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HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOUELLES, STATE OF LOUISIANA
d/b/a BUNKIE GENERAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

YEARS ENDED
JUNE 30, 2004, 2003, AND 2002

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 2-2-05

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**Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)**

**Management's Discussion and Analysis of the
Basic Financial Statements**

Years ended June 30, 2004 and 2003

This section of the Hospital's annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets decreased by approximately \$934,000, or approximately 19%.
- During the year, the Hospital's total operating revenues decreased approximately \$407,000 or 4.5% to \$8,698,828 from the prior year while expenses decreased approximately \$9,000 or 0.1%. The Hospital had a loss from operations of \$891,611 which compares to a loss of \$493,300 the previous year.
- The Hospital received revenues for Uncompensated Costs Reimbursement in the amount of \$746,465 compared to \$562,856 the previous year
- The Hospital received ad valorem tax revenues of approximately \$77,000 compared to \$78,000 the previous year.
- The Hospital did not make any significant capital acquisitions for the fiscal year. The majority of the approximately \$81,000 of capital expenditures was for the chiller/HVAC replacement project which began in March, 2004.
- The Hospital sold controlling interest in its home health operations to Louisiana Health Care Group (LHCG) on March 1 for \$200,000. This resulted in a joint venture between the Hospital and LHCG where the Hospital has a minority one-third interest in the new Bunkie Home Care.
- In order to convert to Critical Access Hospital, the Hospital closed its distinct part psychiatric unit on May 1. Although closing the unit results in reduced inpatient volume, the Critical Access Hospital designation results in more favorable Medicare cost reimbursement.

Required Financial Statements

The Basic Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses and Changes in net Assets. This statement measures improvements in the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its

Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis
of the Basic Financial Statements
Years ended June 30, 2004 and 2003

Required Financial Statements (Continued)

patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing and financing activities, to provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period

Financial Analysis of the Hospital

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

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Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis
of the Basic Financial Statements
Years ended June 30, 2004 and 2003

Net Assets

A summary of the Hospital's Balance Sheets are presented in Table 1 below:

TABLE 1
Condensed Balance Sheets

	2004	2003	\$ Change	% Change
Total current assets	\$ 1,627,051	\$ 2,327,499	\$ (700,448)	-30.1%
Capital assets - net	2,309,334	2,535,520	(226,186)	-8.9%
Other assets, including board designated investments	121,739	129,576	(7,837)	-6.0%
Total assets	\$ 4,058,124	\$ 4,992,595	\$ (934,471)	-18.7%
Current liabilities	\$ 749,989	\$ 930,787	\$ (180,798)	-19.4%
Long-term debt outstanding and other long-term liabilities	476,212	578,045	(101,833)	-17.6%
Total liabilities	1,226,201	1,508,832	(282,631)	-18.7%
Net assets	2,831,923	3,483,763	(651,840)	-18.7%
Total liabilities and net assets	\$ 4,058,124	\$ 4,992,595	\$ (934,471)	-18.7%

As can be seen in Table 1, total assets decreased by \$934,471 to \$4,058,124 in fiscal year 2004, down from \$4,992,595 in fiscal year 2003. The change in total net assets resulted from a net operating loss for the current year and the sale of furniture/equipment from the closed psychiatric unit.

Summary of Revenue, Expenses and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2004 and 2003.

Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis
of the Basic Financial Statements
Years ended June 30, 2004 and 2003

TABLE 2
Condensed Statements of Revenue, Expenses and
Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue				
Net patient service revenue	\$ 8,309,616	\$ 8,711,711	\$ (402,095)	-4.8%
Ad valorem taxes	77,371	78,126	(755)	-1.0%
Other	311,841	316,575	(4,734)	-1.5%
Total revenue	8,698,828	9,106,412	(407,584)	-4.5%
Expenses				
Salaries and benefits	3,831,772	3,891,880	(60,108)	-1.5%
Medical supplies and expenses	808,954	828,194	(19,240)	-2.3%
Medical professional fees	2,361,771	2,373,322	(11,551)	-0.5%
Other expenses	1,158,376	1,108,642	49,734	4.5%
Insurance	189,142	154,045	35,097	22.8%
Provision for bad debt	882,142	867,904	14,238	1.6%
Depreciation and amortization expense	327,410	337,305	(9,895)	-2.9%
Interest expense	30,872	38,420	(7,548)	-19.6%
Total expenses	9,590,439	9,599,712	(9,273)	-0.1%
Operating income (loss)	(891,611)	(493,300)	(398,311)	-80.7%
Nonoperating income:				
Interest income	39,771	37,312	2,459	6.6%
Gain on sale of interest in discontinued operations	200,000	-0-	200,000	100.0%
Excess of revenues (expenses)	(651,840)	(455,988)	(195,852)	-43.0%
Net assets at beginning of year	3,483,763	3,939,751	(455,988)	-11.6%
Net assets at end of year	\$ 2,831,923	\$ 3,483,763	\$ (651,840)	-18.7%

Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
 (dba Bunkie General Hospital)
 Management's Discussion and Analysis
 of the Basic Financial Statements
 Years ended June 30, 2004 and 2003

Sources of Revenue

Operating Revenue

During fiscal year 2004, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payers, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payers is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes interest income, cafeteria sales, and revenue from services provided to physicians, rental income and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payer for the fiscal years ended June 30, 2004 and 2003.

**TABLE 3
 Payer Mix by Percentage**

	<u>2004</u>	<u>2003</u>
Commercial / managed care	13.6%	15.5%
Medicare	62.2%	59.2%
Medicaid	17.2%	17.7%
Self-pay & other	7.0%	7.6%
	100.0%	100.0%

Nonoperating Income

The Hospital holds designated and restricted funds in its Balance Sheets that are invested primarily in Money Market Investment Accounts held with local federal reserve banks. These investments were \$211,641 in total that earned \$39,771 interest income

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenue, Expenses and Changes in Net Assets between 2004 and 2003:

Overall activity at the Hospital, as measured by patient admissions, declined 1.4% to 641 in 2004 from 650 in 2003. Most of this decline was attributed to the closing of the Hospital's distinct part psychiatric unit on April 30. Patient days declined 3.2% to 3,947 in 2004 from 4,078 in 2003.

Hospital Service District No 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis
of the Basic Financial Statements
Years ended June 30, 2004 and 2003

Operating and Financial Performance (Continued)

Average length of stay decreased by 1.6% in 2004 with swing bed average length of stay increasing by 23.4% over 2003. Total net patient service revenue decreased by \$402,095 or 4.8%. The decrease is attributed to the closing of the psychiatric unit and sale of the home health unit.

On the other hand, outpatient revenue, professional fees for emergency physicians, and hospitalist charges all contributed to an increase in outpatient revenues. The Hospital continues to utilize a "hospitalist program" whereby contracted emergency physicians are also granted admitting privileges. "Hospitalist" admit and attend inpatients and are paid fixed fees for services. The Hospital generates a charge and bills for these services.

During fiscal year 2004, management focused on reducing accounts receivable and becoming more aggressive in collection efforts. Approximately \$358,000 of accounts were submitted to a collection agency for further collection efforts. Net accounts receivable have declined by \$589,669. Average days of gross revenue in accounts receivable have declined to 104.9 in 2004, from 117.6 in 2003. The Hospital continues to exert every effort to assist patients in finding funding sources for health care. The Hospital provides a Medicaid application center for persons interested in applying for Medicaid coverage. The Hospital also takes applications to help determine eligibility for a prescription drug program ("CMAP") that is funded by the Rapides Foundation in Alexandria, Louisiana.

Salaries decreased by approximately \$152,077 over the prior year. This was mainly due to closure of the psychiatric and home health units, as well as, the loss of one full time physician for part of the year. Benefits increased by \$91,969 over the previous year mainly due to the increase in claims paid (\$66,934) by the Hospital's self-funded health plan. Due to the nature of self-funding, inconsistencies will occur from year to year for a self-funded plan.

