

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER

VIVIAN, LOUISIANA

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2000

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 01-10-01

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

We have audited the accompanying proprietary fund balance sheets of North Caddo Hospital Service District, d/b/a North Caddo Medical Center, component unit of the Caddo Parish Commission, at June 30, 2000 and June 30, 1999 and the related statements of operations and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Caddo Hospital Service District, d/b/a North Caddo Medical Center at June 30, 2000 and June 30, 1999 and the results of its operations, changes in fund balances, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As more fully described in Note 21 to the financial statements, certain changes of previously reported amounts for the years ended June 30, 1999 and June 30, 1998 were made due to miscalculations of previously prepared Medicaid unreimbursed cost reports. Accordingly, the June 30, 1999 financial statements have been restated and an adjustment has been made to retain earnings as of July 1, 1998.

In accordance with Government Auditing Standards, we have also issued a report dated September 6, 2000 on our consideration of North Caddo Hospital Service District, d/b/a North Caddo Medical Center's internal control and its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Cole, Evans & Peterson
Cole, Evans & Peterson

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTERBALANCE SHEETS-PROPRIETARY FUNDAT JUNE 30, 2000 AND JUNE 30, 1999

<u>ASSETS</u>	<u>2000</u>	Enterprise Fund June 30	<u>1999</u>
<u>Current Assets:</u>			
Cash and Cash Equivalents (Note 4)	888,463		221,698
Certificates of Deposit (More than Three Month Maturities) (Note 4)	500,000		800,000
Accounts Receivable from Patient Services-Net of Estimated Allowances and Uncollectible Accounts (Note 3)	915,749		929,126
Estimated Third-Party Payor Settlements (Note 3)			76,555
Accounts Receivable-Other	35,937		
Interest Receivable	854		1,439
Inventories-Drugs and Supplies	133,385		132,030
Prepaid Expenses	<u>18,452</u>		<u>14,697</u>
Total Current Assets	2,492,840		2,175,545
<u>Fixed Assets: (Note 5)</u>			
Land	95,367		95,367
Land Improvements	173,837		173,837
Buildings and Building Improvements	1,903,070		1,891,939
Equipment	1,926,974		1,888,183
Equipment Held Under Capital Leases (Note 6)	<u>308,464</u>		<u>308,464</u>
	4,407,712		4,357,790
<u>Less-Accumulated Depreciation</u>	<u>2,798,069</u>		<u>2,528,058</u>
Net Fixed Assets	1,609,643		1,829,732
<u>Other Assets:</u>			
Assets Not in Service			4,710
Unamortized Cost of Tax Election	<u>6,555</u>		<u>7,648</u>
Total Other Assets	<u>6,555</u>		<u>12,358</u>
Total Assets	<u>4,109,038</u>		<u>4,017,635</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

BALANCE SHEETS-PROPRIETARY FUND

AT JUNE 30, 2000 AND JUNE 30, 1999

<u>LIABILITIES AND FUND BALANCE</u>	<u>2000</u>	Enterprise Fund June 30 (Restated Note 21) <u>1999</u>
<u>Current Liabilities:</u>		
Accounts Payable (Note 17)	110,887	106,598
Estimated Third-Party Payor Settlements (Note 3)	669,848	400,000
Accrued Salaries, Withholdings and Retirement	81,375	74,611
Accrued Employee Vacation Benefits	51,008	59,684
Accrued Interest Payable	244	1,375
Capital Lease Obligations-Current Portion (Note 6)	<u>59,903</u>	<u>57,778</u>
Total Current Liabilities	973,265	700,046
<u>Long-Term Liabilities:</u>		
Capital Lease Obligations (Note 6)	175,143	235,981
Less-Current Portions	<u>59,903</u>	<u>57,778</u>
Total Long-Term Liabilities	115,240	178,203
<u>Commitments and Contingent Liabilities (Note 7)</u>		
Total Liabilities	<u>1,088,505</u>	<u>878,249</u>
<u>Fund Balance:</u>		
Restricted	- 0 -	- 0 -
Unrestricted	<u>3,020,533</u>	<u>3,139,386</u>
Total Fund Balance	<u>3,020,533</u>	<u>3,139,386</u>
Total Liabilities and Fund Balance	<u>4,109,038</u>	<u>4,017,635</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

STATEMENTS OF OPERATIONS AND
CHANGES IN FUND BALANCES-PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999

	2000	Enterprise Fund Year Ended June 30 (Restated Note 21) <u>1999</u>
<u>Operating Revenues:</u>		
Net Patient Revenues (Note 3)	4,717,236	4,779,406
Other Operating Revenue	<u>4,694</u>	<u>3,033</u>
Total Operating Revenues	4,721,930	4,782,439
<u>Operating Expenses:</u>		
Direct Departmental Expenses (Note 17)	3,301,360	3,107,142
Housekeeping	174,579	175,396
Maintenance and Utilities	182,573	208,968
Medical Records	86,520	83,768
General and Administrative (Notes 8, 9, 11, 16 and 17)	851,896	813,853
Bad Debts (Note 3)	486,070	461,354
Depreciation (Note 5)	274,175	263,543
Amortization	1,093	1,093
Interest Expense	<u>17,580</u>	<u>22,012</u>
Total Operating Expenses	<u>5,375,846</u>	<u>5,137,129</u>
<u>Operating (Loss)</u>	(653,916)	(354,690)
<u>Nonoperating Revenues:</u>		
Interest Income	50,942	47,727
Ambulance Tax Revenues (Note 10)	158,996	152,461
Grant (Notes 17 and 18)	320,000	80,000
Rent Income (Notes 13 and 17)	9,600	9,600
Gain on Sale of Equipment	235	7,309
Loss on Impairment of Long-Lived Assets (Note 19)	<u>(4,710)</u>	<u> </u>
Total Nonoperating Revenues	<u>535,063</u>	<u>297,097</u>
<u>(Decrease) in Unrestricted Fund Balance</u>	(118,853)	(57,593)
<u>Unrestricted Fund Balance at Beginning of Year (Note 21)</u>	<u>3,139,386</u>	<u>3,196,979</u>
<u>Unrestricted Fund Balance at End of Year</u>	<u>3,020,533</u>	<u>3,139,386</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

