

NATCHITOCHEs PARISH HOSPITAL SERVICE
DISTRICT AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2005, 2004, AND 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-11-06



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

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Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis

This section of the Hospital's annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the financial statements in this report

Financial Highlights

- The Hospital's total assets increased by approximately \$2,003,362 or roughly 4.1%.
- During the year, the Hospital's total net patient revenues increased approximately \$4.5 million or 13.0% to \$39,448,955 from the prior year while expenses increased \$4,457,224 or 12.6%. The Hospital had income from operations of \$1,417,721, which is approximately 3.4% of total operating revenue. The Hospital replaced its major Orthopedic Surgeon in August of 2004. Therefore, gross surgical revenue was up \$1,212,143 along in growth of our core Ancillary services, specifically Radiology, increased \$1,807,779 and Lab \$1,353,900.
- During the year, the Hospital updated its Bad Debt reserve methodology to recognize all non-governmental accounts receivable aged over 120 days to be 100% reserved for as bad debt. This along with a \$769,000 increase in Self Pay Patient revenue is attributable for our Bad Debt Expense increase of \$1,372,713.
- The Hospital passed a 10-year Ambulance property tax in 2003 and received approximately \$740,556 in taxes this year. These taxes have been able to offset operational losses and provide funds for modernization of Ambulance equipment.
- During the fiscal year, the Hospital made the below capital investments for a total of approximately \$7,035,596.

Capital Investments	Vendor	Department	2005 Cost
Medical Office Building	Wise Clinic	Buildings	\$ 385,000
Precision 500 R&F Room	GE Medical	Radiology	\$ 300,425
Ambulance – Type III	Wheeled Coach	Ambulance	\$ 115,118
Patient Monitoring Equipment	Phillips Medical	ICU & ER	\$ 168,716
Pixies Medication Cart	Cardinal Health	Pharmacy	\$ 71,474
Four Total Care Beds	Hill Rom	ICU	\$ 91,534
Surgical, Diagnostic, Expansion	S Converse	Surgery, X-Ray, ICU	\$ 3,969,341

The source of the funding for these projects was derived from operations and prior year issued bond proceeds.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Required Financial Statements

The basic financial statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amount of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures improvements in the Hospital's operations over the past years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Hospital

The balance sheets and the statements of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and stated changes. Increase or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Net Assets

A summary of the Hospital's balance sheets are presented in Table 1 below:

Table 1
Condensed Balance Sheets

	<u>2005</u>	June 30 <u>2004</u>	<u>2003</u>
Total Current Assets	\$ 10,082,521	\$ 8,176,795	\$ 7,588,425
Capital Assets – Net	28,799,717	25,027,271	19,299,478
Other Assets, Including Board - Designated Investments	<u>12,298,549</u>	<u>15,973,359</u>	<u>21,983,249</u>
Total Assets	<u>\$ 51,180,787</u>	<u>\$ 49,177,425</u>	<u>\$ 48,871,152</u>
Current Liabilities	\$ 2,873,894	\$ 2,608,332	\$ 3,492,146
Long-term Debt/Liabilities	<u>8,455,000</u>	<u>8,800,000</u>	<u>9,122,607</u>
Total Liabilities	11,328,894	11,408,332	12,614,753
Net Assets	<u>39,851,893</u>	<u>37,769,093</u>	<u>36,256,399</u>
	<u>\$ 51,180,787</u>	<u>\$ 49,177,425</u>	<u>\$ 48,871,152</u>

As can be seen in Table 1, total assets increased by \$2,003,362 to \$51,180,787 in fiscal year 2005, up from \$49,177,425 in fiscal year 2004. The change in total net assets results primarily from earnings and operating income in the current year.

**Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana**

Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for cash of the fiscal years ended June 30, 2005, 2004 and 2003

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue:			
Net Patient Svc Revenue	\$ 39,448,955	\$ 34,906,423	\$ 34,915,525
Other Revenue	<u>1,863,542</u>	<u>1,872,506</u>	<u>1,152,362</u>
Net Revenue	<u>41,312,497</u>	<u>36,778,929</u>	<u>36,067,887</u>
Expenses:			
Salaries & Benefits	16,392,427	14,848,299	14,856,958
Medical Supplies	2,770,322	2,273,533	2,875,232
Purchases Services	6,170,548	5,363,413	4,331,302
Other Operating Expense	7,364,155	7,275,241	6,891,794
Prov for Uncollected Accts	5,066,220	3,693,507	3,902,073
Depr & Amort	2,131,104	1,994,792	1,704,354
Interest	-0-	8,767	43,614
Total Operating Expense	<u>39,894,776</u>	<u>35,437,552</u>	<u>34,605,327</u>
Net Operating Income	<u>1,417,721</u>	<u>1,341,377</u>	<u>1,462,560</u>
Investment Income	390,476	506,309	572,310
Non Operating Income	28,778	26,595	27,294
IGT Transfers	<u>-0-</u>	<u>1,486</u>	<u>109,957</u>
Excess of Revenues over Expense	1,836,975	1,875,767	2,172,121
Unrealized Holding Gains (Losses)	<u>(38,725)</u>	<u>(363,073)</u>	<u>(200,585)</u>
Consolidated Net Income - Non Controlling Interest	(1,195)		
Comprehensive Income (Loss)	1,797,055	1,512,694	1,971,536
Restricted Net Assets	609,963	579,257	5,525,581
Net Assets – Beginning of Year	<u>37,769,093</u>	<u>36,256,399</u>	<u>34,284,863</u>
Net Assets – End of Year	<u>\$ 39,566,148</u>	<u>\$ 37,769,093</u>	<u>\$ 36,256,399</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Source of Revenue

Operating Revenue

During fiscal year 2005, the Hospital derived the majority, or approximately 95.5%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes ambulance property tax, cafeteria sales, contract meals, rental income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2005, 2004 and 2003.

Table 3
Payor Mix by Percentage

	Year-end June 30		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	46.02%	46.10%	46.70%
Medicaid	21.74%	22.11%	21.01%
Commercial Insurance	14.51%	13.70%	14.35%
Blue Cross	9.25%	8.87%	8.60%
Self-Pay and Other	<u>8.48%</u>	<u>9.22%</u>	<u>9.34%</u>
Total Patient Revenues	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Other Revenue

Other revenue includes Ambulance property tax, cafeteria sales, rental income, and other miscellaneous services.

**Table 4
Other Revenue**

	Year-end June 30		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other Revenue:			
Dietary Sales	\$ 326,291	\$ 304,627	\$ 328,488
Rental Income	549,745	750,608	575,300
Ambulance Tax	740,556	730,445	15,100
LHA Trust	-0-	-0-	88,456
Vending	46,350	39,408	35,167
Medical Records	10,469	7,263	5,959
Other	<u>190,131</u>	<u>40,155</u>	<u>123,351</u>
 Total Other Revenue	 <u>\$ 1,863,542</u>	 <u>\$ 1,872,506</u>	 <u>\$ 1,171,821</u>

Investment Income

The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$344,497 during fiscal year 2005.

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses and changes in net assets between 2005, 2004 and 2003.

Overall, activity at the Hospital as measured by patient admissions increased by 6.6% to 4,240 discharges in 2005. This is up from 3,979 discharges in 2004 and from 4,020 discharges in 2003. Patient days increased 6.3% to 17,601 from prior year of 16,554 in 2004, and 16,176 in 2003. The increase was attributed to Geriatric Psych and acute care days from Orthopedics. As a result, the average length of stay for acute care patients (excluding newborns) remained flat at 3.7 days in 2005.

Our Long Term Care Units activity decreased by 4.3% to 35,495 days in 2005 versus 37,084 days in 2004, and 38,929 days in 2003, which represents 87% occupancy of the unit. The unit's census declines are attributed to the opening of a 30 bed assisted living center in our area and the age (50 years) of the current facility. Administration and the Board are looking into replacement of the facility and should have some concrete plans by the end of 2006.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Operating and Financial Performance (Continued)

The Hospital operates the district ambulance service that traditionally has had operating losses. Effective July 2003, the residents of Natchitoches Parish passed a 6.7 mil property tax to subsidize operations.

**Table 5
Patient and Hospital Statistical Data**

	Year-end June 30		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Admissions:			
Adult and Pediatric	3,946	3,745	3,883
Newborn	580	604	624
Long Term Care Unit	187	194	146
Geriatric Psych Unit	283	234	137
Patient Days:			
Adult and Pediatric	14,609	13,877	14,418
Medicare (Included in Adult & Pediatric)	7,694	7,401	7,245
Medicaid (Included in Adult & Pediatric)	3,789	3,538	4,254
Newborn	1,369	1,358	1,406
Long Term Care Unit	35,495	37,084	38,929
Geriatric Psych Unit	2,992	2,677	1,758
Operating Room Patients	2,774	2,488	2,021
Outpatient Registrations	49,299	45,135	46,826
Emergency Room Visits	18,461	16,413	17,660
Ambulance Runs	3,968	3,595	3,324
Average Daily Census:			
Adult and Pediatric	43.65	41.73	39.50
Long Term Care Unit	96.94	101.30	106.70
Geriatric Psych Unit	8.19	7.35	4.80
Average Length of Stay (Excluding Newborn):			
All Acute Care Patients	3.70	3.70	3.71
Medicare Patients	5.45	5.25	5.48
Medicaid Patients	2.44	2.63	2.79
Long Term Care Unit Patients	174.85	194.16	268.48
Geriatric Psych Unit Patients	10.35	9.66	12.74
Percentage of Total Patient Days:			
Medicare	52.55%	53.33%	50.25%
Medicaid	25.88%	25.50%	29.50%
Full-Time Equivalent (FTE's)	429	425	443

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Total net patient service revenue increased \$4,542,532 or 13.0% in 2005.