The costs of medical supplies decreased by \$19,240 over the previous year due to the decline in inpatient volume and closure of the psychiatric and home health units.

Medical professional fees decreased by approximately .5% due to closure of the psychiatric unit.

Provision for bad debts increased 1.6% from fiscal year 2003.

Other expenses increased 4.5% due to increased outpatient volumes.

Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
 (dba Bunkie General Hospital)
 Management's Discussion and Analysis
 of the Basic Financial Statements
 Years ended June 30, 2004 and 2003

Capital Assets

During fiscal year 2004, the Hospital invested approximately \$53,000 in capital assets included in Table 4 below

**TABLE 4
 Capital Assets**

	2004	2003	\$ Change	% Change
Land and land improvements	\$ 373,770	\$ 369,095	\$ 4,675	1.3%
Buildings and fixed equipment	3,176,276	3,164,077	12,199	0.4%
Equipment	2,117,824	2,139,109	(21,285)	-1.0%
Subtotal	5,667,870	5,672,281	(4,411)	-0.1%
Less: accumulated depreciation	3,453,899	3,179,886	274,013	8.6%
Construction in progress	95,363	43,125	52,238	121.1%
Net property, plant & equipment	<u>\$ 2,309,334</u>	<u>\$ 2,535,520</u>	<u>\$ (226,186)</u>	<u>-8.9%</u>

Net property, plant and equipment have increased only slightly because of a lack of funding. In March, the Hospital began replacing the chiller/HVAC which will cost approximately \$1.1 million.

On May 1, the Hospital converted to a Critical Access Hospital ("CAH"). Over time, funds availability should increase which would allow investing in capital renovations and capital equipment replacement for the future

Long-term Debt

At year-end, the Hospital had \$639,464 in total debt. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. New long-term debt of \$57,000 was incurred in the current year with the chiller/HVAC replacement. Total debt outstanding represents 15.8% of the Hospital's total assets at June 30, 2004.

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital Administration.

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
Bunkie, Louisiana

We have audited the accompanying basic financial statements of the Hospital Service District No. 1, Parish of Avoyelles, dba Bunkie General Hospital (the Hospital), a component unit of the Avoyelles Parish Police Jury, Bunkie, Louisiana, as of and for the years ended June 30, 2004, 2003 and 2002, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Bunkie General Hospital, as of June 30, 2004, 2003 and 2002, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 27, 2004, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 audits.

Our audits were made for the purpose of forming an opinion on the Hospital's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied by us 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.

Board of Commissioners
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
Page Two

As discussed in Note 2 to the financial statements, effective July 1, 2002, the Hospital changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board.

Management's discussion and analysis on pages "i" through "vii" is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lester, Miller & Wells

Certified Public Accountants
October 27, 2004

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 380,782	\$ 502,594	\$ 865,438
Patient accounts receivable, net of estimated uncollectibles (Note 4)	978,774	1,568,443	1,395,597
Inventory	208,323	207,878	204,483
Prepaid expenses	<u>59,172</u>	<u>48,584</u>	<u>79,342</u>
Total current assets	1,627,051	2,327,499	2,544,860
Assets limited as to use (Note 6)	104,485	96,859	174,574
Property, plant and equipment, net (Note 5)	2,309,334	2,535,520	2,717,697
Other assets	<u>17,254</u>	<u>32,717</u>	<u>63,383</u>
Total assets	\$ <u>4,058,124</u>	\$ <u>4,992,595</u>	\$ <u>5,500,514</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses (Note 7)	\$ 586,737	\$ 778,492	\$ 752,081
Current maturities of long-term debt (Note 8)	<u>163,252</u>	<u>152,295</u>	<u>118,860</u>
Total current liabilities	749,989	930,787	870,941
Long-term debt, net of current maturities (Note 8)	<u>476,212</u>	<u>578,045</u>	<u>689,822</u>
Total liabilities	<u>1,226,201</u>	<u>1,508,832</u>	<u>1,560,763</u>
Net assets:			
Invested in capital assets, net of related debt	1,669,870	1,805,180	1,909,015
Restricted net assets	83,278	76,280	95,043
Unrestricted net assets	<u>1,078,775</u>	<u>1,602,303</u>	<u>1,935,693</u>
Total net assets	<u>2,831,923</u>	<u>3,483,763</u>	<u>3,939,751</u>
Total liabilities and net assets	\$ <u>4,058,124</u>	\$ <u>4,992,595</u>	\$ <u>5,500,514</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue:			
Net patient service revenue	\$ 8,309,616	\$ 8,711,711	\$ 8,554,248
Ad valorem taxes	77,371	78,126	82,140
Other	<u>311,841</u>	<u>316,575</u>	<u>230,853</u>
Total revenue	<u>8,698,828</u>	<u>9,106,412</u>	<u>8,867,241</u>
Expenses:			
Salaries and benefits	3,831,772	3,891,880	3,465,098
Medical supplies and expenses	808,954	828,194	1,070,585
Medical professional fees	2,361,771	2,373,322	2,249,327
Other expenses	1,158,376	1,108,642	1,267,190
Insurance	189,142	154,045	123,457
Provision for bad debt	882,142	867,904	646,100
Depreciation and amortization expense	327,410	337,305	339,927
Interest expense	<u>30,872</u>	<u>38,420</u>	<u>45,254</u>
Total expenses	<u>9,590,439</u>	<u>9,599,712</u>	<u>9,206,938</u>
Operating income (loss)	<u>(891,611)</u>	<u>(493,300)</u>	<u>(339,697)</u>
Nonoperating income:			
Interest income	39,771	37,312	54,342
Gain on sale of interest in discontinued operations (Note 18)	<u>200,000</u>	<u>-0-</u>	<u>-0-</u>
Excess of revenues (expenses)	(651,840)	(455,988)	(285,355)
Net assets at beginning of year	<u>3,483,763</u>	<u>3,939,751</u>	<u>4,225,106</u>
Net assets at end of year	<u>\$ 2,831,923</u>	<u>\$ 3,483,763</u>	<u>\$ 3,939,751</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 8,328,267	\$ 7,990,664	\$ 8,222,346
Cash received from sale of interest in discontinued operations	200,000	-0-	-0-
Cash payments to employees and for employee-related cost	(3,777,839)	(3,879,145)	(3,455,414)
Cash payments for other operating expenses	<u>(4,792,168)</u>	<u>(4,423,165)</u>	<u>(4,669,580)</u>
Net cash provided (used) by operating activities	<u>(41,740)</u>	<u>(311,646)</u>	<u>97,352</u>
Cash flows from investing activities:			
Interest on investments	<u>39,771</u>	<u>37,312</u>	<u>54,342</u>
Net cash provided by investing activities	<u>39,771</u>	<u>37,312</u>	<u>54,342</u>
Cash flows from capital and non-capital financing activities:			
Ad valorem taxes	<u>77,371</u>	<u>78,126</u>	<u>82,140</u>
Net cash provided by non-capital financing activities	<u>77,371</u>	<u>78,126</u>	<u>82,140</u>
Cash flows from capital and related financing activities:			
Proceeds from sale of property and equipment	12,800	4,000	625
Purchases of property and equipment	(80,640)	(131,588)	(512,337)
Proceeds from assets limited as to use	(7,626)	77,715	(9,663)
Proceeds from new debt	57,000	72,588	255,384
Principal paid on long-term debt	(147,876)	(150,931)	(253,220)
Interest paid on long-term debt	<u>(30,872)</u>	<u>(38,420)</u>	<u>(45,254)</u>
Net cash used by capital and related financing activities	<u>(197,214)</u>	<u>(166,636)</u>	<u>(564,465)</u>
Net increase (decrease) in cash and cash equivalents	(121,812)	(362,844)	(330,631)
Cash and cash equivalents, beginning of year	<u>502,594</u>	<u>865,438</u>	<u>1,196,069</u>
Cash and cash equivalents, end of year	\$ <u><u>380,782</u></u>	\$ <u><u>502,594</u></u>	\$ <u><u>865,438</u></u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ <u>30,872</u>	\$ <u>38,420</u>	\$ <u>45,254</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (891,611)	\$ (493,300)	\$ (339,697)
Gain from sale of interest in discontinued operations	200,000	-0-	-0-
Interest expense considered capital financing activity	30,872	38,420	45,254
Ad valorem taxes considered a financing activity	(77,371)	(78,126)	(82,140)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	327,410	337,304	319,929
(Gain) loss on disposal of assets	(717)	3,128	10,788
Payments to medical students	(12,000)	-0-	-0-
Development costs	(5,204)	-0-	-0-
Provision for bad debts	882,142	867,904	646,100
(Increase) decrease in current assets:			
Patient accounts receivable, net	(292,473)	(1,040,750)	(573,542)
Inventory	(445)	(3,395)	36,339
Prepaid expenses	(10,588)	30,758	(34,748)
Increase (decrease) in current liabilities:			
Accounts payable and accrued expenses	<u>(191,755)</u>	<u>26,411</u>	<u>69,069</u>
Net cash provided (used) by operating activities	\$ <u>(41,740)</u>	\$ <u>(311,646)</u>	\$ <u>97,352</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 1 – ORGANIZATION AND OPERATIONS

