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CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Sicily Island, Louisiana

**FINANCIAL STATEMENTS
AND
AUDITOR'S REPORTS**

For the Year Ended December 31, 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 8/31/05

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Sicily Island, Louisiana

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following discussion and analysis of Catahoula Parish Hospital District No. 2's financial performance provides an overview of the District's financial activities for the year ended December 31, 2004. Please read it in conjunction with the financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

Total assets increased at December 31, 2004 from \$2,405,202 to \$2,617,397, or \$212,195, which is a 9% increase. Total liabilities increased at December 31, 2004 from \$569,030 in 2003 to \$674,046, or \$105,016, which is a 18% increase over the prior year. Net patient revenue had a small decrease from 2003 to 2004 of \$13,048 while change in net assets reflected a decrease of \$171,320

The Fiduciary Fund experienced a net growth from 2003 to 2004 of \$175,340. This increase was attributed to employee contributions and market value growth.

HOW TO USE THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 6 and 7) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. For proprietary activities, this statement reports how services were financed in the short-term as well as what remains for future spending.

Our auditor has provided assurance in his independent auditor's report, located immediately after the Management's Discussion and Analysis, that the Financial Statements are fairly stated.. A user of this report should read the *independent auditor's report carefully to ascertain the level of assurance being provided for each part of the financial section of the report.*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In lieu of a statewide 1115 Waiver program, the State of Louisiana has adopted Community CARE. Community CARE is a comprehensive health deliver system and serves as the states managed care program, which links Medicaid recipients to a Primary Care Physician (PCP). The PCP manages the care of each Community CARE enrollee by providing health education, preventive care, acute care and referrals to specialists when needed. Over the last three years, the Louisiana Department of Health and Hospitals (DHH) has drastically down-sized the State's Public Health Units (PHU). In 2002, the Louisiana State Legislature passed Act No. 162 ("Strategic Plan to Combat Poverty"). The law mandated the Office of Primary Care and Rural Health (ORCRH) to develop and implement a strategic plan that outlines an approach for increasing access to and quality of care in Louisiana's rural and underserved areas.

The service area and/or the population being served did not experience any major changes since the last application. An on-going challenge resulting from Community CARE attributed to the minor decline in the Medicaid user population. The Community CARE enrollees continue to have difficulty understanding the concept of "a provider home" and how to appropriately use healthcare resources. Changing their understanding will require education.

The four parishes, Catahoula, Concordia, Franklin and Tensas, served by this project remain among the poorest in Louisiana. The four parishes are, additionally, considered part of the Mississippi Delta Catchment Area and represent the Nation's most disadvantaged populations. All four parishes have been designated as rural parishes and have both a HPSA and Whole County MUA/MUP designation. Additionally, all contiguous parishes to the north, west and south also have a HPSA designation. The poverty is overwhelming and, by many standards, is the most limiting health disparity in the service area. Approximately 32% of the service area lives at 100% of the Federal Poverty Level. Approximately 57% of the service area lives 200% of the Federally Poverty Level (FPL). Even more compelling, according to the District's Needs Assessment 2003, is that over a fifth of the households in Catahoula, Concordia, and Franklin parishes have an annual income of less than \$10,000.

The service area is extremely rural and presents a scenic mix of farms, forests, wetlands, and waterways. A lack of interstates, few four lane roads, and winding highways combine with levee systems to make travel times, in the area, substantial. There are no metropolitan areas within fifty miles of the region and the largest town has a population of less than 15,000. The area offers very limited access and attracts very little meaningful industry. The resulting employment is a startling 11%. All indicators seem to suggest that the number of unemployed will, with the sluggish economy, continue to grow.

