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

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2004

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 5/11/05

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INDEPENDENT AUDITOR'S REPORT

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, 2004, 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, 2004, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 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.

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The management's discussion and analysis on pages 3 through 9 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 principally 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.

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

Morgan City, Louisiana
December 30, 2004

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2004

This section of the Hospital Service District No. 1's (the "Hospital") annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal year that ended on September 30, 2004. Please read it in conjunction with the financial statements in this report.

FINANCIAL HIGHLIGHTS

The Hospital's total net assets increased by \$790,518, or 13.8 percent, from the prior year. This increase results from the recognition of operating income of \$435,667 and net non-operating income of \$354,851. During FY 2004 the Hospital dealt with several significant issues that resulted from the change to a Critical Access Hospital.

Fiscal Year 2004 was Hospital's first full year as a Critical Access Hospital. This change in Medicare status, which occurred in April 2003, carried over into FY 2004 and was the catalyst for a number of other positive changes. The most significant impact of this change was a reduction in contractual allowances from 57.3% of gross revenue in FY 2003 to 54.0% in FY 2004. This reduction in contractual allowances allowed the Hospital to show a \$504,879 increase in net patient revenues even though gross patient revenues decreased by \$622,242.

As mentioned above, while net revenues increased, there was a reduction in gross patient revenues. This reduction in gross patient revenue is attributed to shifts in volume in FY 2004 which can also be indirectly traced to the change to critical access. Inpatient days decreased 10.25% from 2,633 in FY 2003 to 2,363 in FY 2004 while admissions decreased 10.85% from 903 in FY 2003 to 805 in FY 2004. It is felt that the emphasis given to reduced length of stay and the need to change practice patterns that went with the reduction from 60 to 25 beds resulted in this volume decrease.

While the change to critical access was the most significant issue in the FY 2004 financials, the Hospital also saw positive trends in outpatient activity. The Hospital experienced a 5.8 percent increase in emergency department visits in FY 2004 for a total of 9,124 visits compared to 8,620 ED visits in FY 2003. The Hospital also saw a significant increase in outpatient surgery volume with an increase from 551 outpatient procedures in FY 2003 to 808 in FY 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditors' Report, the Financial Statements, and Supplementary Information.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2004

The financial statements report the financial position of the Hospital and the results of its operations and cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's 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 the Hospital's creditors (liabilities) for both the current year and the prior year. They also provide the basis for 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 Revenues and Expenses and Changes in Net Assets. This statement measures the performance of 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 patient service revenue and other revenue sources.

The primary purpose of the Statements of Cash Flows is to provide information about the Hospital's cash from operations, investment, and financial activities. The statements of cash flows outline where the cash comes from, what the cash is used for, and the changes in the cash balance during the reporting period.

The annual report also includes Notes to the Financial Statements that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

Following the notes to the financial statements is a section containing supplementary information that further explains and supports the information reported in the financial statements. This section includes optional schedules showing revenue and expenses by department as well as certain statistical information.

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheets, the statements of revenue and expenses and changes in net assets report information about the Hospital's activities. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government regulations.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2004

A summary of the Hospital's balance sheets is presented in the following table:

Condensed Balance Sheets

| | <u>Fiscal Year 2004</u> | <u>Fiscal Year 2003</u> | <u>Dollar Change</u> | <u>Total Percent Change</u> |
|--------------------------------------|---------------------------------|---------------------------------|--------------------------|-------------------------------------|
| Patient accounts receivable, net | \$ 2,323,801 | \$ 3,231,994 | \$ (908,193) | -28.10% |
| Taxes receivable | 1,242,936 | 1,243,275 | (339) | -0.03% |
| Settlements Medicare/Medicaid | 367,217 | 151,197 | 216,020 | 142.87% |
| Other assets | 668,397 | 716,271 | (47,874) | -6.68% |
| Property and equipment, net | <u>5,307,436</u> | <u>4,469,347</u> | <u>838,089</u> | <u>18.75%</u> |
| Total assets | <u>\$ 9,909,787</u> | <u>\$ 9,812,084</u> | <u>\$ 97,703</u> | <u>1.00%</u> |
| Current liabilities | \$ 3,336,842 | \$ 3,958,881 | \$ (622,039) | -15.71% |
| Long-term debt | 74,627 | 145,403 | (70,776) | -48.68% |
| Net assets | <u>6,498,318</u> | <u>5,707,800</u> | <u>790,518</u> | <u>13.85%</u> |
| Total liabilities and net assets | <u>\$ 9,909,787</u> | <u>\$ 9,812,084</u> | <u>\$ 97,703</u> | <u>1.00%</u> |

Patient Accounts Receivable, Net

During FY 2004 the Hospital saw significant improvement in patient accounts receivable with a decrease of \$908,193 or 28.1%. This improvement is also reflected in an improvement in Days in A/R—Gross days in A/R went from 101.4 in FY 2003 to 54.6 in FY 2004 while Net Days in A/R decreased from 115.8 to 64.3 for the same period.