Legal Organization

The Avoyelles Parish Hospital Service District (the "Hospital" or the "District") was created by an ordinance of the Avoyelles Parish Police Jury on February 14, 1968.

As the governing authority of the parish, for reporting purposes, the Avoyelles Parish Police Jury is the financial reporting entity for Avoyelles Parish. The financial reporting entity consists of (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Because the police jury appoints all commissioners of the Avoyelles Parish Hospital Service District, the District is a component unit of the Avoyelles Parish Police Jury, the financial reporting entity. The accompanying financial statements present only the funds maintained by the District and do not present information on the police jury, the general government services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The Hospital provides outpatient, emergency, skilled nursing (through "swing-beds"), acute inpatient hospital services and home health services. On October 7, 1993, the Hospital converted 20 acute beds to an adolescent care psychiatric unit. In July 1994, the Hospital opened an outpatient rural health clinic and hired a nurse practitioner and a physician to provide non-emergency services to the community. In July 1997, the adolescent care psychiatric unit was converted to a geriatric care psychiatric unit. In fiscal 2002, the Hospital employed several new physicians and began to operate fee based clinics for the new physicians. On May 1, 2004, the Hospital converted to a 25 bed critical access hospital. As part of this conversion, the geriatric care psychiatric unit closed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Hospital uses the accrual method of accounting. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Accounting

On July 1, 2002, the Hospital adopted the provisions of Statement No. 34 (Statement 34) of GASB, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue, expenses and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested capital assets, net of related debt; restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use 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 – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

The adoption of Statement 34 resulted in the previously reported unrestricted fund balance amount being classified to conform to the above net asset classifications. Additionally, the Hospital restated the 2002 statement of cash flow to conform to the direct method of reporting cash receipts and disbursements.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Cash and cash equivalents are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts limited as to use.

Credit Risk

The Hospital provides medical care primarily to Avoyelles Parish residents and grants credit to patients, substantially all of whom are local residents. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the Hospital's patients. Revenues from Medicare and Medicaid are significant. Accordingly, government changes in reimbursement and patient coverage significantly impact the Hospital.

Third-Party Cost-Based Revenues

Contractual agreements with governmental agencies provide for reimbursement based on a fixed price per patient stay based upon the patient's primary diagnosis for Medicare inpatient services. Medicare and Medicaid outpatients are reimbursed based upon the lesser of reasonable cost (subject to certain limits) or charges to patients. Until July 1, 1994, the Medicaid inpatient services were reimbursed based upon the lesser of reasonable cost (subject to certain limits) or charges to the patient. As of July 1, 1994, the program reimbursement is based upon a fixed price per day. These reimbursements are subject to audit and retroactive adjustments by each payor. Upon conversion to CAH status on May 1, 2004, most services to Medicare patients returned reimbursement by Medicare on a reasonable cost basis, which is subject to retroactive audit, and adjustment for inpatient, outpatient, and swing bed services.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis.

Changes in Reporting Classification

The classification of certain prior year amounts have been changed to reflect consistent reporting when compared to current year balances. The financial statement format has been changed to reflect changes in the AICPA Audit and Accounting Guide - Health Care Organizations.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings	15 to 50 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	5 to 20 years

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment (Continued)

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred

The cost of assets retired or otherwise disposed of and related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently

Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are included in income or loss from operations; all peripheral transactions are reported as a component of nonoperating income.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at June 30, 2004, 2003 and 2002. Category (1) includes investments that are insured, or registered in the Hospital's name, or for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. Balances at June 30 were as follows:

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NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2004				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents	485,267	-0-	-0-	485,267
Totals	\$ 485,267	\$ -0-	\$ -0-	\$ 485,267
	Credit Risk Category			Carrying Amount
	(1)	(2)	(3)	
2003				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents	599,453	-0-	-0-	599,453
Totals	\$ 599,453	\$ -0-	\$ -0-	\$ 599,453

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NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
2002				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents, certificates of deposit	<u>980,467</u>	<u>-0-</u>	<u>-0-</u>	<u>980,467</u>
Totals	\$ <u>980,467</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>980,467</u>

NOTE 4 – ACCOUNTS RECEIVABLE

A summary of accounts receivable as of June 30, is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patient accounts receivable	\$ 3,025,666	\$ 2,884,753	\$ 2,738,369
Due (to) from governmental third-party reimbursement programs	(111,839)	69,889	455,555
Other receivables	<u>45,962</u>	<u>9,756</u>	<u>23,795</u>
	2,959,789	2,964,398	3,217,719
Estimated uncollectibles	<u>(1,981,015)</u>	<u>(1,395,955)</u>	<u>(1,822,122)</u>
Patient accounts receivable, net of estimated uncollectibles	\$ <u>978,774</u>	\$ <u>1,568,443</u>	\$ <u>1,395,597</u>

The Hospital generates a substantial portion of its charges and net revenues from the Medicare and Medicaid programs. Related amounts as of June 30, are presented below:

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NOTE 4 – ACCOUNTS RECEIVABLE (Continued)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medicare and Medicaid gross patient charges	\$ 10,185,521	\$ 9,640,508	\$ 8,788,213
Contractual adjustments, adjusted to remove effect of Medicaid disproportionate share	<u>(4,901,825)</u>	<u>(4,104,451)</u>	<u>(3,087,180)</u>
Net program patient service revenue	\$ <u>5,283,696</u>	\$ <u>5,536,057</u>	\$ <u>5,701,033</u>
Percentage Medicare and Medicaid charges to gross charges	<u>74%</u>	<u>70%</u>	<u>69%</u>
Percent of total net patient revenues	<u>64%</u>	<u>64%</u>	<u>67%</u>
Medicaid disproportionate share revenue	\$ <u>746,465</u>	\$ <u>562,856</u>	\$ <u>710,198</u>
Percentage Medicaid disproportionate share is to net patient revenue	<u>9%</u>	<u>6%</u>	<u>8%</u>

The Hospital received interim amounts for Medicaid and self-pay uncompensated care services (Medicare disproportionate share revenue) for the years ended June 30, 2004, 2003 and 2002, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has not made any provisions for such recoupments. Management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

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NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, and related accumulated depreciation at June 30, 2004, 2003, and 2002.

