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

**FINANCIAL REPORT**

**YEAR ENDED SEPTEMBER 30, 2003**

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 4-21-04

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## INDEPENDENT AUDITOR'S REPORT

\* A Professional Accounting Corporation

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

We have audited the accompanying financial statements of Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Government, as of and for the year ended, September 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Government, as of September 30, 2003, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of October 1, 2002.

Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

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In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2003 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. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

***Kolder, Champagne, Slaven & Company, LLC***  
Certified Public Accountants

Morgan City, Louisiana  
December 1, 2003

**FINANCIAL STATEMENTS**

HOSPITAL SERVICE DISTRICT NO. 1  
Parish of St. Mary

Statement of Net Assets  
September 30, 2003  
(With comparative amounts as of September 30, 2002)

ASSETS	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ -	\$ 44,282
Receivables:		
Patient, net of uncollectible provisions of \$723,515	3,231,994	2,589,294
Settlements - Medicare/Medicaid, net	151,197	-
Taxes	994,620	931,721
Other	59,771	22,647
Inventory	490,548	477,194
Prepaid expenses	161,126	119,022
Total current assets	<u>5,089,256</u>	<u>4,184,160</u>
Restricted assets (restricted to capital improvements and debt retirement):		
Cash	2,527	2,504
Certificates of deposit	-	211,841
Taxes receivable	248,655	232,885
Total restricted assets	<u>251,182</u>	<u>447,230</u>
Property, plant and equipment, net of accumulated depreciation	<u>4,469,347</u>	<u>4,315,905</u>
Other assets:		
Bond issue costs	<u>2,299</u>	<u>6,894</u>
Total assets	<u>\$ 9,812,084</u>	<u>\$ 8,954,189</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1  
Parish of St. Mary

Statement of Net Assets  
September 30, 2003  
(With comparative amounts as of September 30, 2002)

LIABILITIES AND NET ASSETS	<u>2003</u>	<u>2002</u>
Current liabilities:		
Short term certificates payable	\$ 1,200,000	\$ 375,941
Current maturities of debt	-	51,002
Accounts payable	1,748,180	1,585,159
Accrued wages and related withholdings	349,312	328,686
Other current liabilities	254,749	350,594
Payable from restricted assets:		
Current maturities of debt	<u>406,640</u>	<u>390,000</u>
Total current liabilities	<u>3,958,881</u>	<u>3,081,382</u>
Long term debt:		
Loans payable	145,403	178,016
General obligation bonds payable, net of original issue discount	-	399,919
Total long term debt	<u>145,403</u>	<u>577,935</u>
Total liabilities	<u>4,104,284</u>	<u>3,659,317</u>
Net assets		
Invested in capital assets, net of related debt	4,262,707	3,915,986
Restricted	51,182	57,230
Unrestricted	<u>1,393,911</u>	<u>1,321,656</u>
Total net assets	<u>5,707,800</u>	<u>5,294,872</u>
Total liabilities and net assets	<u>\$ 9,812,084</u>	<u>\$ 8,954,189</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1  
Parish of St. Mary

Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended September 30, 2003  
(With comparative amounts for the year ended September 30, 2002)

	2003	2002
Operating revenues:		
Inpatient	\$ 7,435,743	\$ 9,211,044
Outpatient	9,876,238	10,568,324
Emergency room	4,932,362	3,996,094
Swing bed	1,641,393	856,783
Rehabilitation	157,113	1,120,159
Taxes	1,440,708	1,353,507
Other	429,231	313,128
	25,912,788	27,419,039
Contractual adjustments, discounts, and allowances	(13,776,272)	(14,694,353)
Net operating revenues	12,136,516	12,724,686
Operating expenses:		
Depreciation	414,856	390,685
Dues and subscriptions	72,654	83,276
Insurance	265,912	275,941
Interest	60,585	61,661
Leases and rentals	75,383	12,690
Repairs and maintenance	211,933	226,207
Salaries and related benefits	6,899,251	7,669,573
Subcontract services	2,129,056	2,013,178
Supplies	1,551,656	1,847,903
Taxes, licenses and permits	2,992	15,480
Travel	55,202	60,544
Utilities	360,440	349,269
Total operating expenses	12,099,920	13,006,407
Income (loss) from operations	36,596	(281,721)
Nonoperating revenues (expenses):		
Tax revenue - restricted	342,910	261,544
Other	33,422	17,095
Total nonoperating revenues (expenses)	376,332	278,639
Net income (loss)	412,928	(3,082)
Net assets, beginning	5,294,872	5,132,994
Prior period adjustment	-	164,960
Net assets, ending	\$ 5,707,800	\$ 5,294,872