Settlements Medicare/Medicaid

The balance due from Medicare and Medicaid at September 30, 2004 is the result of the FY 2004 Medicare Cost Report filing. According to this cost report the Medicare owes the Hospital \$537,682 under Medicare Part A; the Hospital owes Medicare Part B \$311,425; and Medicaid owes the Hospital \$140,960 for a net receivable of \$367,217.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2004

Property and Equipment, Net

| | <u>Fiscal Year 2004</u> | <u>Fiscal Year 2003</u> | <u>Dollar Change</u> | <u>Total Percent Change</u> |
|--------------------------------|---------------------------------|---------------------------------|--------------------------|-------------------------------------|
| Land and land improvements | \$ 382,623 | \$ 72,392 | \$ 310,231 | 428.54% |
| Buildings | 6,405,258 | 6,405,258 | - | 0.00% |
| Fixed equipment | 1,348,018 | 1,348,018 | - | 0.00% |
| Major movable equipment | 6,826,800 | 6,352,166 | 474,634 | 7.47% |
| Construction in progress | <u>492,907</u> | <u>-</u> | <u>492,907</u> | <u>0.00%</u> |
| Subtotal | 15,455,606 | 14,177,834 | 1,277,772 | 9.01% |
| Less: Accumulated depreciation | <u>(10,148,170)</u> | <u>(9,708,487)</u> | <u>(439,683)</u> | <u>4.53%</u> |
| Net capital assets | <u>\$ 5,307,436</u> | <u>\$ 4,469,347</u> | <u>\$ 838,089</u> | <u>18.75%</u> |

Gross capital assets increased 9.0 percent in FY 2004 due primarily to activity related to the development of the new hospital building including \$304,841 for the purchase of land and \$492,907 for consulting and planning cost that are included in construction in progress. In addition the Hospital invested \$474,634 in major movable equipment including: 1) A Computerized Radiography Unit--\$188,083; 2) a Surgery Table--\$31,684; 3) Anesthesia Monitors--\$33,809; 4) Computer Equipment Upgrades--\$87,102; 5) a Laser Camera for CT--\$17,500; and 6) \$116,456 for more routine items.

Current Liabilities

Current liabilities decreased \$622,039 (15.71%) from a total of \$3,958,881 in FY 2003 to a total of \$3,336,842 in FY 2004. This decrease is primarily due to decreases in three categories of liabilities. First, the Hospital paid off all of the outstanding debt related to the Series 1997 General Obligation Refunding Bonds, as well as, the debt related to the Series 1999 General Obligation Refunding Bonds for a \$406,640 reduction. Second, accounts payable were decreased from a total of \$1,748,180 at 9/30/03 to a total of \$1,503,629 at 9/30/04. Third, short term certificates payable were \$200,000 lower at \$1,000,000 at the end of FY 2004 than they were at the end of FY 2003 reflecting the partial early pay off of the Hospital's line of credit liability.

Long-Term Debt

At September 30, 2004 the Hospital has one outstanding obligation to the St. Mary Parish Council totaling \$74,627. 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.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2004