	June 30, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	June 30, <u>2004</u>
Land	\$ 88,352	\$ -0-	\$ -0-	\$ 88,352
Land improvements	280,743	4,675	-0-	285,418
Buildings	2,809,021	-0-	-0-	2,809,021
Fixed equipment	355,056	12,199	-0-	367,255
Major moveable equipment	2,139,109	11,528	32,813	2,117,824
Construction in progress	<u>43,125</u>	<u>52,238</u>	<u>-0-</u>	<u>95,363</u>
Total	5,715,406	80,640	32,813	5,763,233
Accumulated depreciation	<u>3,179,886</u>	<u>294,746</u>	<u>20,733</u>	<u>3,453,899</u>
Net property, plant and equipment	<u>\$ 2,535,520</u>	<u>\$ (214,106)</u>	<u>\$ 12,080</u>	<u>\$ 2,309,334</u>

	June 30, <u>2002</u>	<u>Additions</u>	<u>Deductions</u>	June 30, <u>2003</u>
Land	\$ 88,352	\$ -0-	\$ -0-	\$ 88,352
Land improvements	280,743	-0-	-0-	280,743
Buildings	2,783,967	41,503	16,449	2,809,021
Fixed equipment	355,056	-0-	-0-	355,056
Major moveable equipment	2,072,024	83,486	16,401	2,139,109
Construction in progress	<u>20,125</u>	<u>58,410</u>	<u>35,410</u>	<u>43,125</u>
Total	5,600,267	183,399	68,260	5,715,406
Accumulated depreciation	<u>2,882,570</u>	<u>306,636</u>	<u>9,320</u>	<u>3,179,886</u>
Net property, plant and equipment	<u>\$ 2,717,697</u>	<u>\$ (123,237)</u>	<u>\$ 58,940</u>	<u>\$ 2,535,520</u>

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NOTE 5 -- PROPERTY, PLANT AND EQUIPMENT (Continued)

	June 30, <u>2001</u>	<u>Additions</u>	<u>Deductions</u>	June 30, <u>2002</u>
Land	\$ 88,352	\$ -0-	\$ -0-	\$ 88,352
Land improvements	295,089	10,790	25,136	280,743
Buildings	2,811,471	-0-	27,504	2,783,967
Fixed equipment	527,743	3,768	176,455	355,056
Major moveable equipment	2,234,352	477,655	639,983	2,072,024
Construction in progress	<u>-0-</u>	<u>20,125</u>	<u>-0-</u>	<u>20,125</u>
 Total	 5,957,007	 512,338	 869,078	 5,600,267
Accumulated depreciation	<u>3,430,977</u>	<u>309,262</u>	<u>857,669</u>	<u>2,882,570</u>
 Net property, plant and equipment	 \$ <u>2,526,030</u>	 \$ <u>203,076</u>	 \$ <u>11,409</u>	 \$ <u>2,717,697</u>

NOTE 6 -- ASSETS LIMITED AS TO USE

On November 12, 1968, Hospital Service District No. 1 accepted an offer from the Department of Housing and Urban Development to make a loan in order to aid in financing the construction of a new 30-bed general hospital. On May 15, 2004, Hospital Service District No. 1 accepted an offer from the United States Department of Agriculture Rural Development to make a loan in order to acquire, construct and/or install improvements and replacements to the hospital facilities of the District, including appurtenant equipment and accessories. This indenture imposed restrictions on the hospital's authority; a summary of cash restrictions follows:

All income earned from operations of the Hospital is to be deposited in the hospital operating fund. Funds are to be expensed in the following order of priority and for the following purposes.

- (1) The payment of reasonable expenses of administration, operation and maintenance of the Hospital
- (2) A cash transfer to the 1968 Hospital Bond and Interest Sinking Fund by the 15th day of each month, sums equal to one-fifth of the interest due on the next interest payment date, plus one-tenth of the principal due on the next principal payment date. Transfer will continue until a reserve of \$24,000 has been accumulated; thereafter, cash transfers will be made as are necessary to meet the current year's debt service requirements and maintain the reserve of \$24,000.

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NOTE 6 – ASSETS LIMITED AS TO USE (Continued)

- (3) A cash transfer to the 1968 Hospital Repair and Replacement Reserve Fund of \$125 monthly until a reserve of \$15,000 has been accumulated and maintained in such amount. The money may be withdrawn for the purpose of paying extraordinary maintenance of repairs, renewals and replacement. Should the Hospital Bond and Interest Sinking Fund be insufficient to pay a required installment, funds in the Hospital Repair and Replacement Reserve Fund will be transferred to the extent required to eliminate the deficiency.
- (4) A cash transfer to the 2004 Hospital Revenue Bond and Interest Sinking Fund by the 20th day of each month, sums equal to the total amount of principal and interest falling due on the next payment date for the Bonds. During the first year the Bonds are outstanding, a monthly sum equal to one-twelfth of the interest due on the first payment date on the Bonds shall be transferred.
- (5) A cash transfer to the 2004 Hospital Revenue Bond Reserve Fund by the 20th day of each month, commencing with the month following completion of and acceptance of the improvements financed with the proceeds of the Bonds, a sum at least equal to five percent of the amount to be paid into the Sinking Fund. The transfer will continue until such time as there has been accumulated a sum equal to the highest principal and interest falling due in any year.
- (6) A cash transfer to the 2004 Hospital Depreciation and Contingency Fund by the 20th day of each month commencing with the month following completion of and acceptance of the improvements financed with the proceeds of the Bonds, a sum at least equal to five percent of the amount to be paid into the Sinking Fund. The transfer will continue until such time as when a sum 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 are to continue over the life of the Bonds.

It is the contention of management that the accounting requirements of the revenue bond issue were met.

Pursuant to a resolution by the Board of Directors of the Hospital on January 18, 1973, a board-designated plant fund was established to be utilized for replacement of existing capital assets and the purchase of new capital assets. Those limited use funds described above contained the investments and accrued interest at June 30, as follows:

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NOTE 6 – ASSETS LIMITED AS TO USE (Continued)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
By Bond Indenture			
Hospital bond and interest sinking fund	\$ 68,278	\$ 61,280	\$ 57,711
Hospital repair and replacement reserve fund	15,000	15,000	37,332
By Board			
Dialysis building fund	21,207	20,579	19,985
LHA Trust deposits	<u>-0-</u>	<u>-0-</u>	<u>59,546</u>
Noncurrent assets whose use is limited	\$ <u>104,485</u>	\$ <u>96,859</u>	\$ <u>174,574</u>

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of accounts payable and accrued expenses as of June 30, follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Accounts payable	\$ 323,481	\$ 569,169	\$ 555,492
Salaries	104,807	100,032	88,437
Payroll taxes and other withholdings	42,421	1,837	(4,242)
Interest	1,147	2,516	2,516
Scholarships	-0-	-0-	-0-
Compensated absences	<u>114,881</u>	<u>104,938</u>	<u>109,878</u>
Total	\$ <u>586,737</u>	\$ <u>778,492</u>	\$ <u>752,081</u>

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NOTE 8 – LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations at June 30, follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
5.48 percent note to Sabine State Bank, collateralized by assignment of lease of the new dialysis building	\$ 307,712	\$ 373,233	\$ 435,296
4.67 percent capital lease obligation due September 18, 2006, collateralized by leased equipment	102,551	140,699	-0-
2.24 percent capital lease obligation due November 19, 2005, collateralized by leased equipment	35,893	60,493	196,607
4.75 percent Revenue Bonds due through November 1, 2009, collateralized by a pledge of the Hospital's gross receipts	125,000	140,000	155,000
4.50 percent Revenue Bonds due through March 15, 2024 totaling \$1,072,000, collateralized by a pledge of the Hospital's gross receipts	57,000	-0-	-0-
Note to Ford Motor Credit, due October 22, 2006, collateralized by the purchased van	<u>11,308</u>	<u>15,915</u>	<u>21,779</u>
Total long-term debt	639,464	730,340	808,682
Less current maturities of long-term debt	<u>(163,252)</u>	<u>(152,295)</u>	<u>(118,860)</u>
Long-term debt, net of current maturities	\$ <u><u>476,212</u></u>	\$ <u><u>578,045</u></u>	\$ <u><u>689,822</u></u>