STATEMENTS OF CASH FLOWS-PROPRIETARY FUND

FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999

	2000	Enterprise Fund Year Ended June 30 (Restated Note 21) <u>1999</u>
<u>Cash Flows from Operating Activities:</u>		
(Decrease) in Unrestricted Fund Balance (Exhibit B)	(118,853)	(57,593)
Reconciliation of Increase in Unrestricted Fund Balance to Cash Flows from Operating Activities:		
Depreciation and Amortization	275,268	264,636
Interest Income on Investing Activities	(50,942)	(47,727)
Property Tax Revenues	(158,996)	(152,461)
Interest Expense on Financing Activities	17,580	22,012
(Gain) on Assets Sold	(235)	(7,309)
Grant from Noncapital Financing Activities	(320,000)	(80,000)
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	53,995	(258,475)
Increase in Accounts Payable	272,225	269,640
Decrease (Increase) in Prepaid Expenses	(3,755)	8,216
(Increase) in Inventory	(1,355)	(11,572)
Net Cash (Used) by Operating Activities	(35,068)	(50,633)
<u>Cash Flows from Noncapital Financing Activities:</u>		
Property Tax Revenues Received	158,996	152,461
Grant Received	<u>320,000</u>	<u>80,000</u>
Net Cash Provided by Noncapital Financing Activities	478,996	232,461
<u>Cash Flows from Capital and Related Financing Activities: (Note 15)</u>		
Acquisition and Construction of Capital Assets	(49,376)	(345,326)
Proceeds from Sale of Assets	235	8,047
Principal Payments on Capital Leases	(60,838)	(57,130)
Interest Payments on Capital Leases	(18,711)	(22,322)
Net Cash (Used) by Capital and Related Financing Activities	(128,690)	(416,731)
<u>Cash Flows from Investing Activities:</u>		
Interest Income on Investments	51,527	48,908
Purchase of Certificates of Deposit	(800,000)	(1,400,000)
Redemption of Certificates of Deposit	<u>1,100,000</u>	<u>1,615,062</u>
Net Cash Provided by Investing Activities	<u>351,527</u>	<u>263,970</u>
<u>Increase in Cash and Cash Equivalents</u>	666,765	29,067
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>221,698</u>	<u>192,631</u>
<u>Cash and Cash Equivalents at End of Year</u>	<u>888,463</u>	<u>221,698</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTERNOTES TO FINANCIAL STATEMENTSNote 1 - Summary of Significant Accounting Policies

The accompanying financial statements are prepared in conformity with generally accepted accounting principles. Application of those principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates. See Note 12 concerning significant estimates.

A summary of significant accounting policies follows:

Fund Types and Basis of Accounting

The Medical Center accounts for its financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units.

Given the nature of the Medical Center's activities, only one proprietary type fund, an enterprise fund, is maintained. The Medical Center conducts its activities on a fee for service basis in a manner similar to commercial enterprises that provide services to the public. Proprietary fund types are accounted for on the accrual basis.

Budgets and Budgetary Accounting

Under Louisiana law, hospital service districts are not required to operate under a formal budget. Accordingly, budgetary accounting is not presented in the financial statements.

Statement of Operations Classifications

Revenues and expenses deemed by management to be ongoing, major, or central to the provision of health care services are reported as components of operating income. Transactions that are peripheral or incidental to providing health care services are reported as nonoperating.

Patient Revenue

Patient revenues are reported net of free services and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. See Note 3.

Fixed Assets and Depreciation

Fixed assets other than those held under capital leases are included at cost, or if donated, at fair value on the date of receipt. Depreciation is computed using the straight-line method over the assets' estimated useful lives. See Note 5.

Gains and losses on the disposal of fixed assets are considered incidental to the provision of health care services and, as such, are reported as nonoperating.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Leases and Amortization

Assets and liabilities under capital leases are recorded at the present value of the minimum lease payments. The assets are amortized over their related lease terms which approximate their estimated productive lives. Amortization of assets under capital leases is included in depreciation.

Inventories

Inventories are reported principally at cost using a first-in, first-out cost flow assumption.

Compensated Absences

The Medical Center's policy regarding employees' vacation pay provides that employees' earned and unused vacation benefits accumulate and vest. Therefore a liability is recorded for those unpaid benefits. The Medical Center does not provide any other compensated absences that accumulate and vest.

Advertising

Costs of advertising are expensed as incurred.

Income Taxes

As a component unit of the Caddo Parish Commission and the State of Louisiana (Note 2), the Hospital is exempt from income taxes.

Amortization of Intangibles

The costs of an election to levy taxes for the Medical Center's benefit have been capitalized and are being amortized over the life of the levy (10 years) beginning with the year ended June 30, 1997, the year during which the tax levy was approved.

Cash Equivalents

Cash and cash equivalents includes all unrestricted highly liquid deposits and debt instruments acquired with maturities of three months or less.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting and Statement No. 29, The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities, the Medical Center 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 and which were developed for business enterprises.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. See Note 14.

Note 2 - Organization and Operations

North Caddo Hospital Service District, d/b/a North Caddo Medical Center (the "Medical Center") is located in Vivian, Louisiana and provides in-patient and out-patient acute and nonacute medical care, including emergency services, primarily to patients residing in the Vivian area. A significant portion of the Medical Center's revenues are from patients who are beneficiaries under the Medicare program. See Note 3.

The Medical Center is organized and operated as a hospital service district under Louisiana Revised Statutes, Chapter 10, Title 46 and is a component unit of the Caddo Parish Commission. It has no component units in its operations. The Medical Center operates and is financially independent of the Caddo Parish Commission.

Since the Medical Center is a component unit of the Caddo Parish Commission it is considered part of the Commission and is included as such for financial reporting purposes. The governing authority of the Medical Center is a board of commissioners consisting of six voting members. The members are appointed by the Commission for six-year terms. The governing authority of the Medical Center board was established by an ordinance of the Caddo Parish Commission.

The Medical Center was determined to be a component unit of the Caddo Parish Commission due to its financial accountability to the Commission as follows:

The Commission has the ability to appoint or remove members of the Board at will.

The Commission requires the Board to advise them on problems concerning the operation of the Medical Center and other facilities.

The accompanying financial statements present information only on the sole fund maintained by the Medical Center and do not present information on the Caddo Parish Commission.

Note 3 - Patient Revenues and Accounts Receivable

The Medical Center has agreements with third-party payors that provide for reimbursement to the Medical Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's established rates for services and amounts reimbursed by third-party payors.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 3 - Patient Revenues and Accounts Receivable (Continued)

Under the Medicare program, inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement method. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary.

For the years ended June 30, 2000 and June 30, 1999, the Medical Center received approximately 66 percent and 68 percent respectively, of its gross patient revenue (54 and 48 percent, respectively, of its net patient revenues) from Medicare beneficiaries. These revenues are subject to health insurance program fiscal intermediary review and retroactive adjustment. Cost reports for the years ended June 30, 2000, 1999 and 1998 are subject to examination. Provisions have been made for estimated settlements and adjustments.