Net patient service revenue was up primarily due to the revenue increases from Orthopedic Surgery, Lab and Radiology revenue. While gross patient revenue increased \$8.8 million or 12.9% from prior year due to increased volume, our managed care revenue increased \$2.4 million, Governmental revenue increased \$5.6 million and Self Pay revenue increased \$800,000.

Allowances increased over prior year as described in the table below:

**Table 6
Allowance Summary**

	Year-end June 30		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Allowances:			
Medicare Contractual Allowances	\$ 22,035,562	\$ 20,468,862	\$ 19,085,512
Medicaid Contractual Allowances	10,223,763	9,235,661	5,272,471
Blue Cross, Louisiana State Employees, and other Contractual Allowances	7,326,750	5,982,464	5,623,431
Other Adjustments	235,478	198,825	217,946
Uncompensated Care Reimbursement	<u>(2,300,727)</u>	<u>(2,619,648)</u>	<u>(2,223,598)</u>
 Total Allowances	 <u>\$ 37,520,826</u>	 <u>\$ 33,266,164</u>	 <u>\$ 27,975,762</u>

As a result of a continued effort in accounts receivable collection efforts, days in accounts receivable remained at 52 days. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$235,478 were forgone during 2005, compared to \$198,825 in 2004, and \$208,615 in 2003. The Hospital has instituted an automated charity care system to assure consistent application of board policies. The Hospital assumes compliance with our charity policy which has resulted that only patients meeting specific criteria will be classified as a charity care.

Total salary expenses increased \$1,253,873 to \$14,435,924 in 2005, from \$13,181,051 in 2004, from \$13,260,248 in 2003, a 9.5% variance. The majority of the increases, \$640 thousand, were attributable to increased nursing salaries. The hospital has experienced continued salary pressure on its clinical professional staff salaries. The hospital also hired its first of 5 full time Emergency Room Doctors needed to operate the emergency department. It is the hospital's hope to complete the move to employed ER doctors versus contract in 2006. As a percentage of net patient service revenue, salary expense was approximately 36.6%, 37.7% and 38.0% for the fiscal years ended June 2005, 2004 and 2003, respectively.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Employee benefit expense increased \$310,255 or 18.8% from prior year. Employee benefit expense represented 13.5%, 12.4% and 12.0% of salary expense in the current and prior fiscal years, respectively. This increase is primarily due to increases in health insurance costs of \$255,722. The hospital has made some major changes in its health insurance benefits structure. These changes include changing of third party administrator, healthcare network (now Blue Cross), and tripling employee co-insurance to 30% for fiscal year 2006.

Supplies expense increased \$496,789 or 21.8% from prior year. The majority of the increase, some \$347,484, comes from increased Orthopedic Surgery. We have recently completed a new implant contract with Smith & Nephew that will reduce our procurement cost by as much as 40%.

Purchases services had an increased \$807,135 or 15.0% from prior year. The increase is due to moving our Geriatric Psych program to outside management services versus in-house. The management agreement has increased volume and quality but has failed to reduce cost. In 2006 we again have modified our Geriatric Psych management contract, moving all but two employees to our payroll. We believe that this move will address our cost management needs.

Other operating expenses increased approximately \$63,426 from prior year. Utility cost has increased \$69,785 and should increase again in 2006 as we move in our 55,000 square foot addition.

Provision for bad debts increased \$1,372,713 and represents 12.3% of total revenue versus prior years 10.0% and 10.8% respectively. The increase comes primarily due to the increased Self Pay revenue of \$800,000 and a change in our bad debts reserve estimates. We now recognize 100% of non-governmental revenue aged over 120 days. We believe to more closely reflect industry practices.

Depreciation expense was up \$136,312 from prior year, as the full year of phase 1 of the construction project depreciated along with our continued modernization of equipment.

Total operating expense increased by \$4,457,224 for the year ended June 30, 2005 for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the board of commissioners and funds held by several investments under bond resolution. The net unrealized gain (loss) on market adjustments is excluded from this amount.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Capital Assets

During fiscal year 2005, the Hospital invested \$7,035,596 in a broad range of capital assets included in Table 7 below.

**Table 7
Capital Assets**

	Year-end June 30		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 1,080,864	\$ 1,080,864	\$ 1,071,937
Building & Equipment	39,742,231	36,900,180	35,240,341
Subtotal	<u>40,823,095</u>	<u>37,981,044</u>	<u>36,312,278</u>
Less Accumulated Depr	24,716,835	22,740,469	20,785,396
Construction in Progress	<u>12,693,457</u>	<u>9,786,696</u>	<u>3,772,596</u>
Net Property, Plant & Equipment	<u>\$ 28,799,717</u>	<u>\$ 25,027,271</u>	<u>\$ 19,299,478</u>

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities, equipment, and is in the process of a building expansion to modernize surgery, emergency room, x-ray, ICU and admitting.

In Table 8, the Hospital's fiscal year 2006 capital budget projects spending up to \$5,984,055 for capital projects. These projects will be financed from operations and board reserves. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

**Table 8
Fiscal Year 2005 Capital Budget**

Equipment Purchases	\$ 1,935,055
Construction (21 Beds Unit)	2,350,000
Prior Year Approved Items	<u>1,699,000</u>
Total	<u>\$ 5,984,055</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Long-Term Debt

At year-end, the Hospital had \$8,800,000 in short-term and long-term debt. This has decreased by \$325,000 in fiscal year 2004, which was the amount of principal payments on outstanding debt for the fiscal year. *More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements.* No new long-term debt was incurred in the current year. Total debt outstanding represents approximately 17.2% of the Hospital's total assets at June 30, 2005 versus prior years of 18.6% and 20.2% respectively.

Contacting the Hospital's Financial Manager

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



LESTER, MILLER & WELLS

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Independent Auditors' Report

Board of Commissioners
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the accompanying consolidated financial statements of the Natchitoches Parish Hospital Service District and its Affiliates (the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2005, 2004 and 2003, as listed in the foregoing table of contents. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2005, 2004 and 2003, and the results of its operations and cash flows of such funds for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2005, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the Hospital's consolidated 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 consolidated financial statements. Such information has been subjected to auditing procedures applied by us in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Board of Commissioners
Natchitoches Parish Hospital Service District
Page Two

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

Lester, Miller & Wells

Certified Public Accountants
October 26, 2005



NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2005, 2004 AND 2003

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
Cash and cash equivalents	\$ 1,754,830	\$ 1,157,331	\$ 1,358,143
Limited use assets (Note 4)	609,963	579,014	915,336
Patient accounts receivable, net (Note 3)	5,692,600	4,527,424	3,442,545
Other receivables	193,886	106,444	71,580
Inventory	1,155,555	1,162,393	1,129,624
Prepaid expenses	408,279	411,597	367,585
Notes receivable - current (Note 16)	<u>267,408</u>	<u>232,592</u>	<u>303,612</u>
Total current assets	<u>10,082,521</u>	<u>8,176,795</u>	<u>7,588,425</u>
Other:			
Limited use assets (Note 4)	9,744,086	14,624,596	20,861,224
Property, plant and equipment, net (Note 5)	28,799,717	25,027,271	19,299,478
Unamortized bond issue cost (Note 6)	46,609	46,609	48,253
Unamortized capitalized construction interest (Note 6)	1,678,512	1,148,991	740,631
Goodwill (Note 21)	171,000	-0-	-0-
Notes receivable (Note 16)	<u>658,342</u>	<u>153,163</u>	<u>333,141</u>
 Total assets	 <u>\$ 51,180,787</u>	 <u>\$ 49,177,425</u>	 <u>\$ 48,871,152</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current:			
Accounts payable	\$ 1,152,202	\$ 1,112,783	\$ 1,648,116
Payroll withholdings and taxes	76,721	49,640	51,851
Accrued expenses	1,293,319	1,113,038	1,011,181
Unearned revenue	6,652	7,871	10,998
Current portion of long-term debt (Note 8)	<u>345,000</u>	<u>325,000</u>	<u>770,000</u>
Total current liabilities	<u>2,873,894</u>	<u>2,608,332</u>	<u>3,492,146</u>
Long-term liabilities:			
Long-term debt (Note 8)	8,455,000	8,800,000	9,125,000
Less deferred loss on bonds	<u>-0-</u>	<u>-0-</u>	<u>(2,393)</u>
Total liabilities	<u>11,328,894</u>	<u>11,408,332</u>	<u>12,614,753</u>
Net assets:			
Invested in capital assets, net of related debt	19,999,717	15,902,271	9,404,478
Restricted net assets	609,963	579,257	5,525,581
Unrestricted net assets	<u>18,956,468</u>	<u>21,287,565</u>	<u>21,326,340</u>
Total controlling net assets	<u>39,566,148</u>	<u>37,769,093</u>	<u>36,256,399</u>
Noncontrolling interest in subsidiary	<u>285,745</u>	<u>-0-</u>	<u>-0-</u>
Total net assets	<u>39,851,893</u>	<u>37,769,093</u>	<u>36,256,399</u>
 Total liabilities and net assets	 <u>\$ 51,180,787</u>	 <u>\$ 49,177,425</u>	 <u>\$ 48,871,152</u>

See accompanying notes to financial statements.