The District receives 48% of its funding from Section 330 of the Public Health Service. Other sources of revenue consist of program income generated by Medicare, Medicaid, Private Insurance, and Self Pay payors. The District operates a cost-efficient, efficacious service focusing on the maximization of collections from patient services while maintaining costs at the lowest possible levels, without impacting on the quality of the service. The District anticipates maximizing revenue by aggressively pursuing third party reimbursements for services and by assisting the individuals that it serves to apply for any benefit programs for which they are entitled. For cases where individuals do not have insurance, the District offers sliding fee services based on the person's ability to pay. CPHD will responsibly collect all deductibles and co-pays. In addition to billing Medicaid and Medicare for services based on enhanced reimbursement, the District has sought and received support from various funding sources of revenue including a private foundation for new service implementation. The five year support is now complete; therefore, future revenues may vary. The District will continue to seek other sources of local funds and continue to contract to provide additional sources of revenue as we have in the past. The District's Board of Directors recognizes the need to seek alternative sources of revenue and through continuous strategic planning, commits to ensuring financial viability is maintained. In developing its budget for fiscal year 2005, it was important that we maintained the optimal level of service to our clients and the public as we did in 2004 and as expected by the U.S. Department of Health and Human Services Health Resources and Services Administration (HRSA) and the Bureau of Primary Health Care (BPHC).

The District is currently maximizing all possible resources. The District operates two medical clinics, a dental clinic and a mobile van unit. The most significant factor affecting FY 2005 is the end of a five year commitment from the Rapides Foundation. All other grants and contracts from federal and other agencies have been approved for FY 2005. There have been no significant changes to the funding levels or terms of the grants and contracts. Accordingly, we have set our initial budget to provide the same programs and levels of service next year.

The District has received additional support from HRSA (\$666,667) to open a New access Point in Ferriday (Concordia Parish), Louisiana. Therefore, the budget for 2006 will significantly increase both in the revenues and expenditures.

CONTACTING THE DISTRICT'S MANAGEMENT

The financial statements of Catahoula Parish Hospital District No. 2 have been examined by Dauzat, Beall, and Debevec, APC, independent certified public accountants. Their accompanying report is based on an examination conducted in accordance with generally accepted auditing standards, including a review of internal accounting controls and financial reporting matters. The report is designed to provide government agencies and the general public an overview of the District's finances and to demonstrate accountability for the money that it receives. If you have any questions about this report or wish to ask for more information, you should contact Emma Tarver, CEO, at the District's core site located at 307 Chisum Street, Sicily Island, LA 71368, or by phone at 318.389.5757.

MEMBER
AMERICAN INSTITUTE OF
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MEMBER
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

DAUZAT, BEALL & DEBEVEC, CPAs

A PROFESSIONAL CORPORATION

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Catahoula Parish Hospital
Service District No. 2
Sicity Island, LA

We have audited the accompanying financial statements of the business-type activity of Catahoula Parish Hospital Service District No.2, as of and for the year ended December 31, 2004, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board of Trustees. 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, and the provisions of Office of Management and Budget Circular A-133. 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.

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for state and local governments, as of December 31, 2004.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catahoula Parish Hospital Service District No. 2 at December 31, 2004 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of the Catahoula Parish Hospital Service District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and agents.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Dausat, Beall, & Debevec, CPAs, APC
August 19, 2005

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

ASSETS	
Cash and cash equivalents	\$ 390,777
Investments	276,579
Accounts receivable, net	298,898
Other receivables	286,176
Prepays	44,281
Inventories	31,585
Capital Assets	
Land	31,077
Buildings	1,289,918
Equipment	947,795
Less accumulated depreciation	<u>(979,689)</u>
Total Assets	<u>2,617,397</u>
LIABILITIES	
Accounts payable	133,192
Accrued expenses	84,768
Deferred revenue	134,387
Revenue bonds, current portion	32,000
Due to fiscal intermediaries	15,810
Compensated absences	33,323
Revenue bonds	<u>240,566</u>
Total Liabilities	<u>674,046</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,289,101
Restricted for debt service	48,013
Restricted for contingencies	11,512
Unrestricted	<u>594,725</u>
Total Net Assets	<u>\$ 1,943,351</u>

