014.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audits of the financial statements as of September 30, 2013 and 2012 resulted in unmodified opinions.

Section 1: Summary of Auditor's Results

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses:	Yes
Significant Deficiencies:	Yes

Compliance:	
Compliance Material to Financial Statements	Yes

Section II: Financial Statement Findings

A - Issues of Noncompliance

Finding 2013-1 Payroll Tax Returns

Condition and Criteria: Federal law requires all employers to report wages and taxes owed on payroll tax returns quarterly. The Hospital did not file these returns on a timely basis during the fiscal year ended September 30, 2013.

Effect: The hospital may incur interest and penalties due to the failure to file by the established deadline.

Recommendation: Payroll tax returns should be prepared and filed timely. The Chief Financial Officer should review returns and monitor compliance with deadlines.

Management Response: The Chief Financial Officer will review and approve returns and monitor compliance with deadlines.

Finding 2013-2 Payment for Non-Services

Condition and Criteria: The Hospital distributed gift cards to its employees. As a governmental entity, the Hospital must comply with certain ethics laws enacted by the State of Louisiana.

Effect: The Hospital may not be in compliance with Louisiana law, including, but not limited to, LA R.S. 42.1111.

Recommendation: We recommend that the hospital consult with their attorney to determine if they are in compliance with Louisiana statutes regarding gift cards.

Management Response: The hospital will consult with legal counsel to determine compliance with Louisiana statutes regarding this issue.

B- Significant Deficiencies and Material Weaknesses

Finding 2013-3 Authorized Signatures on Cash Accounts

Condition and Criteria: It was found that the former chief executive officer was still listed as an authorized signer on several of the Hospital's bank accounts subsequent to his employment at the hospital. In addition, his electronic signature was used to disburse funds from the operating and payroll accounts several months after the end of his employment.

Effect: The hospital could be liable for transactions not authorized by the current administration.

Recommendation: Banks should be notified immediately when a change in authorization occurs. Electronic signatures of formerly authorized personnel should be discontinued immediately after the change in authorization.

Management Response: The Hospital will notify banks immediately when a change in authorization occurs. Electronic signatures of formerly authorized personnel will be discontinued immediately after such change.

Finding 2013-4 Segregation of Duties

Condition and Criteria: The authorization, recording, and reconciling of transactions as well as the custody of assets related to those transactions are not adequately segregated.

Effect: Failure to adequately segregate accounting and financial functions increases the risk that errors and irregularities including fraud may occur and not be prevented or detected.

Recommendation: The authorization, recording, and reconciliation of transactions and decisions as well as custody of assets related to those transactions and decisions should be segregated functions. Management should increase oversight in areas where this does not occur.

Management Response: Because of the small size of our hospital, complete segregation of duties is not possible.

Finding 2013-5 Proposed Audit Adjustments

Condition and Criteria: The proposed audit adjustments for the fiscal years ended September 30, 2013 and 2012 had material effects on the financial statements.

Effect: The Hospital's financial statements have been adjusted to reflect all proposed audit journal entries approved by management.

Recommendation: Management should perform a comprehensive review of financial statements, estimates, and journal entries before closing the fiscal year.

Management Response: The Chief Financial Officer will perform a comprehensive review of the financial statements, estimates and journal entries before closing the fiscal year.

Section III: Management Letter Items

There are no management letter items at September 30, 2013.

HOSPITAL SERVICE DISTRICT NO. 1
PARISH OF ST. MARY
FRANKLIN, LOUISIANA

SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2013

Section I-Internal Control and Compliance Material to the Financial Statements

Finding 2012-1 Segregation of Duties

Condition and Criteria: The authorization, recording, and reconciling of transactions as well as the custody of assets related to those transactions are not adequately segregated.

Status: Unresolved. See Finding 2013-4.

Finding 2012-2 Proposed Audit Adjustments

Condition and Criteria: The proposed audit adjustments for the fiscal year ended September 30, 2012 had material effects on the financial statements.

Status: Unresolved. See Finding 2013-5.