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
COMBINED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue:			
Net patient service revenue	\$ 39,448,955	\$ 34,906,423	\$ 34,915,525
Gain (loss) on sale of assets	-0-	-0-	(19,459)
Other revenue	<u>1,863,542</u>	<u>1,872,506</u>	<u>1,171,821</u>
Total revenue	<u>41,312,497</u>	<u>36,778,929</u>	<u>36,067,887</u>
Expenses:			
Salaries and benefits	16,392,427	14,828,299	14,856,958
Medical supplies and drugs	2,770,322	2,273,533	2,875,232
Medical, professional and consulting	6,170,548	5,363,413	4,331,302
Other expenses	6,416,238	6,352,812	6,082,916
Retirement	167,002	152,901	91,575
Insurance	758,811	758,788	700,944
Leases	22,104	10,740	16,359
Depreciation and amortization	2,131,104	1,994,792	1,704,354
Interest	-0-	8,767	43,614
Provision for bad debts	<u>5,066,220</u>	<u>3,693,507</u>	<u>3,902,073</u>
Total expenses	<u>39,894,776</u>	<u>35,437,552</u>	<u>34,605,327</u>
Operating income (loss)	<u>1,417,721</u>	<u>1,341,377</u>	<u>1,462,560</u>
Nonoperating income:			
Interest income	45,979	16,046	23,471
Interest income from limited use assets	344,497	490,263	548,839
Net contributions (Note 14)	28,778	26,595	27,294
IGT transfer - administrative fee (Note 18)	-0-	1,486	109,957
Total nonoperating income	<u>419,254</u>	<u>534,390</u>	<u>709,561</u>
Excess of revenue over expenses	1,836,975	1,875,767	2,172,121
Less: consolidated net income attributable to noncontrolling interest	(1,195)	-0-	-0-
Other comprehensive income			
Unrealized holding gains (losses)	<u>(38,725)</u>	<u>(363,073)</u>	<u>(200,585)</u>
Comprehensive income (loss)	1,797,055	1,512,694	1,971,536
Net assets at beginning of year	<u>37,769,093</u>	<u>36,256,399</u>	<u>34,284,863</u>
Net assets at end of year	\$ <u>39,566,148</u>	\$ <u>37,769,093</u>	\$ <u>36,256,399</u>

See accompanying notes to financial statements

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 33,217,559	\$ 30,128,037	\$ 31,970,460
Other receipts from operations	1,774,881	1,834,515	1,089,652
Investment income received - nonrestricted	45,979	16,046	23,471
IGT transfer fee received	-0-	1,486	109,957
Cash payments to employees and for employee-related cost	(16,185,065)	(14,848,887)	(14,292,312)
Cash payments for other operating expenses	<u>(16,065,573)</u>	<u>(15,118,025)</u>	<u>(13,929,585)</u>
Net cash provided (used) by operating activities	<u>2,787,781</u>	<u>2,013,172</u>	<u>4,971,643</u>
Cash flows from investing activities:			
Collections on physician loans	-0-	14,645	15,026
Cash invested in assets limited as to use - investment	(390,476)	(490,263)	(548,839)
Redemption of investments/principal return	5,201,312	6,700,140	1,162,028
Loans to physicians	(729,872)	(45,651)	(132,666)
Cash received for noncontrolling interest in subsidiary	284,550		
Investment earnings	<u>344,497</u>	<u>490,263</u>	<u>548,839</u>
Net cash provided (used) by investing activities	<u>4,710,011</u>	<u>6,669,134</u>	<u>1,044,388</u>
Cash flows from capital and related financing activities:			
Interest expense	-0-	(8,767)	(43,614)
Capitalized construction interest	(532,831)	(448,080)	(230,508)
Principal payments on long-term debt	(325,000)	(770,000)	(819,781)
Acquisition of property, plant and equipment	(6,071,240)	(7,682,866)	(5,246,868)
Contributions	<u>28,778</u>	<u>26,595</u>	<u>27,294</u>
Net cash provided (used) by capital and related financing activities:	<u>\$ (6,900,293)</u>	<u>\$ (8,883,118)</u>	<u>\$ (6,313,477)</u>

See accompanying notes to financial statements

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net increase (decrease) in cash and cash equivalents	\$ 597,499	\$ (200,812)	\$ (297,446)
Beginning cash and cash equivalents	<u>1,157,331</u>	<u>1,358,143</u>	<u>1,655,589</u>
Ending cash and cash equivalents	\$ <u>1,754,830</u>	\$ <u>1,157,331</u>	\$ <u>1,358,143</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>537,750</u>	\$ <u>563,182</u>	\$ <u>614,182</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 1,417,721	\$ 1,341,377	\$ 1,462,560
Interest expense considered capital financing activity	-0-	8,767	43,614
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
(Gain) loss on disposal of assets	-0-	-0-	19,459
Provision for bad debts	5,066,220	3,693,507	3,902,073
Depreciation and amortization	2,131,104	1,994,793	1,704,354
Amortization of loss on refinancing of 1979 Bonds	-0-	2,393	9,304
Amortization of bond issue cost	-0-	1,644	6,340
LHA trust allocation of income	-0-	-0-	(88,456)
Physician loan amortization	189,877	282,004	302,109
Interest income	45,979	16,046	23,471
IGT transfer - administrative fee	-0-	1,486	109,957
(Increase) decrease in:			
Patient accounts receivable, net	(6,231,396)	(4,778,386)	(2,945,065)
Other receivables	(87,442)	(34,864)	250
Inventory	6,838	(32,769)	(61,832)
Prepaid expenses	3,318	(44,012)	(43,131)
Increase (decrease) in:			
Accounts payable	39,419	(535,333)	677,947
Payroll withholdings and taxes	27,081	(2,211)	(108,007)
Accrued expenses	180,281	101,857	(49,341)
Unearned revenue	<u>(1,219)</u>	<u>(3,127)</u>	<u>6,037</u>
Net cash provided by operating activities	\$ <u>2,787,781</u>	\$ <u>2,013,172</u>	\$ <u>4,971,643</u>

See accompanying notes to financial statements.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legal Organizations

The Natchitoches Parish Hospital Service District (referred to as "the District" or "the Hospital") was created by an ordinance of the Natchitoches Parish Police Jury (the "Jury") on October 19, 1955. The governing board of the District consists of seven members appointed by the Jury. Because the Jury appoints all commissioners of the Natchitoches Parish Hospital Service District, the District is a component unit of the Natchitoches Parish Police Jury, which is the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Jury, or the other governmental units that comprise the financial reporting entity.

An affiliate, Natchitoches Hospital Foundation (referred to as "the Foundation"), was incorporated June 23, 1987, as a Louisiana nonprofit corporation. The Foundation has one class of members, consisting of one member, the District.

An affiliate, Natchitoches Outpatient Services, LLC (referred to as "NOP, LLC"), was organized January 22, 2004, as a Louisiana limited liability company. NOP, LLC is a perpetual limited liability company. The District has 50.9% ownership in NOP, LLC.

Nature of Business

The District provides outpatient, ambulance, emergency and acute services through its hospital unit. The District also provides inpatient intermediate and skilled nursing services through its long-term care unit and hospital "Swing-Beds". In June 1995, the District opened a unit to provide geriatric psychiatric services and was recognized as a "distinct part" unit effective July 1, 1995.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income therefrom, to or for the benefit of the District.

NOP, LLC provides outpatient therapy and MRI services.

Basis of Accounting

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

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash and Cash Equivalents

Cash represents coin, currency, bank demand deposits and other negotiable instruments that are readily acceptable in lieu of currency. Cash equivalents are time deposits, certificates of deposit, treasury bills and mortgage backed securities purchased with a maturity of three months or less.

Inventory

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

Investments

The Hospital classifies their investments as available-for-sale in response to changes in interest rates, liquidity needs and for other purposes. Available-for-sale securities are reported at fair value. Unrealized holdings gains and losses are reported as other comprehensive income.

Property, Plant and Equipment

Purchased fixed assets are recorded at cost and donated fixed assets, if received, at fair market value on the date of any donation. Depreciation is calculated over estimated useful lives, using the straight-line method. Land was initially donated for hospital use, and it is recorded at the fair market value at the time of donation. Additional land was purchased, and it is recorded at cost.

Revenue and Expenses

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

Income Taxes

The District is a political subdivision of the State of Louisiana and exempt from taxation.