Under the Medicaid program, inpatient services are reimbursed at a per diem rate, and outpatient services are reimbursed under a cost reimbursement method. Under the cost reimbursement method, the Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicaid fiscal intermediary. Under the per diem method, one established rate is used for all patient stays regardless of the magnitude or complexity of the services provided. The Medical Center's Medicaid cost reports for the years ended June 30, 2000, 1999 and 1998, are subject to examination by the Medicaid fiscal intermediary. Provisions have been made for estimated settlements and adjustments.

The Medical Center has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations which result in contractual adjustments from established rates.

A summary of patient revenues for the years ended June 30, 2000 and June 30, 1999 follows:

	Year Ended June 30	
	<u>2000</u>	(Restated Note 21) <u>1999</u>
Patient Revenues at Established Rates	\$ 8,354,204	\$ 8,568,982
<u>Less-Deductions from Patient Revenues:</u>		
Provisions for Contractual Adjustments Under Third-Party Reimbursement Programs	3,857,838	4,022,549
Medicaid Disproportionate Share Payments Received	(220,870)	(232,973)
	<u>3,636,968</u>	<u>3,789,576</u>
Net Patient Revenues	\$ <u>4,717,236</u>	\$ <u>4,779,406</u>

The Medical Center qualifies for Medicaid "disproportionate share payments" under the 1997 Rural Hospital Preservation Act. Such payments are contingent on annual federal funding and recognized as decreases to contractual adjustments in the year received. See Note 21 concerning overpayments of disproportionate share payments.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 3 - Patient Revenues and Accounts Receivable (Continued)

Accounts receivable from patient services consist of uncollateralized amounts due under the Medicare and Medicaid programs, insurance carriers, and directly from patients. Patients served are typically from the Vivian, Louisiana vicinity. Net accounts receivable from patient services is comprised as follows:

	At June 30	
	<u>2000</u>	<u>1999</u>
Gross Patient Accounts Receivable	\$ 2,077,168	\$ 1,938,178
Estimated Allowances for Bad Debts and Contractual Adjustments Under Third-Party Reimbursement Programs (Note 12)	<u>1,161,419</u>	<u>1,009,052</u>
Net Accounts Receivable from Patient Services	<u>\$ 915,749</u>	<u>\$ 929,126</u>

Note 4 - Cash and Certificates of Deposit

Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose "cash in banks" is comprised of the account balances according to the banks' records which at June 30, 2000 are as follows:

	<u>Citizens Bank & Trust</u>	<u>First Guaranty Bank</u>
Cash in Banks	\$ <u>1,271,160</u>	\$ <u>221,029</u>
Insured by FDIC	\$ <u>100,000</u>	\$ <u>100,000</u>
Collateralization	\$ <u>950,000</u>	\$ <u>200,000</u>
Uncollateralized	\$ <u>221,160</u>	\$ <u>- 0 -</u>

Collateral is held by the pledging financial institutions' trust department in the name of North Caddo Medical Center.

Note 5 - Depreciation

Depreciation expense and the estimated useful lives of the major categories of fixed assets are as follows:

	Year Ended June 30	
	<u>2000</u>	<u>1999</u>
Buildings and Building Improvements (10-40 years)	\$ 70,326	\$ 68,556
Equipment (4-25 years)	193,460	184,598
Land Improvements (8-20 years)	<u>10,389</u>	<u>10,389</u>
	<u>\$274,175</u>	<u>\$263,543</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 6 - Capital Leases

The Medical Center leases laboratory equipment under a capital lease which expires in the year 2002. The lease automatically transfers ownership of the laboratory equipment to the Medical Center at the end of the lease term.

During the year ended June 30, 1999, the Medical Center signed a capital lease for a new AS/400 computer system, which expires in the year 2003. The lease automatically transfers ownership of the equipment to the Medical Center at the end of the lease term.

The Medical Center leases a CT scanner and laser camera under capital leases which expire in the year 2003. The Medical Center may purchase the CT scanner and laser camera for \$1 each at the end of the lease.

Following is a summary of property held under capital leases:

	At June 30	
	<u>2000</u>	<u>1999</u>
Laboratory Equipment	\$ 17,184	\$ 17,184
Computer Equipment	50,000	50,000
CT Scanner	186,680	186,680
Laser Camera	<u>54,600</u>	<u>54,600</u>
	308,464	308,464
<u>Less-Accumulated Depreciation</u>	<u>147,750</u>	<u>86,057</u>
	<u>\$160,714</u>	<u>\$222,407</u>

Minimum future lease payments under these leases are as follows:

<u>Year Ended June 30</u>	<u>CT Scanner</u>	<u>Laser Camera</u>	<u>Computer Equipment</u>	<u>Laboratory Equipment</u>	<u>Total</u>
2001	\$ 42,361	\$ 13,512	\$ 11,628	\$ 4,356	\$ 71,857
2002	46,212	13,512	11,628	3,993	75,345
2003	25,317	9,653	11,628	- 0 -	46,598
2004	<u>- 0 -</u>	<u>- 0 -</u>	<u>1,939</u>	<u>- 0 -</u>	<u>1,939</u>
	113,890	36,677	36,823	8,349	195,739
<u>Less-Amount Representing Interest</u>	<u>12,157</u>	<u>4,262</u>	<u>3,416</u>	<u>761</u>	<u>20,596</u>
Net Present Value of Minimum Lease Payments	<u>\$101,733</u>	<u>\$ 32,415</u>	<u>\$ 33,407</u>	<u>\$ 7,588</u>	<u>\$175,143</u>
Imputed Rate of Interest	9.05%	9.04%	6.10%	9.75%	

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 7 - Commitments and Contingent Liabilities

See Note 3 regarding contingencies concerning the Medical Center's Medicare and Medicaid cost reports.

See Note 8 concerning operating lease commitments.

See Note 14 regarding insurance contingencies.

See Note 16 regarding self-funded unemployment claims.

See Note 21 regarding overpaid Medicaid Disproportionate Share Payments.

Note 8 - Operating Leases

The Medical Center has entered into several operating leases for telephones, other equipment, and real estate. These operating leases range from one month to five years with expiration dates through May 2002. Rent expense under these leases for the years ended June 30, 2000 and June 30, 1999 is as follows:

	Year Ended June 30	
	<u>2000</u>	<u>1999</u>
Telephones	\$ 15,965	\$ 17,262
Other Equipment	25,913	19,214
Real Estate	<u>2,506</u>	<u>3,856</u>
	<u>\$ 44,384</u>	<u>\$ 40,332</u>

Minimum future rental payments under noncancelable operating leases are as follows:

<u>Year Ending June 30</u>	
2001	\$ 11,973
2002	<u>9,977</u>
	<u>\$ 21,950</u>

See Note 6 concerning capital leases.