The accompanying notes are an integral part of this financial statement.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue And Changes in Net Assets Business-Type Activities</u>	<u>Total</u>
		<u>Charges For Services</u>	<u>Operating Grants</u>		
Primary Government					
Business-Type Activities					
Rural Health Provider	\$ 2,081,266	\$ 1,120,536	\$ 1,003,404	\$ 42,674	\$ 42,674
Total primary government	<u>\$ 2,081,266</u>	<u>\$ 1,120,536</u>	<u>\$ 1,003,404</u>		
General Revenues					
Property taxes				4,760	4,760
Investment income				<u>9,377</u>	<u>9,377</u>
Total General Revenues				<u>14,137</u>	<u>14,137</u>
Changes in Net Assets				56,811	56,811
Net Assets, January 1				<u>1,886,540</u>	<u>1,886,540</u>
Net Assets, December 31				<u>\$ 1,943,351</u>	<u>\$ 1,943,351</u>

The accompanying notes are an integral part of this financial statement.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency Funds</u>
ASSETS	
Investments, at fair value	\$ <u>1,079,900</u>
<i>Total Assets</i>	<u>\$ 1,079,900</u>
LIABILITIES	
Deferred compensation benefits payable	\$ <u>1,079,900</u>
<i>Total Liabilities</i>	<u>\$ 1,079,900</u>

The accompanying notes are an integral part of this financial statement.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2004

	Business-Type Activity Rural Health Provider
ASSETS	
Current assets	
Cash and cash equivalents	\$ 390,777
Investments	276,579
Accounts receivable, net	298,898
Other receivables	286,176
Prepays	44,281
Inventories	<u>31,585</u>
Total current Assets	<u>1,328,296</u>
Noncurrent assets	
Capital Assets	
Land	31,077
Buildings	1,289,918
Equipment	947,795
Less accumulated depreciation	<u>(979,689)</u>
Total noncurrent assets	<u>1,289,101</u>
Total Assets	<u>2,617,397</u>
LIABILITIES	
Current liabilities	
Accounts payable	133,192
Accrued expenses	84,768
Deferred revenue	134,387
Revenue bonds, current portion	<u>32,000</u>
Total current liabilities	<u>384,347</u>
Noncurrent liabilities	
Due to fiscal intermediaries	15,810
Compensated absences	33,323
Revenue bonds	<u>240,566</u>
Total noncurrent liabilities	<u>289,699</u>
Total Liabilities	<u>674,046</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,289,101
Restricted for debt service	48,013
Restricted for contingencies	11,512
Unrestricted	<u>594,725</u>
Total Net Assets	<u>\$ 1,943,351</u>

The accompanying notes are an integral part of this financial statement.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended December 31, 2004

	<u>Business-Type Activities</u> <u>Rural Health Provider</u>
OPERATING REVENUE	
Net Patient service revenue	\$ 1,119,424
Other Revenue	<u>1,112</u>
Total operating revenue	<u>1,120,536</u>
OPERATING EXPENSES	
Salaries and wages	1,165,320
Utilities and telephone	91,013
Office supplies and expense	29,060
Medical supplies and drugs	97,516
Contractual fees	179,385
Payroll taxes	48,065
Travel	13,911
Repairs and maintenance	70,687
Equipment rentals	16,029
Insurance	136,879
Fees, dues, and subscriptions	14,843
Retirement expense	48,119
Patient transportation	12,890
Depreciation	96,650
Other	5,705
Recruitment and training	24,015
Rent	<u>18,000</u>
Total operating expenses	<u>2,068,087</u>
Loss from operations	<u>(947,551)</u>
NONOPERATING REVENUE (EXPENSES)	
Rural Health Initiative Grant proceeds	871,813
Rapides Foundation Grant proceeds	127,966
Grant proceeds-BHFD	3,625
Interest income	9,377
Tax revenue	4,760
Interest expense	<u>(13,179)</u>
Total nonoperating revenue	<u>1,004,362</u>
Change in Net Assets	56,811
Total Net Assets, January 1, As Restated	<u>1,886,540</u>
Total Net Assets, December 31	<u>\$ 1,943,351</u>

The accompanying notes are an integral part of this financial statement.