The Foundation is exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

NOP, LLC does not pay federal corporate income taxes on its taxable income or is not allowed a net operating loss carryover or carryback as a deduction. Instead, the members are liable for individual federal income taxes on their respective shares of the NOP, LLC's taxable income or include their respective shares of NOP, LLC's net operating loss in their individual income tax returns.

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Credit Risk

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

Significant Concentration of Economic Dependence

The District has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 9. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenue

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of the District and its affiliates, after elimination of all significant intercompany balances and transactions. The District has recorded a minority interest for the portion of equity and income attributable to other investors in NOP, LLC

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 2 - DEPOSITS AND INVESTMENTS

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

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at June 30, 2005, 2004 and 2003. Category (1) includes investments that are insured, or registered in the Hospital's name, or for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. Balances at June 30 were as follows:

	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
2005				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ 4,805,791	\$ -0-	\$ 4,805,791
Cash and cash equivalents, certificates of deposit	<u>2,176,637</u>	<u>4,340,832</u>	<u>-0-</u>	<u>6,517,469</u>
Totals	<u>\$ 2,176,637</u>	<u>\$ 9,146,623</u>	<u>\$ -0-</u>	<u>\$ 11,323,260</u>
	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
2004				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ 4,907,844	\$ -0-	\$ 4,907,844
Cash and cash equivalents, certificates of deposit	<u>2,790,249</u>	<u>7,877,229</u>	<u>-0-</u>	<u>10,667,478</u>
Totals	<u>\$ 2,790,249</u>	<u>\$ 12,785,073</u>	<u>\$ -0-</u>	<u>\$ 15,575,322</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
2003				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ 16,591,195	\$ -0-	\$ 16,591,195
Cash and cash equivalents, certificates of deposit	<u>3,114,153</u>	<u>2,616,700</u>	<u>-0-</u>	<u>5,730,853</u>
Totals	\$ <u>3,114,153</u>	\$ <u>19,207,895</u>	\$ <u>-0-</u>	\$ <u>22,322,048</u>

NOTE 3 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient accounts receivable	\$ 6,528,397	\$ 6,248,015	\$ 6,603,216
Third-party year end settlements	<u>1,295,761</u>	<u>212,409</u>	<u>(806,671)</u>
	7,824,158	6,460,424	5,796,545
Less provision for uncollectibles	<u>(2,131,558)</u>	<u>(1,933,000)</u>	<u>(2,354,000)</u>
Net accounts receivable	\$ <u>5,692,600</u>	\$ <u>4,527,424</u>	\$ <u>3,442,545</u>

The following is a summary of the mix of receivables from patient and third-party payors at June 30:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	14%	14%	6%
Medicaid	4%	10%	18%
Commercial and other third-party payors	30%	26%	23%
Patients	<u>52%</u>	<u>50%</u>	<u>53%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Medicare, Medicaid and third-party payors are shown net of contractual allowances.

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 4 - LIMITED USE ASSETS

A summary of limited use assets is presented below:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<u>By Third Parties</u>			
Cash with paying agent - interest and principal, due 10/01 (Series 1994 and 2000 Bonds)	\$ 392,023	\$ 385,269	\$ 735,881
Donor contributions	207,713	186,935	171,208
Patient trust funds	10,227	6,810	8,247
Series 2000 proceeds to be disbursed	-0-	243	4,610,245
<u>By Board</u>			
Repair and replacement - cash and cash equivalents	1,915,160	1,900,058	3,877,120
Repair and replacement - investments	7,043,307	11,938,676	11,561,204
LHA trust deposits	785,619	785,619	812,655
Less limited use assets required for current liabilities	<u>(609,963)</u>	<u>(579,014)</u>	<u>(915,336)</u>
Non-current limited use assets	\$ <u>9,744,086</u>	\$ <u>14,624,596</u>	\$ <u>20,861,224</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2005.

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
Land and improvements	\$ 1,080,864	\$ -0-	\$ -0-	\$ 1,080,864
Buildings	22,991,866	418,046	-0-	23,409,912
Leasehold improvements	100,326	-0-	100,326	-0-
Furniture, fixtures & equipment	13,807,988	2,648,209	123,878	16,332,319
Construction in progress	<u>9,786,696</u>	<u>3,969,341</u>	<u>1,062,580</u>	<u>12,693,457</u>
Total	47,767,740	7,035,596	1,286,784	53,516,552
Accumulated depreciation	<u>22,740,469</u>	<u>2,127,794</u>	<u>151,428</u>	<u>24,716,835</u>
Net	\$ <u>25,027,271</u>	\$ <u>4,907,802</u>	\$ <u>1,135,356</u>	\$ <u>28,799,717</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2004.

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>
Land and improvements	\$ 1,071,937	\$ 8,927	\$ -0-	\$ 1,080,864
Buildings	22,025,275	966,591	-0-	22,991,866
Leasehold improvements	100,326	-0-	-0-	100,326
Furniture, fixtures & equipment	13,114,740	693,248	-0-	13,807,988
Construction in progress	<u>3,772,596</u>	<u>6,786,369</u>	<u>772,269</u>	<u>9,786,696</u>
 Total	 40,084,874	 8,455,135	 772,269	 47,767,740
Accumulated depreciation	<u>20,785,396</u>	<u>1,955,073</u>	<u>-0-</u>	<u>22,740,469</u>
 Net	 \$ <u>19,299,478</u>	 \$ <u>6,500,062</u>	 \$ <u>772,269</u>	 \$ <u>25,027,271</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2003.

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2003</u>
Land and improvements	\$ 958,124	\$ 124,638	\$ 10,825	\$ 1,071,937
Buildings	18,339,343	3,689,041	3,109	22,025,275
Leasehold improvements	100,326	-0-	-0-	100,326
Furniture, fixtures & equipment	9,971,773	3,604,665	461,698	13,114,740
Leased assets	540,237	-0-	540,237	-0-
Construction in progress	<u>5,629,172</u>	<u>2,582,306</u>	<u>4,438,882</u>	<u>3,772,596</u>
 Total	 35,538,975	 10,000,650	 5,454,751	 40,084,874
Accumulated depreciation	<u>19,802,272</u>	<u>1,665,383</u>	<u>682,259</u>	<u>20,785,396</u>
 Net	 \$ <u>15,736,703</u>	 \$ <u>8,335,267</u>	 \$ <u>4,772,492</u>	 \$ <u>19,299,478</u>

Depreciation was calculated using the straight-line method. Useful lives for the purpose of calculating depreciation by class are:

Buildings	10 - 40 years
Furniture, fixtures and equipment	3 - 15 years

These assets were obtained in part with funds from a Hill-Burton program grant of \$307,000.

**NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 6 - OTHER ASSETS

Bond issue costs of \$46,609 were incurred for the 2000 Revenue Bonds and will be amortized using the straight-line method over the remaining life of the bonds (20 years) beginning in the fiscal year 2006

Capitalized interest of \$1,678,512 was accumulated as of June 30, 2005 for the 2000 Revenue Bonds and will be amortized using the straight-line method over the remaining life of the bonds beginning in the fiscal year 2006.

NOTE 7 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$634,327, \$561,758, and \$541,860 of vacation pay at June 30, 2005, 2004, and 2003. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30, 2005, follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Series 1994 Hospital Revenue Bonds at rates varying from 4.9% to 5.55%, collateralized by a pledge and dedication of hospital revenue	\$ -0-	\$ -0-	\$ 460,000
Series 2000 Hospital Revenue Bonds at a rate of 6.00%, collateralized by a pledge and dedication of hospital revenue	<u>8,800,000</u>	<u>9,125,000</u>	<u>9,435,000</u>
Less current maturities of long-term debt	<u>(345,000)</u>	<u>(325,000)</u>	<u>(770,000)</u>
Long-term debt, net of current maturities	\$ <u>8,455,000</u>	\$ <u>8,800,000</u>	\$ <u>9,125,000</u>

On June 14, 2000, the Series 2000 Hospital Revenue Bonds were issued. The bonds are secured by the full faith and credit of the Hospital as well as a lien and privilege on its revenues.

The Hospital has covenanted to set rates so that revenues are sufficient to pay all reasonable and necessary expenses of operating and maintaining the Hospital, certain multiples of the largest amount of principal and interest maturing on the Bonds in any future fiscal year and on any pari passu additional bonds hereafter issued. Those multiples range from 120% to 200%

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 8 - LONG-TERM DEBT (Continued)

Other requirements under the terms of indebtedness are as follows:

- * Sale or disposition of Hospital property, plant and equipment is limited. Future debt agreements may not take priority over this series of debt.
- * Make monthly deposits equal to the pro-rata portion of the next principal and/or interest payment, which are to be maintained in fully backed or government securities investments, with market values greater than invested dollars.
- * Collect payment on all services rendered, except for an undisclosed, reasonable amount of charity care
- * Maintain all assets in good working order.
- * Carry full insurance coverage with a responsible licensed Louisiana company
- * Maintain complete and accurate records and have an annual audit.
- * Maintain cash on hand of not less than 45 days of operating expenses net of depreciation and amortization. This requirement changed to 60 days effective June 14, 2000.
- * Provide quarterly statements to the purchaser.
- * Protect tax exempt status and refrain from activities that would require payment of arbitrage to the IRS.