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1  
Parish of St. Mary

Statement of Cash Flows  
Year Ended September 30, 2003  
(With comparative amounts for the year ended September 30, 2002)

	2003	2002
<b>Operating Activities</b>		
Revenue collected	9,897,665	11,042,173
Payments to employees and suppliers	(11,599,495)	(12,057,257)
Ad valorem tax receipts - operating	1,377,809	1,288,255
Other receipts from operations	392,107	290,481
Net cash provided by operating activities	68,086	563,652
<b>Noncapital and investing activities</b>		
Interest received	-	17,095
Ad valorem tax receipts - restricted	327,140	261,544
Net cash provided by noncapital and investing activities	327,140	278,639
<b>Capital and related financing activities</b>		
Purchases of property and equipment	(568,298)	(256,756)
Proceeds from debt	1,365,000	558,000
Principal paid on debt	(1,382,569)	(1,376,363)
Interest paid	(65,459)	(54,940)
Net cash used in capital and related financing activities	(651,326)	(1,130,059)
Net decrease in cash and cash equivalents	(256,100)	(287,768)
Cash, cash equivalents and restricted cash, beginning of period	258,627	546,395
Cash, cash equivalents and restricted cash, end of period	\$ 2,527	\$ 258,627
<b>Reconciliation of income from operations to net cash provided by operations activities:</b>		
Income (loss) from operations	\$ 36,596	\$ (281,721)
<b>Adjustments to reconcile net operating income to net cash provided by operating activities -</b>		
Depreciation	414,856	390,685
Provisions for uncollectible accounts	94,166	127,154
Changes in current assets and liabilities:		
Receivables	(509,876)	152,580
Inventory	(13,354)	39,572
Prepaid expenses and other assets	(42,104)	62,352
Accounts payable	163,021	(42,293)
Accrued wages and related withholdings	20,626	(53,459)
Other current liabilities	(95,845)	168,782
Total adjustments	31,490	845,373
Net cash provided by (used in) operating activities	68,086	563,652

The accompanying notes are an integral part of this statement.

## HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary  
Franklin, Louisiana

### Notes to Financial Statements

#### (1) Summary of Significant Accounting Policies

Hospital Service District No. 1, Parish of St. Mary (hereafter "Hospital") was created by ordinance No. 559 of the Police Jury of St. Mary Parish (predecessor of the St. Mary Parish Government) 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.

The financial statements of the Hospital have been prepared in conformity with accounting principles generally accepted in the United States of America and, as a governmental entity provides certain disclosures required by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Hospital's accounting policies are described below.

#### A. Reporting Entity

As the governing authority of the parish, for reporting purposes, the St. Mary Parish Government is the financial reporting entity for St. Mary Parish. The financial reporting entity consists of (a) the primary government (parish council), (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.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the St. Mary Parish Government for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
  - The ability of the parish council to impose its will on that organization and/or
  - The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the parish council.
2. Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the Government.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary  
Franklin, Louisiana

Notes to Financial Statements

Because the parish council appoints the Hospital's governing body, Hospital Service District No. 1 was determined to be a component unit of the St. Mary Parish Government, the financial reporting entity. The accompanying component unit financial statements present information only on the funds maintained by the Hospital and do not present information on the parish council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

B. Fund Accounting

The Hospital is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where (a) the intent of the governing body is that the cost (expense, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements of the Hospital have been prepared in conformity with accounting principles generally accepted in the United States of America and, as a governmental entity provides certain disclosures required by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to Government 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 the 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of the timing of the related cash flows.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary

Franklin, Louisiana

Notes to Financial Statements

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits and interest bearing demand deposits. Cash equivalents include amounts in time deposits having a maturity of three months or less when purchased.