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NOTE 8 – LONG-TERM DEBT (Continued)

Scheduled principal repayments on revenue bonds and payments on capital lease obligations and notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Revenue Bonds</u>	<u>Notes and Leases</u>	<u>Interest</u>
2005	\$ 77,000	\$ 143,416	\$ 24,933
2006	20,000	134,973	17,517
2007	20,000	90,885	10,770
2008	20,000	81,494	5,419
2009	20,000	6,696	1,693
2010	<u>25,000</u>	<u>-0-</u>	<u>594</u>
Total	\$ <u>182,000</u>	\$ <u>457,464</u>	\$ <u>60,926</u>

NOTE 9 – LEASES

The Hospital is the lessee of various equipment under capital leases expiring in various years through 2007. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their estimated productive lives, as Medicare rules mandate. Depreciation of assets under capital leases is included in depreciation expense for the periods ended June 30. Following is a summary of property held under capital leases:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
AT&T phones	\$ -0-	\$ -0-	\$ 20,969
Fidelity - IBM line printer	-0-	-0-	8,934
GE legacy system	213,859	213,859	213,859
GE ultrasound	<u>75,118</u>	<u>75,118</u>	<u>-0-</u>
	288,977	288,977	243,762
Less: Accumulated depreciation	<u>(132,342)</u>	<u>(78,839)</u>	<u>(42,603)</u>
Net leases	\$ <u>156,635</u>	\$ <u>210,138</u>	\$ <u>201,159</u>

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NOTE 9 – LEASES (Continued)

Minimum future lease payments under capital leases as of June 30, 2004, and for each subsequent year in aggregate are provided below:

<u>Years Ending June 30,</u>	<u>Amount</u>
2005	\$ 73,560
2006	58,652
2007	<u>12,536</u>
Total minimum lease payments	144,748
Less: Amounts representing interest	<u>6,304</u>
Net minimum lease payments	\$ <u>138,444</u>

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2004, that have initial or remaining lease terms in excess of one year.

<u>Years Ending June 30,</u>	<u>Amount</u>
2005	\$ 104,683
2006	79,284
2007	<u>3,684</u>
Total minimum lease payments	\$ <u>187,651</u>

NOTE 10 – COMPENSATED ABSENCES

Full time employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital charged operations during the periods ended June 30, 2004, 2003, and 2002 for accrued paid days off of \$114,881, \$104,938, and \$109,878, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

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NOTE 11 – PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the PCF's exposure to \$400,000 per occurrence.

The Hospital's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability and worker's compensation. The trust fund bills members in advance, based upon an estimate of their exposure. At policy year-end, premiums are re-determined utilizing actual losses of the Hospital. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The Hospital has only included these allocations or equity amounts assigned to the Hospital by the trust fund in its financial statements.

NOTE 12 – CHARITY CARE

The Hospital has a policy of providing charity care to patients who can prove they are indigent. Charity care charges were \$35,881, \$37,111, and \$24,831 for the respective fiscal periods ended June 30, 2004, 2003, and 2002.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

The principal contingencies are described below:

Third-Party Cost-Based Revenues (Note 2) - Cost reimbursements are subject to examination by agencies administering the programs. Effective October 1, 1983, the Medicare program discontinued its cost-based reimbursement system for inpatient services. Under the program, the District receives a fixed fee for each patient, which is determined by the government. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined. As a CAH, the risks of cost based reimbursement have returned.

**HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Federal and state budget restraints are increasing the time period taken to pay Medicare and Medicaid claims and the Medicaid program is delaying payment of year-end statements. The healthcare 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 privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund.

The Hospital participates in the Louisiana Hospital Association Self-Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The Hospital's account balance in the Louisiana Hospital Association Trust Fund is \$199,758.

Beginning January 1, 1997, the Hospital purchased a Workmen's Compensation insurance policy from Business Insurance Company.

Medical Benefits Trust - The Hospital maintains a medical benefits trust. The Hospital and employees contribute on a 50/50 basis amounts required to cover the health benefits cost of the employees. Employees with more than 90 days of service can participate

The trust pays all claims from funds provided from the Hospital. The trust agreement provides that should it not have sufficient funds to cover its obligations, the Hospital is obligated to fund the shortfall. The Hospital purchases "excess" insurance coverage that provides for payment of individual claims in excess of \$10,000 or aggregate annual claims in excess of \$226,838. During fiscal year 1999, the Hospital became self-insured to provide medical benefits to employees. The Hospital and employees contribute on a 50/50 basis amounts required to cover the insurance premiums.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOUELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Construction Program - The Hospital has issued \$1,072,000 of Hospital Revenue Bonds, Series 2004 (Note 8) These bonds are for improvements to the hospital facilities. As of June 30, 2004 only \$57,000 has been accessed.

Unused Line of Credit – At June 30, 2004, the Hospital had \$1,000,000 of unused line of credit to be drawn upon as needed.

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the Hospital. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

NOTE 14 – VOLUNTARY HOSPITALS OF AMERICA - GULF STATES ("VHA")

As a member of the VHA, the Hospital has committed to fund a percentage of the corporation's operating budget annually. The Hospital purchases medical-surgical supplies for use in hospital operations. The Hospital's current commitment is an annual minimum of \$2,000 per occupied bed.

NOTE 15 – RETIREMENT PROGRAM

Employees have available retirement coverage through an employee funded defined contribution plan, Bunkie Hospital Service Defined Compensation Program, administered by Nationwide Retirement Solutions. Each pay period the Hospital contributes to an additional plan for full-time employees who work 64 or more hours per pay period. Each employee will be required to contribute a minimum of 3% of their base pay toward the program. Employees will become 100% vested in the Hospital's contributions after three full years of employment.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total payroll	\$ 3,025,256	\$ 2,559,371	\$ 2,442,331
Total covered payroll	2,003,980	2,418,201	2,242,819
Employee contributions	126,653	141,170	128,497
Employer contributions	65,531	80,704	61,109
Percentage employee contributions	6.3%	5.8%	5.7%
Percentage employer contributions	3.3%	3.3%	2.7%

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 16 – AD VALOREM TAXES

The District levies real estate taxes on all real property on a calendar year basis, at a rate enacted by the Board of Commissioners as recommended by the local tax assessor. Property taxes are collected through the local sheriff and remitted, net of collection fees, to the District. The sheriff's office is responsible for collection, including establishing lien, levy and due dates of property taxes. The current tax expires in 2009 and is expected to be renewed at current levy rates. The property tax calendar includes these dates:

Levy date	August 16
Lien date	August 16
Due date	December 31

NOTE 17 – JOINT VENTURE

The Hospital entered into a cooperative endeavor (i.e. joint venture) with a home health company on March 1, 2004. The Hospital shares one-third of the profits and losses, and leases space to this organization. The Hospital's share of the profits were \$9,024 for fiscal year ended 2004. Rental income was \$2,200 for the fiscal year ended 2004.