OPERATING AND FINANCIAL PERFORMANCE

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

Condensed Statement of Revenue and Expenses

| | <u>Fiscal Year 2004</u> | <u>Fiscal Year 2003</u> | <u>Dollar Change</u> | <u>Total Percent Change</u> |
|-------------------------------|---------------------------------|---------------------------------|--------------------------|-------------------------------------|
| Operating Revenue | | | | |
| Patient service, net | \$ 10,771,456 | \$ 10,266,577 | \$504,879 | 4.92% |
| Taxes - ad valorem | 1,335,895 | 1,440,708 | (104,813) | -7.28% |
| Net other operating revenues | <u>578,937</u> | <u>429,231</u> | <u>149,706</u> | <u>34.88%</u> |
| Total Operating Revenues | <u>12,686,288</u> | <u>12,136,516</u> | <u>549,772</u> | <u>4.53%</u> |
| Operating Expense | | | | |
| Salaries and related benefits | 6,476,651 | 6,899,251 | (422,600) | -6.13% |
| Subcontract services | 2,427,978 | 2,129,056 | 298,922 | 14.04% |
| Supplies and other | 2,888,300 | 2,656,757 | 231,543 | 8.72% |
| Depreciation and amortization | <u>457,692</u> | <u>414,856</u> | <u>42,836</u> | <u>10.33%</u> |
| Total operating expense | <u>12,250,621</u> | <u>12,099,920</u> | <u>150,701</u> | <u>1.25%</u> |
| Income from operations | <u>435,667</u> | <u>36,596</u> | <u>399,071</u> | <u>1090.48%</u> |
| Non-operating revenue | | | | |
| Taxes - ad valoremn | 342,951 | 342,910 | 41 | 0.01% |
| Other | <u>11,900</u> | <u>33,422</u> | <u>(21,522)</u> | <u>-64.39%</u> |
| Net non-operating revenue | <u>354,851</u> | <u>376,332</u> | <u>(21,481)</u> | <u>-5.71%</u> |
| Net income | 790,518 | 412,928 | <u>377,590</u> | <u>91.44%</u> |
| Net assets, beginning | <u>5,707,800</u> | <u>5,294,872</u> | | |
| Net assets, ending | <u>\$ 6,498,318</u> | <u>\$ 5,707,800</u> | | |

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2004

Operating Revenue

During Fiscal Year 2004, the Hospital derived 85% percent of its total operating revenues from net patient service revenues. Such revenues include revenues from the Medicare and Medicaid programs, patients, or their third-party carriers who pay for care in the Hospital's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2004 and 2003 which shows very little change in payor mix with the 1.1% increase in Self-pay offset by the 1.7% increase in Managed Care:

| | Fiscal Year 2004 | Fiscal Year 2003 |
|---|---------------------------------|---------------------------------|
| Medicare | 50.3% | 51.9% |
| Medicaid | 21.8% | 23.0% |
| Managed care, commercial, other insurance | 19.7% | 18.0% |
| Self-pay | <u>8.2%</u> | <u>7.1%</u> |
| Total gross charges | <u>100.0%</u> | <u>100.0%</u> |

- During FY 2004, the Hospital had patient days and admissions of 2,363 and 805, respectively. That compares to 2,633 and 903 in FY 2003. That is a decrease in patient days of 10.25 percent and 10.85 percent decrease in admissions. As mentioned above the decrease in volume is concomitant to the decrease in beds associated with the conversion to critical access.

- Outpatient visits were 18,381 in FY 2004 compared to 17,828 in FY 2003. Most of this increase in outpatient volume is attributed to the emergency department which went from 8,620 visits in FY 2003 to 9,124 in FY 2004. So while we had a significant decrease in inpatient volume we were able to offset some of that decrease with a 3.1% increase in outpatient business which is consistent with national trends.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2004

Operating Expense

- Total operating expenses increased 1.25 percent from a total of \$12,099,920 in FY 2003 to a total of \$12,250,621 in FY 2004. There were three major shifts in operating expense that netted to this modest increase. First, there was a \$422,600 (6.13%) decrease in salaries and related benefits as a result of one employed physician going into private practice and the elimination of the Chief Operating Officer position. Second, there was a \$298,922 (14.04%) increase in subcontracted services. Third, there was a \$42,836 (10.33%) increase in depreciation expense as a result of the capital purchase detailed above.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's board and management considered many factors when setting the fiscal year 2005 budget. While the financial outlook for the Hospital is excellent, of primary importance in setting the FY 2005 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes
- Medicaid reimbursement changes, as well as the continuation at the current level of the disproportionate share program
- Increased number of uninsured and working poor
- Ongoing competition for services
- Workforce shortages primarily in nursing and other clinically skilled positions
- Ability to continue recruiting medical staff physicians

CONTACTING THE HOSPITAL FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Franklin Foundation Hospital, 1501 Hospital Avenue, Franklin, La 70538.

FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1
 Parish of St. Mary

Statement of Net Assets
 September 30, 2004
 (With comparative amounts as of September 30, 2003)

| ASSETS | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|
| Current assets: | | |
| Receivables: | | |
| Patient, net of uncollectible provisions of \$508,374 | \$ 2,323,801 | \$ 3,231,994 |
| Settlements - Medicare/Medicaid, net | 367,217 | 151,197 |
| Taxes | 994,349 | 994,620 |
| Other | 69,602 | 59,771 |
| Inventory | 497,312 | 490,548 |
| Prepaid expenses | 98,938 | 161,126 |
| Total current assets | <u>4,351,219</u> | <u>5,089,256</u> |
| Restricted assets (restricted to capital improvements and debt retirement): | | |
| Cash | 2,545 | 2,527 |
| Taxes receivable | 248,587 | 248,655 |
| Total restricted assets | <u>251,132</u> | <u>251,182</u> |
| Property, plant and equipment, net of accumulated depreciation | <u>5,307,436</u> | <u>4,469,347</u> |
| Other assets: | | |
| Bond issue costs | <u>-</u> | <u>2,299</u> |
| Total assets | <u>\$ 9,909,787</u> | <u>\$ 9,812,084</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, 2004
(With comparative amounts as of September 30, 2003)