Note 9 - Pension Plan

Plan Description

The Medical Center contributes to the Parochial Employees' Retirement System of Louisiana, a Public Employee Retirement System (PERS), that is a cost sharing multiple-employer plan established by the Louisiana legislature as of January 1, 1953, by Act 205 of 1952. The system was revised by Act No. 765 of 1979, effective January 1, 1980, to replace the "regular plan" with the Plan B Fund of which the Medical Center is a participant. Plan B provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Retirement System is governed by the Louisiana Revised Statutes, Title 11, Sections 1901 through 2015, specifically, and other general laws of the State of Louisiana.

The Parochial Employees' Retirement System of Louisiana, Inc. issues a publicly available financial statement report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing the Parochial Employees' Retirement System of Louisiana, Inc., Post Office Box 14619, Baton Rouge, Louisiana, 70898-4619.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 9 - Pension Plan (Continued)

Plan Funding

Employer and employee contributions to the Pension Plan are established by state statute. For the years ended December 31, 1999 and December 31, 1998, employees contributions are 2 percent and 2.5 percent, respectively, of covered wages in excess of \$100 per month. Employer contributions are 2.5 percent of covered wages for the years ended December 31, 1999 and December 31, 1998. In addition to the aforementioned contributions the tax collectors of various parishes contribute one fourth of one percent of all tax collections.

The Medical Center's contributions to the Plan for the most recent three years are as follows:

Year Ended June 30,	<u>Amount</u>	<u>Percentage of Required Amount</u>
2000	\$ 52,203	100%
1999	52,558	100%
1998	48,950	100%

Note 10- Ambulance Property Taxes

The Medical Center received \$158,996 and \$152,461 in property tax revenues for the years ended June 30, 2000 and June 30, 1999, respectively. This revenue is used primarily for the establishment, maintenance and operation of an ambulance service for the residents of the North Caddo Hospital Service District. Any revenues in excess of the ambulance service costs may be used for maintaining, operating, and improving the Medical Center.

The property tax is assessed on January 1, levied not later than June 1, due by December 31, and liened on January 1 (one year after the assessment date). The Caddo Parish Sheriff Department collects the taxes. The property tax revenues are summarized as follows:

	<u>Year Ended June 30</u>	
	<u>2000</u>	<u>1999</u>
Property Tax Assessment	\$ 176,112	\$ 168,228
Allowance for Uncollectible Assessments	(20,545)	(16,136)
Property Tax Collected	155,567	152,092
Adjustments, Interest and Prior Period Collections	<u>3,429</u>	<u>369</u>
Property Taxes Reported	<u>\$ 158,996</u>	<u>\$ 152,461</u>

The ambulance service property tax levy expired in May 1997. A renewal vote to extend the tax levy for an additional ten years was held in March 1997 and was approved. The renewed tax levy will expire in May 2007.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 11- Advertising

Advertising costs for the years ended June 30, 2000 and June 30, 1999 are \$7,850 and \$7,158, respectively.

Note 12- Significant Estimates

As described at Note 3, estimated allowances from accounts receivable for bad debts and contractual discounts and settlements have been provided. Due to uncertainties inherent in the estimation of such allowances, it is at least reasonably possible that actual bad debts and contractual discounts and settlements that materialize in the near term could differ materially from the estimates.

As described at Note 14, the Medical Center participates in the Louisiana Hospital Association Malpractice Insurance Trust Fund and Workman's Compensation Group Self-Insurance Fund. Due to uncertainties inherent in the estimation of potential claims, it is at least reasonably possible that actual claims that materialize in the near term could differ materially from the estimates.

As described at Note 21, management has estimated amounts payable for cost reimbursements overpaid by Medicaid. Due to the highly complex rules of the Medicaid program, it is at least reasonably possible that the actual amounts repaid to the Medicaid program could differ materially from the estimates.

Note 13- Rental Income

The Medical Center leases office space in its Extended Services building to Willis-Knighton Medical Center under a three-year operating lease that expires June 30, 2000. Rental income is presented in the statement of operations as nonoperating revenue. Rental income for each of the years ended June 30, 2000 and June 30, 1999 is \$9,600. See Note 17.

Note 14- Insurance

North Caddo Medical Center is a participant of the Louisiana Hospital Association Malpractice Insurance Trust Fund and Workmen's Compensation Group Self-Insurance Fund. These trust funds retrospectively set premiums for members based on the loss history of each entire group. The Medical Center expenses premiums paid to these multi-provider captive insurance companies over the policy periods covered.

According to the trust document for the Malpractice Insurance Trust (the "Trust"), participants are jointly and severally liable for the obligations of the Trust with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Trust. This contingent liability is not to exceed the amount necessary to make up trust fund deficiencies in the trust fund year in which the obligations were incurred, and such liability is not to exceed an amount equal to the charges otherwise due by such participant during such plan year.

According to the trust document for the Workmen's Compensation Group Self-Insurance Fund (the "Fund"), participants are liable jointly and in solido for claims not paid pursuant to Subpart J of Part I of Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Fund, but only to the extent that such losses and expenses are not paid by the excess coverage secured by the Fund.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 14- Insurance (Continued)

Under current Louisiana law, the Medical Center's liability for medical malpractice is statutorily limited to \$500,000 per claim. To cover this exposure, the Medical Center has obtained insurance coverage of \$100,000 per claim with the Louisiana Hospital Association Malpractice and General Liability Trust and an additional \$400,000 per claim with the State of Louisiana Patient's Compensation Fund.

Management does not believe that any significant contingent liabilities exist under these insurance arrangements.

Note 15- Noncash Capital and Related Financing Activities

During the year ended June 30, 1999, the Medical Center entered into a capital lease for the acquisition of an AS/400 computer system. The amount of the asset capitalized under this lease is \$50,000.

Note 16- Self-Funded Unemployment Claims

North Caddo Medical Center became self-funded with respect to unemployment claims effective October 1, 1998. As a self-funded employer, the Medical Center must reimburse the Louisiana Department of Labor on a dollar-for-dollar basis for unemployment benefits paid to former employees. For the year ended June 30, 1999, the Medical Center reimbursed the Louisiana Department of Labor \$393, for claims paid on behalf of the Medical Center. No claims were paid by the Louisiana Department of Labor on behalf of the Medical Center during the year ended June 30, 2000.