NOTE 18 – DISCONTINUED OPERATIONS

The Hospital discontinued home health services on March 1, 2004. The sale resulted in a gain of \$200,000 and a one-third interest in a joint venture (see Note 17). The following is a summary of discontinued home health operations included in the accompanying financial statements:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net home health revenue	\$ 334,255	\$ 559,842	\$ 468,762
Operating expenses	<u>251,608</u>	<u>378,867</u>	<u>350,109</u>
Income from operations	<u>\$ 82,647</u>	<u>\$ 180,975</u>	<u>\$ 118,653</u>

SUPPLEMENTARY INFORMATION

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF NET PATIENT SERVICE REVENUE
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Routine services:			
Adult and pediatric	\$ 343,100	\$ 335,597	\$ 303,750
Psychiatric unit	2,100,000	2,456,000	2,510,000
Swing-bed	<u>123,700</u>	<u>66,834</u>	<u>45,836</u>
Total routine services	<u>2,566,800</u>	<u>2,858,431</u>	<u>2,859,586</u>
Other professional services:			
Operating room			
Inpatient	9,933	21,361	7,112
Outpatient	<u>55,987</u>	<u>97,041</u>	<u>72,720</u>
Total operating room	<u>65,920</u>	<u>118,402</u>	<u>79,832</u>
Recovery room			
Inpatient	-0-	-0-	220
Outpatient	<u>110</u>	<u>1,320</u>	<u>3,410</u>
Total recovery room	<u>110</u>	<u>1,320</u>	<u>3,630</u>
Anesthesia			
Inpatient	2,765	8,470	3,085
Outpatient	<u>15,280</u>	<u>27,580</u>	<u>26,930</u>
Total anesthesia	<u>18,045</u>	<u>36,050</u>	<u>30,015</u>
Radiology			
Inpatient	515,097	504,230	525,094
Outpatient	<u>1,655,090</u>	<u>1,641,424</u>	<u>1,530,520</u>
Total radiology	<u>2,170,187</u>	<u>2,145,654</u>	<u>2,055,614</u>
Laboratory			
Inpatient	877,759	822,043	713,612
Outpatient	<u>2,359,426</u>	<u>2,202,049</u>	<u>1,878,886</u>
Total laboratory	<u>\$ 3,237,185</u>	<u>\$ 3,024,092</u>	<u>\$ 2,592,498</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Blood			
Inpatient	\$ 14,413	\$ 10,949	\$ 25,690
Outpatient	<u>15,555</u>	<u>16,767</u>	<u>23,266</u>
Total blood	<u>29,968</u>	<u>27,716</u>	<u>48,956</u>
Inhalation therapy			
Inpatient	337,429	271,563	308,019
Outpatient	<u>89,398</u>	<u>84,381</u>	<u>89,581</u>
Total inhalation therapy	<u>426,827</u>	<u>355,944</u>	<u>397,600</u>
Physical therapy			
Inpatient	15,348	19,601	13,581
Outpatient	<u>354</u>	<u>-0-</u>	<u>-0-</u>
Total physical therapy	<u>15,702</u>	<u>19,601</u>	<u>13,581</u>
Cardiac rehab			
Inpatient	-0-	-0-	-0-
Outpatient	<u>77,418</u>	<u>74,906</u>	<u>34,326</u>
Total cardiac rehab	<u>77,418</u>	<u>74,906</u>	<u>34,326</u>
Electrocardiology			
Inpatient	31,450	29,410	31,195
Outpatient	<u>83,725</u>	<u>84,400</u>	<u>79,055</u>
Total electrocardiology	<u>115,175</u>	<u>113,810</u>	<u>110,250</u>
Electroencephalogram			
Inpatient	-0-	-0-	-0-
Outpatient	<u>3,800</u>	<u>6,650</u>	<u>1,221</u>
Total electroencephalogram	\$ <u>3,800</u>	\$ <u>6,650</u>	\$ <u>1,221</u>