Scheduled principal and interest repayments on the 2000 series revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 345,000	\$ 517,650	\$ 862,650
2007	365,000	496,350	861,350
2008	390,000	473,700	863,700
2009	410,000	449,700	859,700
2010	435,000	424,350	859,350
2011 - 2015	2,590,000	1,685,700	4,275,700
2016 - 2020	3,450,000	785,400	4,235,400
2021	<u>815,000</u>	<u>24,450</u>	<u>839,450</u>
Totals	\$ <u>8,800,000</u>	\$ <u>4,857,300</u>	\$ <u>13,657,300</u>

NOTE 9 - NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 9 - NET PATIENT SERVICE REVENUE (Continued)

Medicare - 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. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for cost reimbursement until January 1, 2006. Swing bed and skilled nursing facility routine services are reimbursed based on a prospectively determined rate per patient day. Geriatric psychiatry services are reimbursed based upon a cost reimbursement methodology, subject to a target amount per discharge.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. Geriatric psychiatry services are reimbursed on a prospectively determined per diem rate.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended June 30:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare and Medicaid gross patient charges	\$ 51,837,479	\$ 43,193,680	\$ 39,018,391
Contractual adjustments with uncompensated care reimbursement	<u>(29,958,598)</u>	<u>(27,084,875)</u>	<u>(24,357,983)</u>
Net patient service revenue	\$ <u>21,878,881</u>	\$ <u>16,108,805</u>	\$ <u>14,660,408</u>
Percent of gross patient charges	67%	63%	60%
Percent of total net patient revenue	55%	46%	42%

The Hospital received interim amounts of \$2,300,727, \$2,619,648 and \$2,223,598 for Medicaid and self-pay uncompensated care services for the years ended June 30, 2005, 2004 and 2003, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has not made any provisions for such recoupments. Management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

NOTE 10 - RETIREMENT PROGRAM

Employees may participate in a qualified defined contribution retirement plan. Each employee is eligible to join the plan immediately upon employment. Employees become vested in the employer's contribution 25% per year until 100% vested at 4 years of employment. Under terms of the plan, each participating employee must make contributions of 4% and may make additional voluntary contributions. The District must make contributions equal to 25% of the employee's required contribution and can elect to contribute up to 100% of the employee's required contribution.

Total payroll	\$ 14,435,924
Total covered payroll	\$ 10,758,693
Employee contributions	\$ 430,386
Employer contributions	\$ 180,858
Less forfeitures	<u>(13,856)</u>
Net employer contributions	\$ <u>167,002</u>

During the year ended June 30, 2005, management discovered that the District was not listed as a tax exempt organization under IRS code section 501(c)(3), which is required for its 403(b) retirement plan to be a "qualified" plan. Management is working with counsel to resolve this issue. Management believes qualification of the plan will be resolved with the IRS in their favor. Therefore, management has treated all of the retirement transactions as though the plan was qualified.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence. Legal action in an attempt to overturn this legislation on constitutional grounds is in process.

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

**NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 12 - WORKMEN'S COMPENSATION RISK

The District participates in the Louisiana Hospital Association Self Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity amounts assigned to the District by the Trust Fund in its financial statements.

NOTE 13 - CHARITY CARE

The Hospital has a policy of providing charity care to indigent patients in emergency situations. Amounts identified as charity care charges are \$235,478, \$198,186 and \$208,615 for the years ended June 30, 2005, 2004 and 2003, respectively. The related cost of care was approximately 53%, 57% and 60%, for the fiscal years ended in 2005, 2004 and 2003, respectively.

NOTE 14 - NET CONTRIBUTIONS

Contributions and related fund raising expenses are reflected in the following table.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Contributions	\$ 34,915	\$ 34,715	\$ 34,985
Interest earned on contributions	2,068	812	1,541
Less fund raising expenses	<u>(8,205)</u>	<u>(8,932)</u>	<u>(9,232)</u>
Net contributions	\$ <u>28,778</u>	\$ <u>26,595</u>	\$ <u>27,294</u>

NOTE 15 - SELF-FUNDED BENEFITS PLAN

The District maintains a self-funded medical/dental benefits plan. The District entered into an agreement as of July 1991, with Employee Benefit Services, Inc., for supervision of the plan. The Hospital purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of \$50,000 per year up to specific individual maximums of \$1,000,000

**NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 16 - NOTES RECEIVABLE

The following is a summary of notes receivable at June 30:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Physician notes	\$ -0-	\$ 13,393	\$ 28,038
Physician contract guarantees	<u>925,750</u>	<u>372,362</u>	<u>608,715</u>
	925,750	385,755	636,753
Less current maturities	<u>(267,408)</u>	<u>(232,592)</u>	<u>(303,612)</u>
	925,750	385,755	636,753
Long-term notes receivable	\$ <u>658,342</u>	\$ <u>153,163</u>	\$ <u>333,141</u>

NOTE 17 - CONTINGENCIES

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

The principal contingencies are described below:

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

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 17 - CONTINGENCIES (Continued)

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

Workmen's Compensation Risk (Note 12) - The District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund

Hill-Burton Uncompensated Service and Community Service Obligations - As a result of the District receiving a Federal Hill-Burton program grant, the District is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. The District's obligation for uncompensated services was fulfilled on July 17, 1998. Additionally, the District is obligated to provide community service.

NOTE 18 - IGT TRANSFER - ADMINISTRATIVE FEE

The Hospital entered into a cooperative endeavor agreement with the State of Louisiana under Act No. 143 of the First Extraordinary Session of the 2000 Louisiana Legislature ("Act 143"). Act 143 provides for an Intergovernmental Transfer (IGT) to the Hospital whereby payments were made to the Hospital and 99.5% of the funds were transferred to the Natchitoches Parish Police Jury (Police Jury) for transfer to the State of Louisiana. The Hospital was authorized to retain an amount equal to one-half of one percent (0.5%) of the Medicaid Enhancement Pool payment as an administrative fee. By cooperative endeavor, the administrative fee was equally divided between the Hospital and the Natchitoches Parish Police Jury. The Natchitoches District Attorney's office requested an opinion from the Louisiana Attorney General's (AG) office regarding the legality of equally dividing the administrative fee between the Hospital and the Police Jury under Louisiana and Medicaid laws. On August 23, 2001, the AG opined finding no prohibition prohibiting the Hospital from sharing with the Police Jury under Louisiana law, and acknowledged receiving similar assurance from experts in Medicaid law. The \$1,486 and \$109,957 fees retained by the Hospital (0.25%) for 2004 and 2003, respectively, are reported as non-operating income. To avoid distortion of the Hospital's cash flow statement, the \$594,697 and \$43,982,650 transferred to the Hospital from the State of Louisiana and the \$593,211 and \$43,872,693 transferred by the Hospital to the Police Jury were not reported on the Hospital's cash flow statement. The transfer to the Police Jury includes the Police Jury's share of the administrative fee.

NOTE 19 - COMMITMENTS

The Hospital entered into three construction contracts, which totaled \$10,486,748, including change orders as of June 30, 2005. The Hospital paid \$8,967,897 towards this commitment and one project is complete as of June 30, 2005.

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NOTE 20 - SUBSEQUENT EVENTS

In July of 2005, Christus Health completed an act of conveyance to the District for a physician office building and real estate.

NOP, LLC borrowed \$1,450,000 on July 6, 2005 at 5.375%.

NOTE 21 - RELATED PARTY TRANSACTIONS

The District contributed cash and equipment for its equity contribution in NOP, LLC. The District reported income of \$125,231 for the difference between cash and net book value of the equipment given and the amount of capital contribution received. NOP, LLC reported \$171,000 in goodwill for the difference in the District's equity contribution given and the fair market value of the assets received.