E. Net Patient Service Revenue

The Hospital has agreements with third-party payers, including government programs, health insurance companies and managed health care plans under which the Hospital is paid based upon established charges, the cost of providing services, predetermined diagnosis rates, fixed per diem rates or discounts from established charges. Revenues are recorded at estimated amounts due from patients and third-party payers for the services provided.

Net patient service revenue is reported at estimated amounts realizable from patients, third-party payers, and others for services rendered. The Hospital provides care to patients even though they are covered by contractual payment arrangements that do not pay full charges or may lack adequate insurance. As a result, the Hospital is exposed to credit risks. The Hospital manages such risks by providing appropriate allowances. The allowances are evaluated on a regular basis and is based upon management's periodic review of the collectibility of the accounts considering historical experience, the nature and volume of the accounts and the agreements with respective third-party payers.

F. Inventories

Inventories are stated at the lower of cost or market, with cost determined by the first-in first-out, (FIFO) method.

G. Prepaid Expenses

The Hospital records prepayments, such as insurance, as an asset on the balance sheet and systematically recognizes an expense ratably over the term of the prepayment.

H. Restricted Assets

Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also included are assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary  
Franklin, Louisiana

Notes to Financial Statements

I. Fixed Assets

Fixed assets are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation of all exhaustible fixed assets used by enterprise funds is charged as an expense against operations; and accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land Improvements	10 years
Building and Improvements	15-50 years
Equipment	4-15 years

The recognition of depreciation begins upon placement of the asset into useful operation.

J. Capitalized Interest

The Hospital capitalizes net interest costs and interest earned as part of the cost of construction when material.

K. Debt Issuance Costs

The Hospital recorded as an asset the costs incurred in connection with the issuance of bonded indebtedness. These costs are being amortized using the effective interest method over the life of the respective bond issues and is included in interest expense on the statement of revenues, expenses and changes in net assets.

L. Compensated Absences

Full-time employees of the Hospital earn up to a maximum of 28 days of paid time off, depending on length of service. A maximum of 24 days for regular employees and 28 days for department managers may be carried forward to the succeeding fiscal year.

M. Statement of Revenue, Expenses and Changes in Net Assets

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as components of nonoperating income or loss.

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

Notes to Financial Statements

N. 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.

O. Reclassifications

Certain accounts in the prior year financial information have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

P. Change in Accounting Principle

Effective October 1, 2002, the Hospital implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet or statement of net assets, a statement of revenues, expenditures and changes in net assets, and a statement of cash flows utilizing the direct method of presentation. The statement requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – 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 – constraints placed on net assets use imposed by external 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 assets that do not meet the criteria for “invested in capital assets, net of related debt” or “restricted”.

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

Notes to Financial Statements

(2) Cash and Certificates of Deposit

Under state law, the Hospital may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Hospital may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 2003, the Hospital had cash and interest-bearing deposits (book balances) totaling \$2,527.

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At September 30, 2003, the Hospital had cash and interest bearing deposit balances (bank balances), including restricted cash, totaling \$41,519. These deposits were fully secured from risk by federal deposit insurance.

(3) Property and Equipment

A summary of property and equipment at September 30, 2003, follows:

	<u>9/30/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/2003</u>
Land	\$ 7,958	\$ -	\$ -	\$ 7,958
Land improvements	61,134	3,300	-	64,434
Buildings and improvements	6,398,378	6,880	-	6,405,258
Fixed equipment	1,348,018	-	-	1,348,018
Movable equipment	<u>5,794,048</u>	<u>558,118</u>	-	<u>6,352,166</u>
	\$ 13,609,536	\$ 568,298	\$ -	\$ 14,177,834
Less accumulated depreciation	<u>(9,293,631)</u>	<u>(414,856)</u>	-	<u>(9,708,487)</u>
Property and equipment, net	<u>\$ 4,315,905</u>	<u>\$ 153,442</u>	\$ -	<u>\$ 4,469,347</u>

Depreciation expense for the year ended September 30, 2003 was \$414,856.