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Cash overdraft | \$ 222,787 | \$ - |
| Short term certificates payable | 1,000,000 | 1,200,000 |
| Accounts payable | 1,503,629 | 1,748,180 |
| Accrued wages and related withholdings | 390,873 | 349,312 |
| Other current liabilities | 219,553 | 254,749 |
| Payable from restricted assets: | | |
| Current maturities of debt | - | 406,640 |
| Total current liabilities | <u>3,336,842</u> | <u>3,958,881</u> |
| Long term debt: | | |
| Loans payable | <u>74,627</u> | <u>145,403</u> |
| Total long term debt | <u>74,627</u> | <u>145,403</u> |
| Total liabilities | <u>3,411,469</u> | <u>4,104,284</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 5,307,436 | 4,262,707 |
| Restricted | 251,132 | 51,182 |
| Unrestricted | <u>939,750</u> | <u>1,393,911</u> |
| Total net assets | <u>6,498,318</u> | <u>5,707,800</u> |
| Total liabilities and net assets | <u>\$ 9,909,787</u> | <u>\$ 9,812,084</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, 2004
(With comparative amounts for the year ended September 30, 2003)

| | 2004 | 2003 |
|---------------------------------------|---------------|---------------|
| Operating revenues: | | |
| Patient service, net | \$ 10,771,456 | \$ 10,266,577 |
| Taxes - ad valorem | 1,335,895 | 1,440,708 |
| Other | 578,937 | 429,231 |
| Net operating revenues | 12,686,288 | 12,136,516 |
| Operating expenses: | | |
| Depreciation | 457,692 | 414,856 |
| Insurance | 244,798 | 265,912 |
| Interest | 56,726 | 60,585 |
| Leases and rentals | 105,068 | 75,383 |
| Repairs and maintenance | 220,482 | 211,933 |
| Salaries and related benefits | 6,476,651 | 6,899,251 |
| Subcontract services | 2,427,978 | 2,129,056 |
| Supplies and other charges | 1,889,463 | 1,682,504 |
| Utilities | 371,763 | 360,440 |
| Total operating expenses | 12,250,621 | 12,099,920 |
| Income from operations | 435,667 | 36,596 |
| Nonoperating revenues (expenses): | | |
| Taxes - ad valorem - restricted | 342,951 | 342,910 |
| Other | 11,900 | 33,422 |
| Net nonoperating revenues | 354,851 | 376,332 |
| Net income | 790,518 | 412,928 |
| Net assets, beginning | 5,707,800 | 5,294,872 |
| Net assets, ending | \$ 6,498,318 | \$ 5,707,800 |

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, 2004
(With comparative amounts for the year ended September 30, 2003)

| | 2004 | 2003 |
|---|--------------|--------------|
| Operating Activities | | |
| Revenue collected | 10,462,885 | 9,897,665 |
| Payments to employees and suppliers | (11,693,879) | (11,599,495) |
| Ad valorem tax receipts - operating | 1,336,166 | 1,377,809 |
| Other receipts from operations | 569,106 | 392,107 |
| Net cash provided by operating activities | 674,278 | 68,086 |
| Noncapital and investing activities | | |
| Interest received | - | - |
| Ad valorem tax receipts - restricted | 343,019 | 327,140 |
| Net cash provided by noncapital and investing activities | 343,019 | 327,140 |
| Capital and related financing activities | | |
| Purchases of property and equipment | (1,295,781) | (568,298) |
| Proceeds from debt | 1,200,000 | 1,365,000 |
| Principal paid on debt | (1,080,919) | (1,382,569) |
| Interest paid | (63,366) | (65,459) |
| Net cash used in capital and related financing activities | (1,240,066) | (651,326) |
| Net decrease in cash and cash equivalents | (222,769) | (256,100) |
| Cash, cash equivalents and restricted cash, beginning of period | 2,527 | 258,627 |
| Cash, cash equivalents and restricted cash (overdraft), end of period | \$ (220,242) | \$ 2,527 |
| Reconciliation of income from operations to net cash provided by operations activities: | | |
| Income (loss) from operations | \$ 435,667 | \$ 36,596 |
| Adjustments to reconcile net operating income to net cash provided by operating activities - | | |
| <i>Depreciation</i> | 457,692 | 414,856 |
| Provisions for uncollectible accounts | (215,141) | 94,166 |
| Changes in current assets and liabilities: | | |
| Receivables | 178,822 | (509,876) |
| Inventory | (6,764) | (13,354) |
| Prepaid expenses and other assets | 62,188 | (42,104) |
| Accounts payable | (244,551) | 163,021 |
| Accrued wages and related withholdings | 41,561 | 20,626 |
| Other current liabilities | (35,196) | (95,845) |
| Total adjustments | 238,611 | 31,490 |
| Net cash provided by operating activities | 674,278 | 68,086 |