SUPPLEMENTARY INFORMATION

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Daily patient services:			
Routine services	\$ 3,848,875	\$ 3,661,483	\$ 3,820,789
Intensive care	1,520,230	1,412,360	1,502,810
Nursery	267,003	262,250	271,602
Long-term care	3,580,757	3,418,706	3,453,668
Swing bed	1,568	1,470	10,486
Geriatric psych	<u>3,071,460</u>	<u>2,747,010</u>	<u>1,808,680</u>
Total daily patient services	<u>12,289,893</u>	<u>11,503,279</u>	<u>10,868,035</u>
Other professional services:			
Operating and recovery room			
Inpatient	3,450,005	2,213,275	3,116,254
Outpatient	<u>3,535,251</u>	<u>3,559,838</u>	<u>4,296,626</u>
Total	<u>6,985,256</u>	<u>5,773,113</u>	<u>7,412,880</u>
Labor and delivery			
Inpatient	644,745	718,653	697,356
Outpatient	<u>94,437</u>	<u>106,020</u>	<u>115,230</u>
Total	<u>739,182</u>	<u>824,673</u>	<u>812,586</u>
Anesthesia			
Inpatient	25,710	13,653	24,353
Outpatient	<u>30,749</u>	<u>21,471</u>	<u>25,850</u>
Total	<u>56,459</u>	<u>35,124</u>	<u>50,203</u>
Radiology, ultrasound & CT scan			
Inpatient	3,617,955	3,304,586	2,894,828
Outpatient	<u>9,349,573</u>	<u>7,855,163</u>	<u>6,689,126</u>
Total	<u>12,967,528</u>	<u>11,159,749</u>	<u>9,583,954</u>
Laboratory			
Inpatient	5,324,238	4,801,167	4,573,116
Outpatient	<u>5,103,297</u>	<u>4,272,468</u>	<u>3,705,911</u>
Total	<u>\$ 10,427,535</u>	<u>\$ 9,073,635</u>	<u>\$ 8,279,027</u>

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Blood			
Inpatient	\$ 495,383	\$ 384,859	\$ 215,376
Outpatient	<u>157,300</u>	<u>122,204</u>	<u>49,290</u>
Total	<u>652,683</u>	<u>507,063</u>	<u>264,666</u>
Inhalation therapy			
Inpatient	4,344,964	3,684,513	3,442,411
Outpatient	<u>288,919</u>	<u>302,480</u>	<u>216,201</u>
Total	<u>4,633,883</u>	<u>3,986,993</u>	<u>3,658,612</u>
Physical therapy			
Inpatient	318,487	249,340	385,954
Outpatient	<u>1,070,375</u>	<u>809,667</u>	<u>958,807</u>
Total	<u>1,388,862</u>	<u>1,059,007</u>	<u>1,344,761</u>
Occupational therapy			
Inpatient	103,992	138,045	180,885
Outpatient	<u>410,217</u>	<u>194,431</u>	<u>206,003</u>
Total	<u>514,209</u>	<u>332,476</u>	<u>386,888</u>
Speech therapy			
Inpatient	38,708	38,953	38,155
Outpatient	<u>291,168</u>	<u>158,573</u>	<u>158,602</u>
Total	<u>329,876</u>	<u>197,526</u>	<u>196,757</u>
Electrocardiology			
Inpatient	1,549,264	1,535,423	1,343,549
Outpatient	<u>2,587,050</u>	<u>2,467,116</u>	<u>2,169,612</u>
Total	<u>4,136,314</u>	<u>4,002,539</u>	<u>3,513,161</u>
Central services			
Inpatient	1,399,674	1,185,727	1,210,711
Outpatient	<u>514,849</u>	<u>411,947</u>	<u>306,515</u>
Total	<u>1,914,523</u>	<u>1,597,674</u>	<u>1,517,226</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Pharmacy			
Inpatient	\$ 8,216,608	\$ 7,438,577	\$ 7,618,689
Outpatient	<u>1,700,736</u>	<u>1,561,665</u>	<u>1,642,974</u>
Total	<u>9,917,344</u>	<u>9,000,242</u>	<u>9,261,663</u>
Cardiac rehab			
Inpatient	62	-0-	493
Outpatient	<u>101,695</u>	<u>106,476</u>	<u>121,388</u>
Total	<u>101,757</u>	<u>106,476</u>	<u>121,881</u>
Emergency room			
Inpatient	1,299,470	1,099,859	852,941
Outpatient	<u>5,528,851</u>	<u>5,066,636</u>	<u>4,484,520</u>
Total	<u>6,828,321</u>	<u>6,166,495</u>	<u>5,337,461</u>
Observation			
Outpatient	<u>152,407</u>	<u>155,154</u>	<u>104,496</u>
Ambulance			
Outpatient	<u>2,724,693</u>	<u>2,491,332</u>	<u>2,163,449</u>
Diabetic initiative			
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>(360)</u>
Physician clinic			
Outpatient	<u>164,813</u>	<u>106,290</u>	<u>101,964</u>
School-based clinic			
Outpatient	<u>39,763</u>	<u>40,548</u>	<u>44,690</u>
Wellness center			
Outpatient	\$ <u>4,480</u>	\$ <u>35,000</u>	\$ <u>47,586</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Montgomery clinic			
Outpatient	\$ <u>-0-</u>	\$ <u>18,199</u>	\$ <u>43,299</u>
Total other professional services	<u>64,679,888</u>	<u>56,669,308</u>	<u>54,246,850</u>
Total patient service revenue	76,969,781	68,172,587	65,114,885
Contractual adjustments - Medicare and Medicaid	32,259,325	29,704,523	26,581,581
Contractual adjustments - other	7,326,750	5,982,464	5,623,431
Free care	235,478	198,186	208,615
Other deductions	-0-	639	9,331
Uncompensated care reimbursement	<u>(2,300,727)</u>	<u>(2,619,648)</u>	<u>(2,223,598)</u>
Total allowances	<u>37,520,826</u>	<u>33,266,164</u>	<u>30,199,360</u>
Net patient service revenue	\$ <u>39,448,955</u>	\$ <u>34,906,423</u>	\$ <u>34,915,525</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
 SCHEDULES OF OTHER REVENUE
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other revenue:			
Rental income	\$ 549,745	\$ 750,608	\$ 555,300
Medical records	10,469	7,263	5,959
Dietary sales	326,291	304,627	328,488
Vending revenue	46,350	39,408	35,167
LHA trust	-0-	-0-	88,456
Ambulance tax	740,556	730,445	15,100
Other	190,131	40,155	123,351
Janitorial revenue	<u>-0-</u>	<u>-0-</u>	<u>20,000</u>
 Total other operating revenue	 \$ <u>1,863,542</u>	 \$ <u>1,872,506</u>	 \$ <u>1,171,821</u>

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salaries:			
Human resources	\$ 110,753	\$ 95,867	\$ 94,563
Administration	415,035	490,832	454,817
Information systems	180,895	158,135	139,446
Accounting	137,093	126,108	125,575
Admitting	347,048	332,325	329,503
Business office	317,502	295,971	323,645
Housekeeping	316,832	308,859	360,675
Dietary and cafeteria	397,556	378,401	369,623
Laundry	33,750	14,100	12,891
Plant operations and maintenance	236,645	207,008	203,398
Nursing administration	624,296	654,125	618,978
Medical records	272,944	265,815	291,190
Nursing services	1,922,754	1,803,588	1,830,230
ICU	722,993	662,840	709,127
Geriatric psych	(599)	155,696	448,394
Nursery	218,791	200,965	194,992
Long-term care	1,864,512	1,697,048	1,716,877
Operating room	865,583	715,521	743,233
Labor and delivery	281,708	316,091	309,993
Radiology	666,772	576,550	579,676
Laboratory	465,159	409,667	385,328
Respiratory therapy	448,855	366,297	333,328
Physical therapy	415,278	374,751	389,907
Occupational therapy	231,286	214,947	201,118
Speech therapy	95,900	56,104	57,729
Cardiovascular	144,734	131,639	127,934
Purchasing	69,474	65,543	59,272
Pharmacy	216,385	220,769	211,509
Cardiac rehab	55,271	49,930	59,349
Diabetic initiative	-0-	-0-	1,591
Emergency room	1,275,931	919,985	810,809
Ambulance	962,312	772,902	637,230
Physician clinic	67,127	55,948	50,253
School-based clinic	36,334	33,787	33,092
Montgomery clinic	-0-	7,180	3,523
Wellness center	19,015	46,757	41,450
	<u>19,015</u>	<u>46,757</u>	<u>41,450</u>
 Total salaries	 \$ 14,435,924	 \$ 13,182,051	 \$ 13,260,248