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

Notes to Financial Statements

(4) Bond Issue Costs

As described in Note 7, the Hospital issued general obligation refunding bonds, series 1991 and general obligation bonds, series 1999. Expenses, primarily legal fees, were incurred in connection with the issuance of the bonds. Accounting Principle Board Statement 21 requires such costs to be reported as deferred charges on the balance sheet and amortized from the date of sale until the maturity of the obligation.

At September 30, 2003, the Hospital has unamortized bond issue costs as follows:

Bond Issue Costs-	
General Obligation Refunding Bonds, Series 1997	\$19,468
General Obligation Bonds, Series 1999	<u>15,185</u>
	34,653
Amortization Recognized	<u>(32,354)</u>
	<u>\$ 2,299</u>

For the year ended September 30, 2003, amortization recognized totaled \$4,595.

(5) Short term Certificates Payable

The Hospital obtained authorization from the State Bond Commission to issue short term certificates, not to exceed \$1,200,000. Such debt is incurred to pay operating expenses in anticipation of revenues for the current year. The certificates are due and payable on or before March 1, 2004 and bear interest at a rate not exceeding 3.06 percent per annum. At September 30, 2003, the line was fully extended at \$1,200,000 and had accrued interest in the amount of \$11,955.

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

Notes to Financial Statements

(6) Long-term Debt

The following is a summary of long-term debt transactions of the Hospital for the year ended September 30, 2003.

	<u>9/30/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>9/30/2003</u>
Loans payable	\$ 178,016	\$ -	\$ 32,613	\$ 145,403
Certificates of Indebtedness	51,002	-	51,002	-
General obligation bonds	<u>789,919</u>	-	<u>383,279</u>	<u>406,640</u>
Total general long-term debt	<u>\$ 1,018,937</u>	<u>\$ -</u>	<u>\$466,894</u>	<u>\$ 552,043</u>

Current Maturities of long-term debt are as follows:

General obligation bonds	<u>410,000</u>
Total current maturities long-term debt	<u>\$410,000</u>

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

Notes to Financial Statements

Long-term obligations (loans, certificates and bonds payable) are comprised of the following:

Loans Payable:

The Hospital has one outstanding obligations to the St. Mary Parish Council totaling \$145,403. The note is unsecured and due and payable on demand. In lieu of payments on the note, the Hospital has agreed to provide medical services to the parish prisoners and offset the cost of such services against the balance due.

General Obligation Bonds:

\$1,750,000 General Obligation Refunding Bonds, Series 1997, due in annual installments of \$35,000 - \$210,000 through March, 2004; interest ranging from 4.7 percent to 6.6 percent; payable from specific ad valorem tax levy	\$ 210,000
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\$900,000 General Obligation Refunding Bonds, Series 1999, due in annual installments of \$160,000 - \$200,000 through March, 2004; interest ranging from 3.3 percent to 3.8 percent; payable from specific ad valorem tax levy	<u>200,000</u>
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Less: Unamortized Discount	<u>(3,360)</u>
	<u>\$ 406,640</u>

The annual requirements to amortize all debt outstanding as of September 30, 2003 for the general obligation bonds, are as follows:

Year Ending September 30	Principal	Interest	Total
2004	\$ 410,000	\$ 10,730	\$ 420,730

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

Notes to Financial Statements

(7) Concentrations of Credit Risk

The Hospital grants credit without personal collateral to its patients, most of whom are local and /or Louisiana residents and are insured under third-party payer arrangements. Revenues from patients and third party-payers were as follows:

Medicare	23.8%
Medicaid	33.7%
Commercial insurance	19.9%
Private pay	22.6%
	<u>100.0%</u>