CATHOULA PARISH HOSPITAL SERVICE District No.2
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2004

Business-type Activity
Rural Health Provider

Cash Flows from Operating Activities	
Cash received from patients	\$ 1,088,714
Cash paid to employees	(998,851)
Cash paid to suppliers	(813,167)
Net Cash Flows from Operating Activities	<u>(723,304)</u>
Cash Flows from Noncapital Financing Activities	
Grants	1,003,404
Taxes	4,760
Net Cash Flows from Financing Activities	<u>1,008,164</u>
Cash Flows from Capital and Related Financing Activities	
Payment of debt	(18,825)
Payment of interest	(13,179)
Purchase of capital assets	(8,307)
Principal payments on capital lease	(1,170)
Net Cash Flows from Capital and Related Financing Activities	<u>(41,481)</u>
Cash Flows from Investing Activities	
Interest and dividends	9,377
Purchase of investments	(20,858)
Net Cash Flows from Investing Activities	<u>(11,481)</u>
 Net Change in Cash	 231,898
 Cash and Cash Equivalents, January 1	 <u>158,879</u>
Cash and Cash Equivalents, December 31	<u>\$ 390,777</u>
 Reconciliation of Operating Loss to Net Cash Flow from Operating Activities	
Operating Loss	\$ (947,551)
Add depreciation expense	96,650
(Increase) Decrease in current assets	
Accounts receivables, net	(72,825)
Other receivables, net	89,047
Prepaid expenses	(10,538)
Inventories	(5,424)
Increase(Decrease) in current liabilities	(41,281)
Accounts payable	134,387
Deferred revenue	20,545
Compensated absences	<u>13,686</u>
 Net cash flows from operating activities	 <u>\$ (723,304)</u>

The accompanying notes are an integral part of this financial statement.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Sicily Island, LA

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Hospital Service District No. 2 of the Parish of Catahoula, hereinafter referred to as the **District**, was organized pursuant to the provisions of an ordinance adopted by the Police Jury of the Parish of Catahoula, State of Louisiana, on April 5, 1976.

The **District's** board of commissioners are appointed by the Catahoula Parish Police Jury and directs operational policy. Effective September 5, 1985, an Administrative Board was established in accordance with regulations and instructions of the Public Health Service. The members of the board were elected by users of the clinic. The **District's** Board of Commissioners, by resolution, delegated responsibilities of operating the clinic, approving grant funds and setting policies and procedures for the **District** to the new Administrative Board. The **District** receives progress reports and remains ultimately responsible for all **District** operations.

The **District** was awarded a Community Health Service Rural Health Initiative (RHI) grant from the Department of Health, Education and Welfare to provide efficient and effective health care through the operation of a health delivering system designed to meet the medical needs of the community, i.e., early detection diagnosis, and treatment of illnesses and injuries; to facilitate an understanding of the desirability of initiating a program of preventive medicine; and to generally improve and promote the improvement of the community, civilly and socially. The **District** provides comprehensive primary health care to area residents, with particular care for the socio-economically disadvantaged. The area served consists of the whole of Catahoula Parish and the surrounding fringe areas of Concordia, Franklin and Tensas Parishes. The services are provided through an outpatient clinic with a referral program, health education and limited medical services for hospitalization.

The **District** has agreements with third-party payors that provide for payments to the **District** at amounts different from its established rates. The **District** is reimbursed on a prospective basis at established rates determined by Medicaid fiscal intermediary, and cost reimbursement by Medicare fiscal intermediary.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

In December 1977, Congress passed the Rural Health Clinic Services Act of 1977 (Public Law 95-210) to provide financial support for facilities using physician extenders to provide primary health care services in rural, medically underserved areas. The law authorized Medicare and Medicaid payments to qualified rural health clinics for covered health care services furnished by or under the direction of nurse practitioners and physician assistants. In order to qualify as a rural health clinic under Medicare and Medicaid, a facility must be under the general direction of a physician, be located in a rural area and operate in an area designated by the Department of Health, Education and Welfare as having a shortage of personal health services, be engaged essentially in providing outpatient primary medical care, and meet health and safety requirements prescribed by Medicare and Medicaid regulations.