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
 SCHEDULES OF EXPENSES – SALARIES AND BENEFITS (Continued)
 YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Benefits:			
FICA and Medicare tax	\$ 1,042,434	\$ 954,200	\$ 968,621
Hospital insurance	891,020	635,298	604,552
Other	<u>23,049</u>	<u>56,750</u>	<u>23,537</u>
 Total benefits (excluding retirement)	 <u>1,956,503</u>	 <u>1,646,248</u>	 <u>1,596,710</u>
 Total salaries and benefits	 \$ <u>16,392,427</u>	 \$ <u>14,828,299</u>	 \$ <u>14,856,958</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF EXPENSES – MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Nursing service	\$ 53,033	\$ 69,399	\$ 74,539
ICU	32,401	29,538	31,844
Geriatric psych	6,400	7,062	3,349
Nursery	20,290	17,687	20,730
Long-term care	180,286	178,180	170,508
Operating room	972,208	624,724	1,229,824
Labor and delivery	101,958	73,059	72,311
Anesthesiology	26,717	24,816	29,672
Radiology, nuclear medicine, CAT scan	172,058	200,611	213,571
Laboratory and blood	697,379	589,322	530,166
Respiratory therapy	100,351	95,454	110,906
Physical therapy	606	3,417	649
EKG	16,069	15,132	15,732
Central supply	202,224	178,130	211,097
Pharmacy	26,152	26,927	35,338
Cardiac rehab	959	1,594	1,286
Emergency room	122,044	108,120	95,253
Ambulance	36,516	30,313	27,934
Physician clinic	2,671	-0-	-0-
Montgomery clinic	-0-	31	344
School-based clinic	-0-	17	179
	<hr/>	<hr/>	<hr/>
Total medical supplies and drugs	\$ <u>2,770,322</u>	\$ <u>2,273,533</u>	\$ <u>2,875,232</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
CONSOLIDATED SCHEDULES OF EXPENSES – MEDICAL, PROFESSIONAL AND
CONSULTING SERVICES
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Routine nursing	\$ 371,006	\$ 278,231	\$ 409,679
ICU	228,718	216,933	214,986
Geriatric psych	1,491,147	991,484	140,889
Nursery	2,064	-0-	3,778
LTCU	48,902	100,339	48,124
Operating room	4,800	-0-	253
Labor and delivery	160	-0-	-0-
Radiology, ultrasound, CAT scan	413,130	439,676	302,016
Laboratory	181,214	120,871	87,620
Respiratory therapy	69,794	7,917	71,896
Physical therapy	53,570	50,465	93,654
Pharmacy	2,115,098	1,870,124	1,748,391
Emergency room	958,611	1,051,619	1,007,396
Other	285	397	-0-
Sleep study	230,150	202,875	182,700
Montgomery clinic	-0-	24,364	15,650
School-based clinic	1,899	8,118	4,270
	<u>6,170,548</u>	<u>5,363,413</u>	<u>4,331,302</u>
Total medical, professional and consulting	\$ <u>6,170,548</u>	\$ <u>5,363,413</u>	\$ <u>4,331,302</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF EXPENSES – OTHER
YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Service fees	\$ 1,600,183	\$ 1,835,665	\$ 1,643,032
Legal and accounting	198,670	131,547	194,885
Non-medical supplies	1,735,518	1,557,239	1,496,540
Repairs and maintenance	338,442	392,403	436,707
Utilities	973,686	903,901	844,932
Telephone	75,745	78,874	85,769
Travel and fuel - ambulance	53,085	33,316	25,932
Travel and fuel - other	61,214	66,303	73,367
Rental expense	203,749	199,551	158,154
Education expense	36,871	34,797	44,598
Scholarships	8,000	10,868	8,543
Licenses, dues and subscriptions	361,850	290,669	182,879
Patient days tax	226,794	236,403	248,853
Advertising	154,642	127,713	216,671
Recruitment	306,593	403,568	385,344
Other	<u>81,196</u>	<u>49,995</u>	<u>36,710</u>
 Total other expenses	 \$ <u>6,416,238</u>	 \$ <u>6,352,812</u>	 \$ <u>6,082,916</u>

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY

The Natchitoches Parish Hospital was built by the people of the Parish of Natchitoches, Louisiana, in cooperation with the United States Government, and is operated by the Natchitoches Parish Hospital Service District as created by the Police Jury of Natchitoches Parish, Louisiana.

In consideration of an agreement between the Police Jury of Natchitoches Parish, Louisiana, and the Natchitoches Parish Hospital Service District whereby the Police Jury agreed to construct, complete and equip a hospital in Natchitoches Parish, the Hospital Service District agrees to do and perform the following:

1. To operate the District for the duration of this twenty-year agreement as a non-profit institution in accordance with an agreement entered into by and between the Parish and the United States.
2. To maintain and operate the District and assume and pay the expenses of operations and maintenance to the extent of the income and revenues derived therefrom.
3. To have full and complete charge of the management and operation of the District and conduct and operate said District at all times in accordance with acceptable standards of hospital practice.

The Parish covenants to do and perform, as consideration for this agreement, the following:

1. To equip the hospital building for hospital purposes with modern equipment sufficient to meet the needs of present day hospital practice. If, however, the District desires to replace said equipment with new equipment, it may do so, and said new equipment shall be and remains the property of the Parish if paid for out of the income resulting from the operation of the District. It is understood and agreed, however, that the Parish shall not be responsible for the securing of additional equipment other than that already purchased or installed when the District takes possession of the premises.
2. To levy the special tax of one mill on the dollar of all property subject to state taxation in the Parish for a period of three years beginning with the year 1956, as authorized by the special election held in the Parish on November 15, 1955, and the Parish shall pay to the District the net proceeds of said tax, as when collected. Said net proceeds shall be used by the District solely to defray the costs of operating and maintaining the District described herein, and proceeds at such intervals as the Parish may require

During the year ended September 30, 1965, the Natchitoches Parish Hospital was enlarged by the addition of a nursing home, an autopsy room, new patient rooms and additional administrative and storage space. The new construction was financed by: (1) a grant from the United States Government under the Hill-Burton Act in the amount of \$307,000; (2) proceeds of a \$400,000 bond issue; and, (3) revenues of the Natchitoches Parish Hospital. The \$400,000 of Natchitoches Parish, Louisiana, Hospital Improvement Revenue Bonds, 3 1/2%, Series 1963, were purchased by the United States of America, Housing and Home Finance Agency. These bonds were retired in 1979.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

On June 14, 1977, a seven million dollar (\$7,000,000) bond issue was passed by the people of Natchitoches Parish. The seven million dollars (\$7,000,000) consisted of four million five hundred thousand dollars (\$4,500,000) of Public Improvement Bonds to be paid by ad valorem taxes. Two million five hundred thousand dollars (\$2,500,000) were to be Revenue Bonds and were to be paid off out of the general operating revenue of the District. Pursuant to a public hearing held on March 6, 1979, the District was authorized to issue \$4,500,000 of Hospital Revenue Bonds in lieu of the \$2,500,000 of Hospital Revenue Bonds.

On May 22, 1978, the Public Improvement Bonds were sold. The Public Improvement Hospital Bonds are dated April 1, 1978, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding six and one-half percent (6 1/2%) per annum on any bond in any interest payment period. Said interest to be payable April 1, 1979, and semi-annually thereafter on April 1st and October 1st of each year. Bonds numbered 204 to 900, inclusive, are callable for redemption by the District in the inverse order of their maturities, and if less than a full maturity, then by lot within such maturity, on any interest payment date on or after April 1, 1988, at the principal amount thereof and accrued interest to the date fixed for redemption, provided that official notice of such call of any of the bonds for redemption date by means of publication of an appropriate notice one time in a financial newspaper or journal published in the City of New York, or in the City of New Orleans, Louisiana, and sent by registered mail to the place of payment of the bonds. Bonds of this issue numbered 1 to 203, inclusive, are not callable for redemption prior to their stated dates of maturity. The bonds are secured by a special tax to be imposed and collected annually in excess of all other taxes on all the property subject to taxation within the territorial limits of the District. On October 1, 1985, funds were deposited in an irrevocable trust and zero coupon United States of America Trust securities were purchased. The securities began maturing in February 1995, and will be used to pay payments on the bonds until payment in full. No collections of taxes were required after that time.

In May, 1979, the Hospital Revenue Bonds were sold. These bonds are dated April 1, 1979, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding seven and seven-eighths percent (7 7/8%) per annum on any bond in any interest period. Said interest to be payable October 1, 1979, and semi-annually thereafter on April 1st and October 1st of each year.

The Series 1979 Revenue Bonds are also subject to redemption in whole, at any time, or in part, at any interest payment date, at the option of the District upon the occurrence of any of the following conditions or event: (1) if title to, or the permanent use of, or use for a limited period of, substantially all of the District is condemned; or (2) if the title to substantially all of the District is found to be deficient to the extent that the Hospital is untenable or the efficient utilization of the District by the District is substantially impaired; or (3) if substantially all of the District is damaged or destroyed by fire or other casualty; or (4) if as a result of any changes in the Constitution of the United States of America or of the State of Louisiana or of legislative or administrative action, or failure of administrative action, by the United States or the State of Louisiana, or any agency or political subdivision thereof, or by reason of any judicial decision, (i) the Resolution becomes void or unenforceable or impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities are imposed on the District, including without limitation Federal, state or other ad valorem property, income or other taxes being imposed on the property of the District. In the event of such redemption, the Bonds shall be subject to redemption at the principal amount thereof plus accrued interest to the date of redemption, but without premium.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

The Series 1979 Bonds are issued pursuant to a Resolution, under which payment of the principal of, redemption premium, if any, and interest on the Series 1979 Bonds is secured by a pledge of the income, revenues, receipts and accounts receivable derived by, payable or accruing to the District by reason of its operation of the District, subject to payment of the operating expenses of the District.

The Series 1979 Bonds are limited obligations of the District which are payable solely from revenues derived by the District from its operation of the Hospital. The Series 1979 Bonds are not an indebtedness or pledge of the general credit of the State of Louisiana, the Parish or City of Natchitoches or the District. Neither the District nor any of the assets of the District are pledged or mortgaged as security for the Series 1979 Revenue Bonds.

On February 26, 1980, the Louisiana State Bond Commission approved a notice of intention to issue not exceeding \$750,000 of Hospital Revenue Bonds to bear interest at rates not exceeding 9 1/4% per annum, the proceeds of which will be used for the purpose of constructing improvements to the existing facilities or to provide additional facilities, said bonds are to be secured by and payable solely from the District from operations, to mature at such time not exceeding 30 years from date of issuance, and subject further to the approval of the Natchitoches Parish Police Jury. In lieu of issuing these bonds the District made an application for the approval to the State Bond Commission to issue \$500,000 of Certificates of Indebtedness at an interest rate not to exceed eleven and one-half percent per annum. This application was approved on September 1, 1981. The \$500,000 in Certificates of Indebtedness were issued on April 6, 1982. Certificates totaling \$150,000 were issued to each of three banks in Natchitoches. These Certificates of Indebtedness were paid in full on September 28, 1984.