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Telemetry			
Inpatient	\$ 65,000	\$ 37,000	\$ 45,200
Outpatient	<u>15,400</u>	<u>6,600</u>	<u>5,400</u>
Total telemetry	<u>80,400</u>	<u>43,600</u>	<u>50,600</u>
Central supply			
Inpatient	168,989	143,277	109,828
Outpatient	<u>129,928</u>	<u>122,815</u>	<u>105,841</u>
Total central supply	<u>298,917</u>	<u>266,092</u>	<u>215,669</u>
Intravenous therapy			
Inpatient	215,455	181,308	139,798
Outpatient	<u>174,107</u>	<u>136,233</u>	<u>103,008</u>
Total intravenous therapy	<u>389,562</u>	<u>317,541</u>	<u>242,806</u>
Pharmacy			
Inpatient	664,023	605,471	638,590
Outpatient	<u>276,956</u>	<u>265,579</u>	<u>298,209</u>
Total pharmacy	<u>940,979</u>	<u>871,050</u>	<u>936,799</u>
Emergency room			
Inpatient	85,362	69,857	65,315
Outpatient	<u>1,073,518</u>	<u>1,070,098</u>	<u>922,511</u>
Total emergency room	<u>1,158,880</u>	<u>1,139,955</u>	<u>987,826</u>
Emergency room physician			
Inpatient	216,308	15,215	18,310
Outpatient	<u>713,430</u>	<u>732,203</u>	<u>615,007</u>
Total emergency room physician	\$ <u>929,738</u>	\$ <u>747,418</u>	\$ <u>633,317</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Observation room			
Inpatient	\$ 710	\$ 6,976	\$ 4,236
Outpatient	<u>117,795</u>	<u>64,770</u>	<u>65,767</u>
Total observation room	<u>118,505</u>	<u>71,746</u>	<u>70,003</u>
Dialysis treatment	900	2,200	-0-
Home health visits	341,605	567,873	518,884
Rural health clinic	356,018	540,216	517,427
Physician clinics	<u>473,874</u>	<u>499,065</u>	<u>317,068</u>
Total other professional services	<u>11,249,715</u>	<u>10,990,901</u>	<u>9,857,922</u>
Total patient service revenues	<u>13,816,515</u>	<u>13,849,332</u>	<u>12,717,508</u>
Deductions from revenue:			
Contractual adjustments	(6,166,693)	(5,606,237)	(4,804,994)
Disproportionate share payment - Medicaid	746,465	562,856	710,198
Charity care	(35,881)	(37,111)	(24,831)
Discounts	<u>(50,790)</u>	<u>(57,129)</u>	<u>(43,633)</u>
Total deductions from revenue	<u>(5,506,899)</u>	<u>(5,137,621)</u>	<u>(4,163,260)</u>
Net patient service revenue	\$ <u>8,309,616</u>	\$ <u>8,711,711</u>	\$ <u>8,554,248</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF OTHER REVENUE
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cafeteria sales	\$ 27,469	\$ 29,167	\$ 26,019
Medical records fees	14,378	10,171	9,131
Vending machines	8,282	4,786	8,639
Fitness Center fees	19,342	18,375	18,386
Silver Society	2,178	7,711	10,572
Contributions	100	1,200	910
Gain (loss) on disposal of equipment	219	(3,128)	(10,788)
Rental income	122,646	116,870	114,192
Pharmacy prescription sales	48,947	36,741	24,092
Grant income	38,923	19,078	-0-
Health insurance refund	-0-	49,077	-0-
Joint venture investment income	9,024	-0-	-0-
Miscellaneous revenue	<u>20,333</u>	<u>26,527</u>	<u>29,700</u>
 Total other revenue	 \$ <u>311,841</u>	 \$ <u>316,575</u>	 \$ <u>230,853</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – SALARIES AND BENEFITS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Salaries:			
Administrative and general	\$ 260,018	\$ 214,400	\$ 218,303
Business office	167,867	191,731	181,715
Communications	16,622	15,762	15,640
Plant operation	116,246	115,036	112,169
Housekeeping	83,183	83,549	75,557
Dietary	79,957	79,525	84,413
Nursing administration	109,606	91,958	84,823
Central supply	38,866	38,287	34,033
Medical records	108,437	100,867	93,731
Nursing services	296,055	286,547	322,718
Psychiatric unit	5,417	6,500	15,150
Operating room	4,416	15,000	13,600
Radiology	191,809	182,510	185,606
Laboratory	212,227	209,095	164,966
EKG	12,844	8,219	1,636
Cardiac rehab	40,732	36,659	38,913
Rural health clinic	243,156	352,056	293,383
Emergency room	400,326	407,834	335,574
Observation room	82,845	56,066	60,072
Home health	161,287	229,800	218,050
Physician's office building	364,093	437,782	372,991
Fitness Center	44,609	33,512	34,452
	<u>3,040,618</u>	<u>3,192,695</u>	<u>2,957,495</u>
Total salaries			
Benefits:			
Payroll taxes	225,253	228,505	208,360
Hospitalization insurance	361,608	294,674	165,978
Deferred compensation	65,256	70,144	66,647
Workers compensation	130,481	98,326	59,625
Other	8,556	7,536	6,993
	<u>791,154</u>	<u>699,185</u>	<u>507,603</u>
Total benefits			
Total salaries and benefits	\$ <u>3,831,772</u>	\$ <u>3,891,880</u>	\$ <u>3,465,098</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – MEDICAL SUPPLIES AND EXPENSE
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Nursing services	\$ 23,558	\$ 23,269	\$ 47,396
Psychiatric unit	9,045	12,849	15,752
Operating room	2,511	11,153	2,056
Anesthesia	-0-	-0-	146
Radiology	217,724	221,482	220,076
Laboratory	172,886	183,685	185,908
Blood	28,953	15,622	34,468
IV therapy	33,211	29,344	65,630
Respiratory therapy	13,349	5,094	3,691
EKG	-0-	236	409
Central supply	51,538	46,330	60,168
Pharmacy	223,693	252,783	400,130
Cardiac rehab	1,353	1,156	1,571
Dialysis	-0-	990	-0-
Rural health clinic	8,137	4,646	2,339
Emergency room	9,821	6,012	7,163
Observation room	394	262	254
Home health	7,458	9,142	5,020
Physician's office building	<u>5,323</u>	<u>4,139</u>	<u>18,408</u>
 Total medical supplies and expenses	 \$ <u>808,954</u>	 \$ <u>828,194</u>	 \$ <u>1,070,585</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – MEDICAL PROFESSIONAL FEES
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Administrative	\$ 7,140	\$ -0-	\$ -0-
Psychiatric unit	922,815	1,042,766	1,132,376
Anesthesia	4,595	15,971	16,470
Radiology	975	-0-	-0-
Laboratory	107,484	104,617	86,638
Respiratory therapy	163,800	160,104	157,500
Physical therapy	47,235	63,031	42,507
Pharmacy	177,236	172,999	-0-
Dialysis	1,065	-0-	-0-
Rural health clinic	35,191	-0-	19,690
Emergency room	815,169	813,834	794,146
Private physician office	<u>79,066</u>	<u>-0-</u>	<u>-0-</u>
 Total medical professional fees	 \$ <u>2,361,771</u>	 \$ <u>2,373,322</u>	 \$ <u>2,249,327</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – OTHER EXPENSES
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Miscellaneous service fees	\$ 63,854	\$ 72,131	\$ 47,567
Legal	39,451	3,152	43,045
Accounting	80,143	72,965	65,568
Non medical supplies	288,735	351,473	436,117
Dietary - food expense	57,423	55,900	55,832
Repairs and maintenance	118,726	164,910	167,274
Utilities	165,885	130,136	130,094
Telephone	104,800	85,580	71,506
Home health mileage	20,250	27,210	27,818
Rentals	62,335	55,619	81,518
Education	4,387	75	-0-
Public relations	19,369	38,680	61,789
Dues and subscriptions	44,458	31,804	48,606
Medical staff expense & relocation	3,313	1,724	5,318
Litigation settlement	-0-	-0-	5,000
Miscellaneous expense	<u>85,247</u>	<u>17,283</u>	<u>20,138</u>
 Total other expenses	 \$ <u>1,158,376</u>	 \$ <u>1,108,642</u>	 \$ <u>1,267,190</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF PATIENT STATISTICS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Number of Beds			
Acute	28	28	28
Psychiatric	20	20	20
Bed Days Available			
Acute (down size to 25 on May 1, 2004)	10,037	10,220	10,220
Psychiatric (eliminated April 30, 2004)	6,080	7,300	7,300
Patient Days			
Total Acute	1,225	1,273	1,334
Total Swing Bed	619	367	415
Total Psychiatric	2,103	2,438	2,514
Medicare Acute	910	918	969
Medicare Swing Bed	577	314	408
Medicare Psychiatric	2,063	2,324	2,405
Medicaid Acute	216	260	211
Percentage Occupancy			
Acute and Swing Bed	18.37	16.05	17.11
Psychiatric	33.93	33.40	34.44
Discharges			
Total Acute	425	418	425
Total Swing Bed	50	58	53
Total Psychiatric	214	177	214
Emergency Room Visits	7,015	7,165	7,384
Home Health Visits (joint venture March 1, 2004)	3,727	6,245	6,017
Clinic Visits	5,497	6,455	6,694
Number of Surgeries	37	62	80

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULE OF INSURANCE
 JUNE 30, 2004

<u>POLICY NUMBER</u>	<u>COMPANY</u>	<u>FROM</u>	<u>TO</u>	<u>TYPE OF INSURANCE</u>	<u>COVERAGE LIMITS</u>
HPL-0090-2003	LA Hospital Association Trust Fund	1/1/2003	1/1/2004	Hospital Professional Liability	\$100,000 per claim/\$400,000 excess \$5,000,000 umbrella
	Louisiana Patient Compensation Fund			Comprehensive General Liability	\$500,000 per occurrence \$9,000,000 umbrella
WC-0070-2004	LA Hospital Association	1/1/2004	1/1/2005	\$1,000,000 per claim	\$1,000,000 per claim
039LB103073248E	The Benchmark Agency	4/29/2004	4/28/2005	Workmen's Compensation Directors, Officers and Trustees Indemnity Insurance including Healthcare Organization Reimbursement Policy Public Employee Bond	\$1,000,000 each accident \$1,000,000 limit \$25,000 retention each loss
T22510605	EMC Insurance	5/18/2004	5/18/2005		\$200,000 employee dishonesty \$200,000 forgery or alteration \$100,000 per claim \$300,000 annual aggregate
1-57737	Lammico	1/1/2004	1/1/2005	Dr. Hines	
1-83113	Lammico	7/1/2003	7/1/2004	Comprehensive Professional Dr. B. Brouillette	
1-83377	Lammico	10/1/2003	6/25/2004	Comprehensive Professional Dr. G. Brouillette	\$100,000 per claim
1-9233	Lammico	1/1/2004	1/1/2005	Comprehensive Professional Dr. Lemoine	\$300,000 annual aggregate \$100,000 per claim
33-7702-D11-18B	State Farm	4/11/2004	10/11/2004	Comprehensive Professional Liability on Business Auto	\$300,000 annual aggregate \$1,000,000 under insured motorist
33-7697-D11-18C				Comprehensive and Collision	\$1,000,000 uninsured motorist
45-8349-D11-18B					\$1,000,000 liability
33-7703-D11-18A					\$1,000 medical per person
MZF80401854	Fireman's Fund	4/11/2004	4/11/2005	Boiler and Machinery	\$9,809,000 property except business income \$2,000,000 unnamed location

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF PER DIEM AND
 OTHER COMPENSATION PAID TO BOARD MEMBERS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>Term</u> <u>Expires</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>
Board Members:							
Dr. Carl F. Jory	11/14/04	\$	-0-	\$	-0-	\$	-0-
Mr. James Mixon	12/11/09		-0-		-0-		-0-
Ms. Nancy Carruth	02/13/08		-0-		-0-		-0-
Mr. Don Descant	02/13/08		-0-		-0-		-0-
Mr. Jeff Keys	02/13/08		440		440		600
Ms Barbara Jones	11/15/06		280		320		360
Mr. Harry Normand	02/14/09		440		480		600

Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA
Paul A. Delaney, CPA
Mary L. Carroll, CPA

Melanie I. Layssard, CPA
Brenda J. Lloyd, CPA

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

To the Board of Commissioners
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
Bunkie, Louisiana

We have audited the basic financial statements of the Avoyelles Parish Hospital Service District No. 1 (the "District" or the "Hospital") for the years ended June 30, 2004, 2003 and 2002 and have issued our report thereon dated October 27, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule.