During the year ended December 31, 2004, the **District's** operations were funded by a Community Health Service Rural Health Initiative (RHI) grant awarded under Section 330 of the Public Health Services Act, as amended. Various restrictions are placed on expenditures of these funds. Reconciliations of used and unused funds are prepared at the end of the program year and the propriety of such funds determined by the Department of Health and Human Services.

In July of 1995, the **District** opened a satellite clinic, located in Wisner, Louisiana. The satellite clinic provides the same services as the **District**. During the year 1999, the satellite clinic was approved in the scope of services provided by the **District** under DHHS regulations. Future operations of the satellite clinic are contingent upon continued funding and the **District's** generated revenues.

In June of 2000, the **District** opened a dental clinic located in Sicily Island, Louisiana. The dental clinic operations were funded by a grant from the Rapides Foundation with a duration of 5 years expiring at the end of 2004. Future operations of the dental clinic are contingent upon generated revenues.

The accounting policies of the **District** conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Financial Reporting Entity

In year 2004, the District adopted a new statement of financial accounting standard issued by the Governmental Accounting Standards Board (GASB):

- *Statement NO. 34—Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

Statement No. 34 (as amended by Statement 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group. Significantly, the District's statement of net assets includes both noncurrent assets and noncurrent liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

In addition to the government-wide financial statements, the District has prepared fund financial statements. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Accordingly, the format of financial statements has been modified by statement No. 34 to focus on major funds, as opposed to presenting fund types.

Statement No. 34 also requires certain required supplementary information in the form of Management's Discussion and Analysis which includes an analytical overview of the District's financial activities.

Statement No. 37 amends GASB Statements No. 21 and No.34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements. .

As defined by accounting principles generally accepted in the United States of America (GAAP) that are established by the Governmental accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable.

The accompanying financial statements present the Catahoula Parish Hospital Service District No. 2. There are no component units of the District that should be included in these financial statements.

Basic Financial Statements

In accordance with GASB Statement No. 34—Basic Financial Statements and Mngement's Discussion and Analysis for State and Local Governments, the basic financial statements include government-wide and fund financial statements.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report the District as a whole, excluding fiduciary activities.. All activities are reported in the government-wide financial statements using the economic resources *measurement focus and the* accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the district as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the District (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgage, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the District would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which expenses of the various functions and programs of the District are offset by program revenues. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds..

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes - Continued

Measurement Focus and Basis of Accounting

The proprietary financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements.

Proprietary fund accounts for operations where the intent of the District is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Under GASB Statement No. 34, proprietary funds are also required for any activity whose principal revenue sources meet of any of the following criteria: 1) any activity has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the District to establish activity fees or charges to recover the cost or providing services, including capital costs.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Fiduciary funds account for assets held by the District in a trustee or agency capacity on behalf of others and, therefore, are not available to support District programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the District available to support District programs. The District currently maintains an agency fund to account for the deferred compensation benefit plan extended to employees.

Income Taxes

The District's income is exempt from taxation.

Uncollectible Accounts

The District's estimate of uncollectibility is applied to accounts receivable in the enterprise fund to establish an allowance for uncollectible accounts. Additionally, other patients are given discounts on a "sliding-scale" basis based upon their ability to pay.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

Inventory

The enterprise fund inventory is stated at the lower of cost or market value. The **District** uses the "purchase" method of recording inventory. Materials and supplies are charged as expenses when acquired, and inventory on hand at the end of the period is recorded as an asset.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. Depreciation is provided in the enterprise fund to operations over the estimated useful lives of the depreciable assets on the straight-line basis. The following estimated useful lives are generally used:

Buildings	20 to 40 years
Machinery and equipment	5 to 15 years
Transportation equipment	3 to 5 years
Furniture and fixtures	5 to 15 years

Expenses from additions, major renewals and betterments are capitalized and expenses for maintenance and repairs are charged to operations as incurred.