The Medical Center signed a three-year contract with Temple Resource Management, Inc. (TRM) for claims management services at an annual cost of \$2,000. TRM evaluates all claims, recommends appropriate action for all notices the Medical Center receives from the Louisiana Department of Labor, and audits the experience rates and unemployment benefits charged to the Medical Center.

Management does not believe that any significant contingent liabilities exist under this arrangement at June 30, 2000.

Note 17- Related Party Transactions

On August 25, 1997, to expedite the completion of patient charts and thereby improve the Medical Center's cash flow, the Medical Center approved a contract whereby the Medical Center agreed to share equally with the Medical and Surgical Clinic (the "Clinic") the employment costs of a physician's assistant employed by the Clinic. On or about October 20, 1998, Dr. Stephen Taylor, a staff physician of the Medical Center, was appointed to the Medical Center's board of commissioners. Dr. Taylor has a financial interest in the Clinic. Dr. Taylor resigned from the Board due to a possible conflict of interest effective September 21, 1999. During the year ended June 30, 2000, the Medical Center terminated the contractual arrangement with the Clinic effective April 22, 2000.

During the year ended June 30, 2000 and July 30, 1999, while Dr. Taylor served as a voting member of the Medical Center's board, the Medical Center disbursed \$5,615 and \$23,537, respectively, to the Clinic for its share of the physician assistant's employment cost.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS

Note 17- Related Party Transactions (Continued)

On April 24, 2000 the Medical Center entered into a management contract with Willis-Knighton Medical Center (WKMC). Under this contract, WKMC has agreed to manage the operations of the Medical Center and to provide the Medical Center with a qualified administrator. The administrator is an employee of WKMC and acts on behalf of WKMC in the Medical Center's best interest. The contract is for three years and requires that the Medical Center reimburse WKMC for the salary and benefits of the Medical Center's administrator.

During the period April 24, 2000 to June 30, 2000, the Medical Center received rental income from WKMC in the amount of \$1,600 for leased office space in its Extended Services building. See Note 13.

During the period April 24, 2000 to June 30, 2000, the Medical Center received grant income from WKMC in the amount of \$53,333 as reimbursement for anesthesiology physician fees. See Note 18.

During the period April 24, 2000 to June 30, 2000, the Medical Center purchased \$15,618 of office supplies, laundry services and various patient services from WKMC.

At June 30, 2000, the Medical Center owes WKMC \$17,207, for various services and supplies, which is included in accounts payable.

Note 18- Grant Income

During the years ended June 30, 2000 and June 30, 1999, the Medical Center received \$320,000 and \$80,000, respectively, from Willis-Knighton Medical Center as reimbursement for anesthesiology physician fees. The purpose of these grants are to help the Medical Center re-establish an obstetrics department. See Note 17.

Note 19- Loss on Impairment of Long-Lived Assets

During the year ended June 30, 2000, the Medical Center recognized an impairment loss on laboratory equipment on a significant decrease in the fair market value of the asset as determined by a comparison of the equipment's value to the value of similar laboratory equipment in the same physical condition.

	<u>Carrying</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>	<u>Impairment</u> <u>Loss</u>
Baker Hematology Equipment	\$ <u>4,710</u>	\$ <u>- 0 -</u>	\$ <u>4,710</u>

Note 20- Concentrations

See Note 3 concerning revenues derived from patients who are beneficiaries under the Medicare program.

See Note 3 concerning significant financial resources provided from Medicaid Disproportionate Share Payments.

See Note 4 concerning uncollateralized bank deposits.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 21- Subsequent Event

In December 2000, the Medical Center was notified by one of its consultants that the reports used to calculate the Medicaid unreimbursed costs (Medicaid Disproportionate Share Payments – Note 3) affecting the years ended June 30, 1998, 1999 and 2000 appear to have been miscalculated. Due to the highly complex and technical issues involved, the amounts of the overpayments owed to the Medicaid program are not readily determinable. Management estimates the total amount of the overpayments for the three years will range from \$600,000 to \$900,000 with the effects on each year being approximately equal. Management does not believe any amount within the range to be a better estimate than any other amount. In cases where only a range of a contingency can be reasonably estimated, and no amount within the range is better than any other amount, generally accepted accounting principles call for the accrual of the amount at the low end of the range. Accordingly, the Medical Center has accrued \$600,000 a June 30, 2000 for overpayments owed to the Medicaid program and restated the June 30, 1999 financial statements for the estimated effects of the overpayment at June 30, 1999 and for the year then ended. The effects of the overpayments on the three years involved are estimated at \$200,000 for each year. A summary of the effects of the restatements to the June 30, 1999 financial statements follows:

	<u>As Originally Reported</u>	<u>As Restated</u>	<u>Increase (Decrease)</u>
<u>Liabilities and Fund Balance:</u>			
Estimated Third-Party Payor Settlements	\$ - 0 -	\$ 400,000	\$ 400,000
Total Current Liabilities	4,300,046	700,046	400,000
Total Liabilities	478,249	878,249	400,000
<u>Fund Balance:</u>			
Unrestricted	3,539,386	3,139,386	400,000
Total Fund Balance	3,539,386	3,139,386	400,000
<u>Statement of Operations and Changes in Fund</u>			
<u>Fund Balance-Proprietary Fund:</u>			
Net Patient Revenue	4,979,406	4,779,406	(200,000)
Total Operating Revenues	4,982,439	4,782,439	(200,000)
Operating (Loss)	(154,690)	(354,690)	(200,000)
Increase (Decrease) in Unrestricted Fund Balance	142,407	(57,593)	(200,000)
Unrestricted Fund Balance at Beginning of Year	<u>3,396,979</u>	<u>3,196,979</u>	<u>(200,000)</u>
Unrestricted Fund Balance at End of Year	<u>3,539,386</u>	<u>3,139,386</u>	<u>(400,000)</u>
<u>Statement of Cash Flows-Proprietary Fund:</u>			
Increase (Decrease) in Unrestricted Fund Balance	142,407	(57,593)	(200,000)
Increase in Accounts Payable	69,640	269,640	200,000

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September 6, 2000

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

Our audits of the June 30, 2000 and June 30, 1999 financial statements of North Caddo Hospital Service District, d/b/a North Caddo Medical Center were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 through 5 which follow are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Cole, Evans & Peterson
Cole, Evans & Peterson