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 (continued)

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 (continued)

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 (continued)

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 (continued)

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.

(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, 2004, the Hospital had cash and interest-bearing deposits (book balances) totaling \$2,545.

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, 2004, the Hospital had cash and interest bearing deposit balances (bank balances), including restricted cash, totaling \$2,547. These deposits were fully secured from risk by federal deposit insurance.

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

Notes to Financial Statements (continued)

(3) Property and Equipment

A summary of property and equipment at September 30, 2004, follows:

| | 9/30/2003 | Additions | Deletions | 9/30/2004 |
|-------------------------------|---------------------|--------------------|------------------|---------------------|
| Land | \$ 7,958 | \$ 304,841 | \$ - | \$ 312,799 |
| Land improvements | 64,434 | 5,390 | - | 69,824 |
| Buildings and improvements | 6,405,258 | - | - | 6,405,258 |
| Fixed equipment | 1,348,018 | - | - | 1,348,018 |
| Movable equipment | 6,352,166 | 492,643 | 18,009 | 6,826,800 |
| Construction in Progress | - | 492,907 | - | 492,907 |
| | <u>\$14,177,834</u> | <u>\$1,295,781</u> | <u>\$ 18,009</u> | <u>\$15,455,606</u> |
| Less accumulated depreciation | <u>(9,708,487)</u> | <u>(457,692)</u> | <u>(18,009)</u> | <u>(10,148,170)</u> |
| Property and equipment, net | <u>\$ 4,469,347</u> | <u>\$ 838,089</u> | <u>\$ -</u> | <u>\$ 5,307,436</u> |

Depreciation expense for the year ended September 30, 2004 was \$457,692.

(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, 2004, 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>(34,653)</u> |
| | <u>\$ -</u> |

For the year ended September 30, 2004, amortization recognized totaled \$2,299.

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

Notes to Financial Statements (continued)

(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, 2005 and bear interest at a rate not exceeding 2.90 percent per annum. At September 30, 2004, unpaid balance on the line of credit was \$1,000,000 and had accrued interest in the amount of \$8,378.

(6) Long-term Debt

The following is a summary of long-term debt transactions of the Hospital for the year ended September 30, 2004.

| | 9/30/2003 | Additions | Reductions | 9/30/2004 |
|------------------------------|------------|-----------|------------|-----------|
| Loans payable | \$ 145,403 | \$ - | \$ 70,776 | \$ 74,627 |
| General obligation bonds | 406,640 | - | 406,640 | - |
| Total general long-term debt | \$ 552,043 | \$ - | \$477,416 | \$ 74,627 |

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

The Hospital has one outstanding obligations to the St. Mary Parish Council totaling \$74,627. 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.

(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. Amounts due from patients and third party-payers were as follows:

| | |
|----------------------|-------|
| Medicare | 30.2% |
| Medicaid | 13.9% |
| Commercial insurance | 16.2% |
| Private pay | 39.6% |
| | 99.9% |

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

Notes to Financial Statements (continued)

(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, 2004, management fees and reimbursements for compensation and fringe benefits were \$223,817 and \$273,976 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, 2004 was \$171,969.

Litigation. At September 30, 2004, 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.

(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
Nick Accardo, M.D.
Eugene Foulcard
Clegg Caffery, Jr.
Alan Von Werder

REQUIRED BY GOVERNMENT AUDITING STANDARDS

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Mandy B. Self, CPA

* A Professional Accounting Corporation

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

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

We have audited 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, 2004, and have issued our report thereon dated December 30, 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 30, 2004

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

Summary Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

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, 2004

| Ref. No. | Fiscal Year Finding Initially Occurred | Description of Finding | Planned Corrective | |
|----------|---|------------------------|--|--|
| | | | Corrective Action Taken (Yes, No, Partially) | Action/Partial Corrective Action Taken |

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, 2004

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

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.