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

NOTE 2 - CASH AND CASH EQUIVALENTS/INVESTMENTS

Cash includes amounts in demand deposits and interest-bearing demand deposits. Cash equivalents include amounts in time deposits with original maturities of three months or less from the date of acquisition.

Under state law, the **District** may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Investments are stated at cost, except for investments in the agency fund which are reported at market value.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

At year-end, the carrying amount of the **District's** deposits were as follows:

	Enterprise <u>Fund</u>	<u>Agency Fund</u>
Cash and cash equivalents	\$ 390,777	
Investments	<u>276,579</u>	<u>\$ 1,079,900</u>
	<u>\$ 667,356</u>	<u>\$ 1,079,900</u>

All deposits held at Sicily Island State Bank and insured by the FDIC and secured by the pledge of securities owned by the fiscal agent bank on December 31, 2004, as follows:

Total deposits	<u>\$667,356</u>	
Total FDIC insurance	\$200,000	(Category I)
Total uncollateralized (Collateralized securities held by the pledging financial institution or agent but not in the name of Catahoula Parish Hospital Service District #2)	<u>\$675,000</u>	(Category III)
	<u>\$875,000</u>	

The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Catahoula Parish Hospital Service District No. 2 that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 3 - OTHER RECEIVABLES

A summary of the proprietary fund other receivables at December 31, 2004 is presented below:

Property tax receivable	\$ 3,028
Interest receivable	1,121
Third party reimbursement -Net	40,238
Grants receivable – RHI	<u>241,789</u>
Totals	<u>\$ 286,176</u>

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

NOTE 4 - PROPRIETARY FUND PROPERTY, PLANT AND EQUIPMENT

A summary of the enterprise fund property, plant and equipment and accumulated depreciation at December 31, 2004 is provided:

	<u>Property, Plant and Equipment</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Land	\$ 31,077			\$ 31,077
Building	1,273,336			1,273,336
Building improvements	16,582			16,582
Furniture and equipment	355,546	\$ 3,748		359,294
Medical equipment	523,492	4,029		527,521
Vehicles	60,450	530		60,980
Totals	<u>\$2,260,484</u>	<u>\$ 8,307</u>	<u>-0-</u>	<u>\$ 2,268,790</u>

	<u>Accumulated Depreciation</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Building	\$ 264,596	\$ 33,324		\$ 297,920
Building improvements	11,634	1,129		12,763
Furniture and equipment	279,367	22,042		301,409
Medical equipment	283,010	36,542		319,552
Vehicles	44,433	3,612		48,045
Totals	<u>\$ 883,040</u>	<u>\$ 96,650</u>	<u>-0-</u>	<u>\$ 979,689</u>

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

As explained in Note 1, the **District** receives funding under Section 330 of the Public Health Services Act. Various restrictions are placed on the items obtained by these funds. Per the Public Health Service (PHS), Grants Policy Statement, title to real and tangible personal property (expendable and non-expendable) shall rest in the grantee upon acquisition, subject to the accountability requirements and the PHS's right to transfer title. Further, the proceeds of the sale being distributed between the **District** and the PHS based upon the percentage of funding provided by each.

NOTE 5 - PROPRIETARY FUND ACCRUED EXPENSES

Accrued expenses of the enterprise fund at December 31, 2004 is comprised of salaries payable and related payroll expenses.

NOTE 6 - COMPENSATED ABSENCES

The **District's** employees earn annual leave at a rate of one (1) day per month for three (3) years of service, and one and one-half day after three (3) years of service, and two (2) days per month after fifteen (15) years of employment. Annual leave can accrue up to 30 days. Accrued leave reflected in the financial statements is accumulated unused vacation as of December 31, 2004.

NOTE 7 - BOARD OF COMMISSIONERS

Each of the commissioners served the **District** without compensation.

NOTE 8 - CONTINGENCIES

The **District** evaluates contingencies based upon the best available evidence. The **District** believes that no allowance for loss contingencies is considered necessary.