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
REVENUE, DEDUCTIONS FROM REVENUE AND DIRECT DEPARTMENTAL EXPENSE

FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999

Department:	Year Ended June 30, 2000		Year Ended June 30, 1999	
	Revenue	Expense	Revenue	Expense
				Net
Patient Care	1,606,353	1,083,869	1,831,960	743,191
Radiology	408,863	141,804	461,342	318,744
Pharmacy	965,118	269,427	1,199,725	892,785
Laboratory	1,225,994	326,815	1,231,558	938,936
Operating and Recovery	288,206	65,704	248,471	170,682
Emergency Room	503,548	344,501	472,433	139,035
Cardiac Care (Monitor)	88,506	2,495	138,803	135,465
Anesthesiology	207,791	330,010	105,428	(24,480)
Inhalation Therapy	1,124,499	150,897	1,049,449	895,106
Central Supply	441,694	105,000	455,478	354,742
Physical Therapy	5,257	2,245	583	303
CT Scanner	602,533	106,426	511,275	73,304
Nuclear Medicine	17,560	12,302	26,899	17,635
Cardiology	235,943	37,924	308,122	66,991
Kid-Med	46,579	38,089	52,693	32,790
Social Services	3,400	8	16,115	9,756
Treatment Room	245,334	19,740	181,387	3,428
Ambulance	217,512	206,651	223,058	208,028
Obstetrics	94,539	52,368	23,449	57,392
Pain Management	4,517	15	3,545	220
Ultrasound	20,458	5,070	27,209	6,877
Totals	8,354,204	3,301,360	8,568,982	3,107,142
				5,461,840
<u>Deductions from Revenue:</u>				
Medicare and Medicaid Discounts	(3,485,470)		(3,758,942)	
Medicaid Disproportionate				
Share Payments Received	220,870		232,973	
Other Contractual Adjustments	(372,368)		(263,607)	
Net Deductions	(3,636,968)		(3,789,576)	
Net Patient Service Revenue	4,717,236		4,779,406	

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTERGENERAL AND ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999

	Year Ended June 30	
	<u>2000</u>	<u>1999</u>
General and Administrative Salaries	206,146	185,771
Professional Fees	51,160	35,608
Telephone	22,926	22,470
Insurance	84,370	96,704
Employee Benefits and Payroll Taxes	347,775	348,743
Supplies and Other	<u>139,519</u>	<u>124,557</u>
	<u>851,896</u>	<u>813,853</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
COMPENSATION PAID TO MEMBERS OF THE BOARD OF COMMISSIONERS
FOR THE YEAR ENDED JUNE 30, 2000

<u>Compensation (including per diem)</u> <u>Paid to Board Members:</u>	<u>Paid Board</u> <u>Meetings Attended</u>	<u>Compensation</u>
Earl G. Williamson, Jr.	12	1,500
Kenneth D. Clay	12	1,500
Bob L. Bogan	12	1,200
Robert Guth	12	1,200
Helen Adger	12	1,200
Stephen Taylor, M.D.	<u>2</u>	<u>200</u>
	<u>62</u>	<u>6,800</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

SUMMARY OF OPERATING RESULTS

	Year ended June 30				
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Total Gross Revenue	8,893,961	8,869,112	7,653,223	7,868,823	7,778,423
Discounts and Bad Debts	4,123,038	4,250,930	3,682,442	3,478,210	3,577,532
Cost and Expenses	<u>4,889,776</u>	<u>4,675,775</u>	<u>4,268,652</u>	<u>4,105,191</u>	<u>3,748,615</u>
Net Income (Loss)	<u>(118,853)</u>	<u>(57,593)</u>	<u>(297,871)</u>	<u>285,422</u>	<u>452,276</u>
Total Hospital Patient Days	2,768	2,964	2,708	2,755	3,039
Admissions	711	724	692	682	726
Inpatient Revenue per Patient Day	1,818	1,849	1,903	1,875	1,743
Inpatient Revenue as a Percent of Total Patient Revenue	60.23%	63.97%	69.41%	67.91%	70.53%
Net Income (Loss) per Patient Day	(42.94)	(19.43)	(110.00)	103.60	148.82
Net Income (Loss) as a Percent of Gross Patient Revenues	(1.34)%	(.65)%	(3.89)%	3.75%	6.02%
Number of Days Net Patient Revenues in Net Patient Receivables	71.05	70.96	66.27	82.94	89.28
Number of Days Net Patient Revenues (Without Medicaid Disproportionate Share Payment) in Net Patient Receivables	74.34	74.59	68.67	82.94	89.28
Average Length of Patient Stay in Days	3.89	4.09	3.91	4.04	4.19

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

FIXED ASSETS AND ACCUMULATED DEPRECIATION

AT JUNE 30, 2000

	ASSETS			ACCUMULATED DEPRECIATION			Book Value 6-30-00
	Balance 6-30-99	Additions	Deductions	Balance 6-30-99	Additions	Deductions	
Land	95,367						95,367
Land Improvements	173,837			97,509	10,389	107,898	65,939
Buildings and Building Improvements	1,891,939	11,131		946,010	70,326	1,016,336	886,734
Equipment	1,888,183	42,955	4,164	1,398,482	131,767	4,164	400,889
Equipment Under Capital Leases	<u>308,464</u>			<u>86,057</u>	<u>61,693</u>		<u>160,714</u>
	<u>4,357,790</u>	<u>54,086</u>	<u>4,164</u>	<u>2,528,058</u>	<u>274,175</u>	<u>4,164</u>	<u>1,609,643</u>

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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

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

We have audited the financial statements of North Caddo Hospital Service District, d/b/a North Caddo Medical Center at and for the year ended June 30, 2000 and have issued our report thereon dated September 6, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether North Caddo Hospital Service District, d/b/a North Caddo Medical Center'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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 00-1 through 00-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Caddo Hospital Service District, d/b/a North Caddo Medical Center'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 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 judgement, could adversely affect the Medical Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 00-4 through 00-8.

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. However, we do not believe the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Caddo Parish Commission, Board of Commissioners, management, and others within the organization and the Office of the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Cole, Evans & Peterson
Cole, Evans & Peterson

COLE, EVANS & PETERSON

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September 6, 2000

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INDEPENDENT AUDITORS' SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2000

We have audited the financial statements of North Caddo Hospital Service District, d/b/a North Caddo Medical Center at and for the year ended June 30, 2000, and have issued our report thereon dated September 6, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 2000 resulted in an unqualified opinion.

Section 1 - Summary of Auditors' Report

a. Report of Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses - No

Reportable Conditions - Yes

Compliance

Compliance Material to the Financial Statements - Yes

b. Management Letter

Management letter issued - No

Section 2 - Financial Statement Findings

FINDING 00-1 - Bank Deposits Held at Citizens Bank & Trust Not Fully Collateralized with Government Securities

Requirement - La. Rev. Stat. 39:1221 requires bank deposits in excess of the FDIC insured amount to be fully collateralized with interest bearing securities.