(8) Management Contract

In July of 1984, the Hospital entered into an agreement with Quorum Health Resources, LLC (formerly HCA Management Company, Inc.) to manage the day-to-day business affairs of the hospital. Quorum provides the hospital with the services of an administrator and a controller. Management fees are adjusted annually based on the Consumer Price Index. These fees are paid monthly in addition to a reimbursement for compensation and fringe benefits paid to the personnel furnished by Quorum to the hospital. For the year ended September 30, 2003, management fees and reimbursements for compensation and fringe benefits were \$213,203 and \$278,260 respectively.

(9) Contingent Liabilities

Compensated Absences. The Hospital is contingently liable for compensated absences. Compensated absences are nonvesting and are not paid in the event of termination of employment. Accrued compensated absences as of September 30, 2003 was \$169,453.

Litigation. At September 30, 2003, the Hospital was a defendant in various lawsuits. The Hospital's legal counsel has reviewed the claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the Hospital and to arrive at an estimate, if any, of the amount or range of potential loss to the Hospital. As a result of the review, the various claims and lawsuits have been categorized into "probable", "reasonably possible", or "remote", as defined by the Governmental Accounting Standards Board. It is the opinion of the Hospital after conferring with legal counsel, that the liability, if any, which might arise from these lawsuits would not have a material adverse effect on the Hospital's financial position.

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

Notes to Financial Statements

(10) Compensation of Board Members

Members of the Board of Commissioners of Hospital Service District No. 1 serve without compensation for their services. Board members are

Marshall Guidry  
Ann Luke  
Didi Battle  
Roland Degeyter  
Gregg Paul  
Clegg Caffery, Jr.  
Alan Von Werder

REQUIRED BY GOVERNMENT AUDITING STANDARDS

# KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Christine L. Cousin, CPA  
Mary T. Thibodeaux, CPA  
Kelly M. Doucet, CPA  
Kenneth J. Rachal, CPA  
Cheryl L. Bartley, CPA, CVA

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

\* A Professional Accounting Corporation

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

We have audited the general purpose financial statements of the Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, as of and for the year ended September 30, 2003, and have issued our report thereon dated December 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Hospital Service District No. 1'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 Hospital Service District No. 1'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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This report is intended solely for the information and use of the management of Hospital Service District No. 1, Parish of St. Mary, others within the organization, and the St. Mary Parish Government and is not intended to be and should not be used by anyone other than these specified parties. However, under the provisions of Louisiana Revised Statutes 24:513 and 44:6, this report is a matter of public record and its distribution is not limited.

***Kolder, Champagne, Slaven & Company, LLC***  
Certified Public Accountants

Morgan City, Louisiana  
December 1, 2003

HOSPITAL SERVICE DISTRICT NO. 1  
Parish of St. Mary

Summary Schedule of Findings and Questioned Costs  
Year Ended September 30, 2003

Part I. Summary of Auditor's Results:

An unqualified opinion was issued on the financial statements.

No reportable conditions in internal control were disclosed by the audit of the financial statements.

The audit did not disclose any instances of noncompliance which are material to the financial statements.

A management letter was not issued.

Part II. Findings required to be reported in accordance with generally accepted Governmental Auditing Standards:

not applicable

Part III. Findings and questioned costs for federal awards required to be reported in accordance with Office of Management and Budget Circular A-133:

not applicable

HOSPITAL SERVICE DISTRICT NO. 1  
 Parish of St. Mary

Schedule of Prior Audit Findings  
 Year Ended September 30, 2003

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken (Yes, No, Partially)</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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There were no items previously reported.

HOSPITAL SERVICE DISTRICT NO. 1  
Parish of St. Mary

Corrective Action Plan for Current Year Findings  
Year Ended September 30, 2003

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)	Anticipated Completion Date
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Compliance

There are no items that are required to be reported.

Internal Control

There are no items that are required to be reported.

Management Letter Items

There are no items that are required to be reported.