The principal contingencies are described below:

Grant Awards - The ability of the **District's** continued operations is contingent upon continued funding from the Public Health Service. A \$820,813 grant award has been approved for 2005.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

Unobligated Federal Funds - Per the Public Health Service, (PHS), Grants Policy Statement, the **District's** grant funds, including amounts awarded for the current budget period, and estimated or actual unobligated federal funds carried over from prior budget periods are authorized for the **District's** use only in the current budget period in the amount specified by the PHS awarding office in an approved budget on a Notice of Grant Award. As a result of carryovers of unobligated grant funds, the total amount of funds available in the grant account may exceed the federal share of the approved budget. Those funds are not automatically available to the **District**. The PHS awarding office exercises sole discretion as to the use of those funds.

*Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed expenditures, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the **District** expects such amounts, if any, to be immaterial.*

The **District** is covered under the Federal Torts Coverage Act. All malpractice claims filed against the **District** or its employees are referred under the Federal Torts Coverage Act.

NOTE 9 - MEDICAID/MEDICARE THIRD PARTY REIMBURSEMENT

At December 31, 2004, amounts due to and from fiscal intermediaries are subject to audit and adjustment by the fiscal intermediaries. These amounts have been reflected in the financial statements as assets and liabilities. An allowance for disputed costs has been estimated at 50% and reflected in these financial statements. Allowable costs are disputed upon audit by fiscal intermediaries.

NOTE 10 - EMPLOYEES RETIREMENT

The **District** participates in a plan under guidelines established under Section 457 of the Internal Revenue Code of 1954 (45 FR 85077), as revised by OBRA of 1990. All participating employees are exempt from social security tax withholding from wages. The 457 plan is a fixed annuity plan with employee contributions of 7.5% and employers contributions of 11.9% for physicians and 6.2% for all other employees.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

The deferred compensation is not available to participants until termination, retirement or death. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, property or rights are the property of the **District** subject only to the claim of general creditors. Participants rights under the plan are equal to those of general creditors of the **District** in an amount equal to the fair market value of the deferred account for each participant. All funds paid into the plan are managed by the third party administrator selected by the **District**. At December 31, 2004, investments were recorded in an agency fund at the fair market value of \$1,079,900..

NOTE 11 - REVENUE BONDS

On December 13, 1995, the Board of Commissioners met in regular session and held a public hearing for the purpose to propose issuance of not exceeding Nine Hundred Ninety Thousand Dollars (\$990,000) of Hospital Revenue Bonds for the purpose of financing a portion of the cost of acquiring, constructing and improving health care facilities for the **District**, to mature over a period of time not to exceed twenty (20) years from the date of their issuance, and bear interest at a rate or rates not exceeding six per centum (6%) per annum, pursuant to the authority of Post VII, Chapter 4, Title 39 of the Louisiana Revised Statutes of 1950, as amended. A resolution finding and determining that no petition had been filed objecting to the proposed issuance was adopted by the Board of Commissioners. The total cost of the project was approximately \$1.3 million with funds provided by the state of Louisiana.

The bonds were sold to Rural Economic and Community Development (formerly FMHA).

NOTE 12 - CHANGES IN AGENCY FUND-DEFERRED COMPENSATION BENEFITS PAYABLE

<u>Balance</u> <u>December 31, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2004</u>
\$904,560	\$176,191	\$(851)	\$1,079,900

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2

Notes - Continued

NOTE 13 - BONDED DEBT

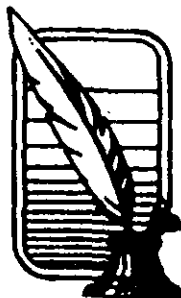
The **District** bonds outstanding at December 31, 2004, in the amount of \$291,391 are revenue bonds. All principal and interest requirements are funded by revenue generated by the **District**. At December 31, 2003, the **District** has accumulated \$68,578 in the debt service fund for future debt requirements. The bonds are due as follows:

<u>Year Ending December 31,</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>	<u>Total</u>
2005	19,694	12,264	31,958
2006	20,580	11,378	31,958
2007	21,506	10,452	31,958
2008	22,474	9,484	31,958
2009	21,506	10,452	31,958
2010-2014	136,239	23,570	159,809
2015	<u>30,546</u>	<u>1,412</u>	<u>31,958</u>
Total	<u>\$272,545</u>	<u>\$ 79,012</u>	<u>\$ 351,557</u>

NOTE 14 -SUBSEQUENT EVENT

The District received tentative funding approval form the Department of Health, Education, and Welfare for a new start satellite clinic to be located in Ferriday, Louisiana. Expected funding of \$666,667 is to be awarded in December, 2005 and the District has 120 days for implementation.

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DAUZAT, BEALL & DEBEVEC, CPAs

A PROFESSIONAL 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
Catahoula Parish Hospital Service District No. 2
Sicily Island, LA

We have audited the financial statements of the business-type activities of the Catahoula Parish Hospital Service District No. 2 as of and for the year ended December 31, 2004, which comprise the District's basic financial statements and have issued our report thereon dated August 19, 2005. 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 Catahoula Parish Hospital Service District No. 2's *general purpose 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 an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 04-01.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Catahoula Parish Hospital Service District No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the *general purpose financial statements* and not to provide assurance on the internal control over financial reporting.

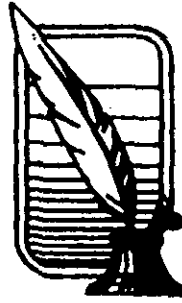
control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Catahoula Parish Hospital Service District No. 2's management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Dautat, Beall & Debevec, CPAs, APC
August 19, 2005

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Catahoula Parish Hospital Service District No. 2
Sicity Island, LA

Compliance

We have audited the compliance of the Catahoula Parish Hospital Service District No. 2 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The Catahoula Parish Hospital Service District No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Catahoula Parish Hospital Service District No. 2's management. Our responsibility is to express an opinion on the Catahoula Parish Hospital Service District No. 2's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Catahoula Parish Hospital Service District No. 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Catahoula Parish Hospital Service District No. 2's compliance with those requirements.

In our opinion, the Catahoula Parish Hospital Service District No. 2 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Catahoula Parish Hospital Service District No. 2 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Catahoula Parish Hospital Service District No. 2's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Catahoula Parish Hospital Service District No. 2's management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Dautz, Beall & Debevec, CPAs, APC
August 19, 2005

**CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2004**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____yes <input checked="" type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes _____
Noncompliance material to financial statements noted?	_____yes <input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____yes <input checked="" type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	_____yes <input checked="" type="checkbox"/> no
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____yes <input checked="" type="checkbox"/> no

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Sicity Island, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2004

Compliance

Finding 04-01

Criteria: Louisiana State Law requires that governmental entities file an audit report within 6 months of year end.

Condition: The District experienced a computer failure prior to the closing and adjusting entries were recorded to the year ended December 31, 2004. The recovery of files which required outside computer technical assistance took substantial time, perpetuating the delay of audit procedures and subsequent completion of the audit.

Effect: The incident resulted in un-timely completion and filing of the audit report.

Recommendation: We recommend that steps for closing the prior year books and making the necessary adjustments commence as early as possible subsequent to year end. Also, that some form of back-up recovery be stored on site that doesn't require technical assistance to shorten the recovery time.

Management's response: The District will plan to close books as early in the year as possible and make it a priority with financial personnel. We will investigate more efficient back-up procedures.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Sicity Island, Louisiana

MANAGEMENT'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2004

None Reported

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Sicity Island, Louisiana

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program Amount Received</u>	<u>Program Expenditures</u>
<u>U.S. Department of Health and Human Services, Public Health Service</u>				
Direct Program:				
Community Health Center Rural Health Initiative Grant	93.224	N/A	<u>\$ 871,813</u>	<u>\$ 871,813</u>
Total U.S. Department of Health and Human Services			<u>\$871,813</u>	<u>\$ 871,813</u>