Condition - At June 30, 2000, the Medical Center's deposits with Citizens Bank & Trust totaled \$1,271,160 and are not fully insured or collateralized with government securities. The FDIC insured amount is \$100,000 and the amount of the government securities pledged as collateral is \$950,000. As a result, \$221,160 of the Medical Center's deposits at Citizens Bank & Trust were not collateralized with government securities at June 30, 2000.

Cause - Citizens Bank & Trust did not realize that the total deposits were not collateralized at June 30, 2000. All of the Medical Center's bank accounts were not coded as "public fund" accounts.

Recommendation - The Medical Center should request that Citizens Bank & Trust code all of the Medical Center's bank accounts as "public fund" accounts so the deposits will be either FDIC insured or collateralized with government securities. The Medical Center should also monitor the collateralization on a monthly basis.

Management's Response - Citizens Bank & Trust has now coded all of the Medical Center's bank accounts as "public fund" accounts and at July 31, 2000 all outstanding deposits were fully collateralized. The Medical Center will monitor the collateralization on a monthly basis.

FINDING 00-2 - Medical Center's Board of Commissioners Receive a Per Diem that is More than Required by Law for their Attendance at Regular Monthly Board Meetings

Requirement - La. Rev. Stat. 46:1053(C)(2)(a) permits a per diem to each member of the commission in an amount of not less than \$25 nor more than \$40 for each day of attendance at meetings of the commission, not to exceed 12 meetings per year.

Condition - The Medical Center's Board of Commissioners each are paid \$100 per day for their attendance at the regular monthly board meetings which is \$60 more than the maximum allowed by the above law. The chairperson of the Board is paid \$150 per day for his attendance at the regular monthly board meetings which is \$110 more than the maximum allowed by the above law.

Cause - Neither the Board of Commissioners nor the Medical Center were aware of the La. Rev. Stat. 46:1053(C)(2)(a) per diem limitation.

Recommendation - The Medical Center should begin to pay the members of the Board an amount of not less than \$25 nor more than \$40 per diem per board meeting, not to exceed 12 paid meetings per year, as allowed by La. Rev. Stat. 46:1053(C)(2)(a).

Management's Response - Beginning immediately with the November 2000 Board meeting, the members of the Board will be paid \$40 per diem for each day of attendance at meetings of the commission, not to exceed 12 meetings per year in accordance with La. Rev. Stat. 46:1053(C)(2)(a).

FINDING 00-3 - The Medical Center is Improperly Completing and Submitting the Health Insurance Claim Form HCFA-1500 with Medicare

Requirement - Medicare prohibits payment for services to entities other than the practitioner who provided the services unless the practitioner specifically authorizes the other entity to receive payment for his or her services, per Federal Regulation 42 CFR 424.80. To allow for the reassignment of the benefits due to employment or a contract between a physician and a hospital a HCFA 855R, Individual Reassignment of Benefits Application, is submitted to Medicare. Once Medicare approves this application then the hospital can bill Medicare for services provided under employment or contract by the physician. Medicare also requires that the Health Insurance Claim Form HCFA-1500 be completed with the name and unique personal identification number of the physician who performs services for a patient.

Condition - During our audit field work, we were informed by Medical Center staff that subsequent to June 30, 2000, for Medicare claims related to emergency room (ER) patients, the Medical Center had begun the practice of completing and submitting HCFA-1500 using two long-time staff physicians names and their unique physician identification numbers (UPIN) in cases where the physician that performed the ER services had not yet obtained Medicare's approval for reassignment of benefits. We corroborated this information by inquiry of management and examination of several Forms HCFA-1500.

Recommendation - The Medical Center should not bill Medicare for a specific physician's services until Medicare has approved the reassignment of benefits. The Medical Center should also implement procedures to ensure that the HCFA 855R forms be completed and submitted to Medicare immediately after each new physician is approved by the board to practice at the Medical Center.

Management's Response - The reassignment approval process by Medicare is very slow, sometimes taking up to three months. The Medical Center's reimbursement would not be any different by using a different physician's name and UPIN. Also, by having to wait to bill Medicare for the services performed by physicians, for whom the Medical Center has not yet received reassignment approval, causes a cash flow hardship on the Medical Center. The Medical Center, however, will not bill Medicare for a specific physician's services until Medicare has approved the reassignment of benefits. The Medical Center will implement procedures to ensure that the HCFA 855R forms be completed and submitted to Medicare immediately after each new physician is approved by the board to practice at the Medical Center.

FINDING 00-4 - Internal Control Reportable Condition - Inadequate Safeguarding of Pharmacy Inventory

Condition - During the audit fieldwork we noticed that the pharmacy doors were open and unlocked when unattended.

Criteria - Access to pharmacy supplies should be restricted to specific persons.

Recommendation - The Medical Center should establish policies to restrict access to the pharmacy supplies. The doors to the pharmacy should be closed and locked when unattended.

Management's Response - There are policies for restricting access to the pharmacy supplies in existence. Other than the pharmacist and the pharmacist assistant, access to the pharmacy supply room is prohibited. The policies will be re-reviewed with the pharmacist and any violations will be corrected immediately.

FINDING 00-5 - Internal Control Reportable Condition - Inadequate Safeguarding of Medical Records

Condition - During the audit fieldwork we noticed that the medical records building is not properly safeguarded against unauthorized entry. The front and back doors are not always locked whether the building is attended or unattended by department personnel.

Criteria - Access to medical records should be restricted to specific persons.

Recommendation - The Medical Center should establish policies to restrict access to the medical records department. The front and back doors to the building should remain locked at all times when the building is unattended.

Management's Response - Policies for restricting access to the medical records building will be established. These policies will be reviewed with the head of medical records and department personnel and any violation of the policies will be corrected immediately.

FINDING 00-6 - Internal Control Reportable Condition - Payments are Being Made That Have Not Been Approved by the Board of Commissioners as Stipulated Under Contract

Condition - According to the contract between the Medical Center and Willis-Knighton Medical Center all increases or additional expenses paid under the contract must be first approved by the Board of Commissioners. In addition to reimbursing Willis-Knighton Medical Center for the Medical Center's Administrator's salary and benefits package, the board has also approved to pay the administrator \$400 per month for auto allowance. In addition to receiving the \$400 per month auto allowance, the Administrator is also using the Medical Center's Fuelman credit card for gasoline purchases, which has not been approved by the Board of Commissioners.