Board of Commissioners
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information and use of management and the office of the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants
October 27, 2004

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
AUDITORS' COMMENTS AND RECOMMENDATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2004

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2004, Management Comments

Condition: While testing expenditures, we noted four of the invoices we tested were not verified mathematically or contractually.

Comment: All invoices should be paid in accordance with contractual agreements, verified, approved, and have the proper documentation attached to the file copy of the check.

Management's Response: Management will review procedures with the accounts payable clerk to ensure proper supporting documentation.

2003, Material Weaknesses

Condition: In a sample of 10 cash receipts, it was noted that seven deposits had a four to eight day lag between the date of the receipt and the date the deposit cleared the bank. In 2004, we expanded testing to 20 cash receipts. Of those receipts, seven deposits had a four to eight day lag, and one of the receipts was unvoided. One of the physician clinics did not use prenumbered receipt books.

Comment: Deposits should be made daily.

Management's Response: Changes in management in the business office will result in several procedural changes which include timely deposits on a daily basis. Management has instituted pre numbered receipt books for the physician clinics.

Resolution: This matter has not been resolved.

Condition: Of 6,139 statements mailed to patients for the month of June, 272 were returned for incorrect addresses.

Comment: The process by which addresses are obtained from patients should be reviewed.

Management's Response: The process of address confirmations upon admission/registration will be revised and new management will assure compliance with hospital policy. The majority of the bad addresses returned were on aged accounts.

Resolution: This matter has not been resolved

Condition: In a sample of twenty bad debts, twelve of the bad debts written off did not have an approving signature

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2003, Material Weaknesses (continued)

Comment: A signature denoting approval should appear on each account detail before write off. Also, a higher supervisor should sign the summary list before posting.

Management's Response: Bad debt write-off policy and procedure is in the process of being revised and approval levels established. New business office management will assure that these policies will be adhered to.

Resolution: This matter has been partially resolved. There is not a procedure in place which documents the levels of approval. Also, physician clinic has no procedure in place for bad debt approval.

Condition: Upon review of petty cash, it was noted that five of eight petty cash counts did not agree with the general ledger.

Comment: Petty cash funds should be balanced monthly and when replenished.

Management's Response: New business office management will assure that proper balancing procedures have been implemented for petty cash.

Resolution: This matter has been resolved.

2002, Compliance

Condition: A review of new capital leases found one which had neither the required non-appropriation clause nor the approval from the state bond commission. Additionally, a vehicle was purchased and a "zero" percent note was signed with monthly payments, but state bond commission approval was not obtained.

Comment: When entering into a capital lease, the lease must include a clause allowing termination of the lease if funds are not appropriated to make the next year's lease payments or the government body must obtain approval from the state bond commission for the included debt to not violate state law. When debt is incurred by a political subdivision, bond commission approval must be obtained to not violate state law.

Management's Response: A request has been sent to the lessors to amend the lease contracts to include a non-appropriation clause. An internal control process will be implemented to assure that all future leases and/or loans have met state law. No leases or financing will be executed or obtained without review by the Governing Board Finance Committee to assure proper language and determine if state bonding commission approval is needed

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2002, Compliance (Continued)

Resolution: This matter has been resolved.

2002, Material Weaknesses

Condition: Our tests of cash accounts disclosed bank reconciliations were not completed after February 2002. Other reconciliations of subsidiary records to the general ledger, e.g. accounts receivable, prepaid expenses, accruals, etc., were not completed timely.

Comment: Monthly the general ledger must be balanced to subsidiary records for control purposes and to improve the accuracy of interim financial statements. Some of these reconciliation issues are repeated from last year.

Management's Response: Additional accounting staff will be added to accommodate internal control procedures such as timely reconciliation of balance sheet accounts.

Resolution: This matter has been partially resolved. Reconciliations for other accounts were not completed timely although there has been an improvement.

Condition: While testing accounts receivable records, we found control totals for clinic and home health systems were included with hospital patient accounts. The clinic and home health subsidiary records, from other systems, did not tie to the control accounts. Revenue, collections, and write-offs as posted to the general ledger had not been posted to the subsidiary systems.

Comment: Timely posting to the subsidiary systems and prompt, regular reconciliations of Hospital input to other systems' output must occur. The lack of controls and untimely postings allow the opportunity to misappropriate Hospital assets and leads to inaccurate financial information on which decisions are made.

Management's Response: The policy of handling other accounts receivable subsidiary systems will be changed to include setting up a separate general ledger account for each subsidiary and to include timely reconciliations of those accounts.

Resolution: This matter has not been resolved.

2002, Management Comments

Condition: The accounts receivable credit balance report total exceeded \$175,000.

HOSPITAL SERVICE DISTRICT NO. 1
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2002, Management Comments (Continued)

Comment: Credit balance accounts must be reviewed at least monthly and corrections or refunds made timely.

Management's Response: With the addition of accounting staff, a monthly review of all accounts receivable accounts will be done for the purpose of determining the validity and collectibility of outstanding balances. The issue of credit balances will be addressed in this process to determine the amount of refunds to be disbursed or if other accounts are due, the appropriate amount of payment transfers to be made in order to reduce the credit balances and debit balances.

Resolution: This matter remains unresolved. The credit balance report for 2003 and 2004 exceeds \$137,000 and \$175,000 respectively.

Condition: Inquiry as to business office procedures and cross training found no written description of positions and their duties.

Comment: Written descriptions of duties for functions within the business office are needed for cross training and to avoid missing critical tasks when employees are on leave or when personnel changes occur.

Management's Response: Job descriptions will be written and communicated to each business office employee. A review of positions that are critical to the billing and collections process will be made to identify the cross training necessary to protect the operations in case of personnel turnover, vacation, sickness, etc

Resolution: This matter remains unresolved.

Condition: No formal policy is documented for estimating the allowance for uncollectible accounts

Comment: We recommend researching, approving, and implementing a consistent method of estimating uncollectible accounts using historical trends, aging report, and other records. This needs to be done for all types of Hospital accounts, including hospital, clinic, home health, RHC, etc.

Management's Response: Research will be done to determine the appropriate manner of estimating uncollectibles each month. There are varying acceptable methods of estimating bad debts which include the revenue method (income statement approach) and aging of accounts receivable (balance sheet approach). After research has been done, an acceptable method will be approved and put into place.

Resolution: This matter has been resolved.

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2001, Material Weaknesses

Condition: Reconciliations between subsidiary records and balance sheet general ledger account balances are not consistently completed. When completed, differences are not always fully investigated and/or corrections posted. Accounts adjusted included, but were not limited to accounts receivable, accounts payable, and cost settlements

Comment: Each general ledger account should be reconciled to subsidiary records each month. Differences must be resolved each month and appropriate corrective entries or actions must be timely completed.

Management's Response: Additional accounting staff will be added to accommodate internal control procedures such as timely reconciliation of balance sheet accounts.

Resolution: This matter remains unresolved