Criteria - The Board of Commissioners should approve the reimbursement of the Administrator's gasoline purchases as stipulated under the contract with Willis-Knighton Medical Center.

Recommendation - Either the Board of Commissioners should approve the Administrator's use of the Medical Center's Fuelman credit card for gasoline purchases or the Medical Center should discontinue paying for the Administrator's gasoline and seek reimbursement for the unapproved prior purchases.

Management's Response - The Medical Center's Board of Commissioners, during Executive Session of the regular monthly board meeting held in November 2000, voted to approve the Administrator's use of the Medical Center's Fuelman credit card for gasoline purchases.

FINDING 00-7 - Internal Control Reportable Condition - Medical Insurance Claims are Not Consistently or Timely Followed Up for Payment

Condition - The Medical Center is not consistent in the follow up of medical insurance claims filed. After an insurance claim has been filed on behalf of a patient, the Medical Center does not maintain a consistent policy of timely following up on the filed claims. Not having a consistent timely policy can cause a delay in cash flows and the potential for the Medical Center being required to ultimately write the account off if the insurance company's resubmission period is exceeded.

Criteria - Filed insurance claims should be reviewed by a designated employee to insure that adequate follow up is made on these claims.

Recommendation - The Medical Center should adopt a policy that would insure that all filed insurance claims are followed up on a monthly basis.

Management's Response - A policy will be adopted that insures that all filed insurance claims are followed up on a monthly basis.

FINDING 00-8 - Internal Control Reportable Condition - The Medical Center Does Not Maintain or Consistently Apply a Collection Policy on Patients' Accounts Receivable

Condition - The Medical Center does not maintain or consistently apply collection procedures on patients' accounts receivable. The auditor noticed on several patient's accounts where the balances are over 90 days old with no activity on a patient's account, nor, was there any evidence where any contact with the patient, other than the monthly filed statements, has been made by the Medical Center.

Criteria - The Medical Center should establish and consistently apply an accounts receivable collection policy for their patients' accounts receivable to ensure better cash flows and reduce the potential for additional bad debts.

Recommendation - The Medical Center should maintain a written collection policy establishing a set of criteria of when additional collection efforts are required on a patient's account. This policy should then be consistently and timely applied.

Management's Response - The Medical Center has created a new collection department and has hired two part-time employees for this department. The Medical Center will establish a written collection policy with a set of criteria of when additional collection efforts are required on the patient's account. This policy will be consistently applied on a timely basis.

Section 3 - Federal Award Findings and Questioned Costs

N/A

NORTH CADDO HOSPITAL SERVICE DISTRICT d/b/a NORTH CADDO MEDICAL CENTER

MANAGEMENT'S SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2000

Section 1 - Internal Control and Compliance Material to the Financial Statements

Finding 99-1 - The Medical Center had a contractual agreement with the Medical and Surgical Clinic to share equally the employment costs of a physician's assistant employed by the Clinic. Dr. Stephen Taylor, who has a financial interest in the Clinic, was serving on the Medical Center's Board of Commissioners. There was a possible violation of ethics standards for public servants as a result of this contractual agreement with the Clinic and Dr. Taylor serving on the Medical Center's Board.

Status - This condition has been resolved. At the September 21, 1999 regular Board meeting, it was unanimously voted to change Dr. Taylor's status from active board member to functioning ex-officio board member. Under this status, he will not have voting privileges or receive any type of payment. Also, at the March 21, 2000 regular Board meeting, it was unanimously voted to terminate the contract between the Medical Center and the Medical and Surgical Clinic. The contract was effectively terminated on April 22, 2000.

Finding 99-2 - The Medical Center had acquired, by executing a capital lease, computer equipment in excess of \$15,000 without letting for public bid as required by La. Rev. Stat. 38:2212 (A)(1)(a)(i).

Status - It was determined that corrective action for this condition was not practicable. The purchase of this computer equipment was considered to be an upgrade to the computer system in order to be Y2K compliant. This upgrade was far less costly than purchasing an entirely different computer system.

Finding 99-3 - The Medical Center renovated the obstetrics wing of its hospital building at a cost of over \$100,000 without letting for public bid as required by La. Rev. Stat. 38:2212 (A)(1)(a)(i) and La. Rev. Stat. 38:2212 (A)(1)(d).

Status - It was determined that corrective action for this condition was not practicable. The hospital maintenance department proposed that the renovations could have been done in-house for less than \$100,000. Because management choose to let the in-house maintenance department do the renovations, they did not think it necessary to go to bid. The project went a little over the \$100,000 limit, but it was far less than the Medical Center would have expended with an outside contractor.

Finding 99-4 - The total amount of deposits with Citizens Bank & Trust at June 30, 1999 were not fully insured or collateralized with qualifying securities as required by La. Rev. Stat. 39:1221. Citizens pledged two Texas municipal bonds, which were not considered qualifying securities, as collateral for the Medical Center's deposits.

Status - Citizens Bank & Trust now only uses qualifying securities as required with La. Rev. Stat. 39:1221 to collateralize the Medical Center's deposits. However, not all the Medical Center's deposits were properly collateralized at June 30, 2000. See Finding 00-1 of the Independent Auditors' Summary Schedule of Findings and Questioned Costs for the Year Ended June 30, 2000.

Finding 99-5 - The Medical Center was not adequately safeguarding the pharmacy inventory. The doors to the pharmacy supply room were not kept locked when unattended, and pharmacy supply carts were left unattended and unlocked in the halls of the hospital.

Status - This condition has not been completely resolved, however the pharmacy supply carts are now under control. See Finding 00-4 of the Independent Auditors' Summary Schedule of Findings and Questioned Costs for the Year Ended June 30, 2000.

Finding 99-6 - Selection of the patient accounts receivable that were over 180 days old for transfer to the bad debt category was centralized in one person, the hospital administrator. There was no policy that the accounts selected for transfer to the bad debt category be reviewed and approved by another person.

Status - This condition has been resolved. The Medical Center adopted a new policy that designated Jean Harkness in the Business Office as the person to review the listing of accounts selected for bad debts. Also, under this new policy, a list of the bad debts must be reported to the Board of Commissioners.

Finding 99-7 - Reconciliation of accounts receivable subsidiary ledger to the general ledger control account was attempted every month, but certain unidentified differences were allowed to go unresolved.

Status - This condition has been resolved. The accounts receivable has been reconciled and balanced successfully each and every month.

Section 2 - Internal Control and Compliance Material to Federal Awards

N/A

Section 3 - Management Letter

No findings during prior year.