On November 20, 1985, the District's Commissioners resolved to donate a portion of land to the Natchitoches Parish Police Jury so they may construct a parish health clinic. The act of donation was made by resolution of the Board of Commissioners on October 23, 1987. The District's basis in the donated land was \$8,200.

An ambulance service tax is collected by the Natchitoches Parish Police Jury. The tax money is forwarded to the District upon submitting ambulance cost for the year. A ten-year renewal was passed in 1986. The voters of Natchitoches Parish voted not to renew this tax in July 1996.

Effective January 30, 1987, the Long-Term Care Unit qualified as a Medicare participating skilled nursing facility. As of September 25, 1987, a home health program was begun.

On December 1, 1988, the District began renting office space for four physicians in a newly constructed physician office building.

During the year ended June 30, 1990, the District purchased approximately ten acres of land on Keyser Avenue. The State of Louisiana expropriated one quarter acre for road right-of-way.

During the year ended June 30, 1991, the District began an \$845,000 renovation of the fourth and fifth floors of the Hospital which include two additional elevators and a rehabilitation fitness center. The Hospital began redecorating and refurnishing 84 patient rooms. These renovations were completed in fiscal year 1992.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

During the year ended June 30, 1992, the District began replacing the chillers and completed replacement of the chillers in fiscal year 1993. The Hospital began and nearly completed a building to be rented as a dialysis center.

During the year ended June 30, 1994, the District completed construction of the dialysis center and began construction of rental facilities for a mental health unit and an obstetrics/gynecology doctors' office. The District also refinanced \$3,600,000 of Revenue bonds. As with the 1979 series, the \$3,560,000 of Series 1994 Bonds, dated May 19, 1994, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital. The interest rates vary from 3.95% to 5.5%.

The District completed construction of the mental health unit, the obstetrics/gynecology doctors' office, senior care center and remodeling of the labor and delivery rooms during the fiscal year ended June 30, 1995. A cooperative endeavor with Northwest Psychiatry, Inc. resulted in the establishment of an adolescent psychiatric program in Natchitoches Parish. Additionally, the Hospital began its own geriatric psychiatric program on the hospital campus just prior to year end.

Effective July 1, 1995, the Hospital's geriatric psychiatric unit received "Distinct Part" status which provides for reasonable cost reimbursement of necessary services to Medicare patients. In February 1996 the cooperative endeavor with Northwest Psychiatry, Inc. ended as Medicaid, the primary payor source for the adolescent facility, tightened its admission and length of stay criteria. The result was an inadequate census and the unit was closed.

The District began leasing twenty-one beds and selling ancillary services to Satellite Rehab, Inc., a separately licensed hospital and unrelated party, on December 1, 1997. Satellite Rehab, Inc. offers inpatient rehabilitative services.

Also, on December 1, 1997, the District entered into a management agreement with Christus Health (the "Manager"). The Manager is responsible for providing an administrator for routine administrative services, making recommendations for the overall rate structure, preparing monthly reports to the Board, managing cash and investments, preparing annual budgets and reviewing the insurance program. The Board of Commissioners retained all authority and control over the District.

During the year ended June 30, 2000, the District financed \$10,000,000 of 6% Series 2000 Revenue Bonds. The \$10,000,000 of Series 2000 bonds, dated June 14, 2000, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital and must be used for expansion of hospital facilities.

The District received escrow funds in the amount of \$5,000,000 from Christus Health on March 3, 2000 as a part of an agreement with the District to be used for expansion of outpatient facilities. As certain conditions were met, the \$5,000,000 was earned during 1999, 2000, 2001 and 2002.

The District ceased operations of the home health and partial day psychiatric services in June 2000.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES

HISTORY (Continued)

During the year ended June 30, 2002, the Hospital renovated the second and third floor of the tower as part of the beginning of a three-phase construction project, which will include a new outpatient service center. This project is being financed by the issuance of the Series 2000 Revenue Bonds of \$10,000,000 and from the \$5,000,000 contribution received by Christus Health.

The Hospital continued its three-phase construction project during 2004 with the completion of the renovation of the second and third floors and expected completion of the new outpatient service center by September of 2005. The final phase of the project, renovation of the first floor, will start after the completion of the outpatient service center.

The Hospital entered into a joint venture with local physicians and created Natchitoches Outpatient Services, LLC. NOP, LLC offers outpatient therapy services and MRI services. NOP, LLC began operations in June of 2005.

The Hospital has changed its d/b/a name to Natchitoches Regional Medical Center to reflect its regional healthcare status.

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULE OF PER DIEM
OR OTHER AMOUNTS PAID TO OR ON BEHALF OF COMMISSIONERS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2005

<u>Board Member</u>	<u>Per Diem Amounts Paid on Behalf of Commissioners</u>
Coley Gahagan	\$ 280
Ronald Corkern	200
Dr. Chris Ingram	160
Dr. Wilhelmena Wise	120
Dr Phyllis Mason	40
Frankie Ray Jackson	200
William Hymes	120
George Celles, IV	<u>240</u>
	\$ <u>1,360</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
COMBINED SCHEDULE OF BONDS PAYABLE
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

NATCHITOCHE PARISH HOSPITAL	RATES	PAYMENT DATES	ISSUE DATES	FINAL MATURITY DATE	ANNUAL SERIAL PAYMENTS	BONDS			
						AUTHORIZED	ISSUED	RETIRED	OUTSTANDING
Revenue bonds	5 5-3 95%	4/1; 10/1	5/9/94	10/1/2003		<u>\$ 3,560,000</u>	<u>\$ 3,560,000</u>	<u>\$ 3,560,000</u>	<u>\$ -0-</u>
Revenue bonds	8 0%	4/1; 10/1	8/14/00	10/1/2020	345 000 (2005) 365 000 (2006) 390 000 (2007) 410 000 (2008) 435 000 (2009) 460,000 (2010) 490 000 (2011) 515 000 (2012) 545 000 (2013) 580 000 (2014) 615 000 (2015) 650,000 (2016) 685 000 (2017) 730 000 (2018) 770 000 (2019) 815 000 (2020)	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$ 1,200,000</u>	<u>\$ 8,800,000</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATES
SCHEDULES OF AMBULANCE DEPARTMENT OPERATING PERFORMANCE
YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient service revenue			
Inpatient charges ¹	\$ 122,181	\$ 164,744	\$ 3,548
Outpatient charges ¹	<u>2,602,512</u>	<u>2,326,588</u>	<u>2,159,901</u>
Gross patient charges	2,724,693	2,491,332	2,163,449
Deductions from revenue ³	<u>988,683</u>	<u>955,921</u>	<u>834,565</u>
Net patient service revenue	<u>1,736,010</u>	<u>1,535,411</u>	<u>1,328,884</u>
Expenses			
Salaries ¹	962,312	772,902	637,230
Benefits ²	151,853	116,167	87,109
Medical supplies ¹	36,516	30,313	27,934
Supplies ¹	12,012	24,593	13,330
Repairs and maintenance ¹	25,632	34,580	18,263
Utilities ¹	6,381	7,169	6,525
Fuel ¹	49,699	32,066	25,806
Rentals ¹	23,418	14,159	1,525
Miscellaneous ¹	4,684	33,109	703
Depreciation ⁴	129,067	115,057	61,099
Billing, accounting and other support services ⁵	241,364	222,238	188,816
Provision for bad debts ^{1 6}	<u>442,327</u>	<u>355,306</u>	<u>313,215</u>
Total expenses	<u>2,085,265</u>	<u>1,757,659</u>	<u>1,381,555</u>
Ambulance department excess revenue (expense)	\$ <u>(349,255)</u>	\$ <u>(222,248)</u>	\$ <u>(52,671)</u>
Capital expenditures	\$ <u>121,920</u>	\$ <u>228,314</u>	\$ <u>76,000</u>

¹ - Charge or expense directly assigned to the ambulance department

² - Benefits are determined using the ratio of total benefits, including payroll taxes, divided by total salaries times ambulance salaries.

³ - Deductions from revenue are determined using amounts calculated from the Medicare and Medicaid cost reports plus the average percentage for commercial contractual adjustments times ambulance commercial insurance charges

⁴ - Depreciation is the expense for the equipment and facilities used by the ambulance department

⁵ - Billing, accounting and other support services amounts are obtained from the Hospital's Medicare and Medicaid cost report using Medicare's principles of reimbursement

⁶ - Provision for bad debts are determined using the ratio of amounts written-off, net of recoveries, during the year ended June 30, 2003, divided by total commercial and self-pay charges times ambulance charges for commercial and self-pay



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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
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the consolidated financial statements of the Natchitoches Parish Hospital Service District and its Affiliates (the "District" or the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2005, 2004, and 2003 and have issued our report thereon dated October 26, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the consolidated 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 believe none of the reportable conditions described above is a material weakness.

Board of Commissioners
Natchitoches Parish Hospital Service District
Page Two

Compliance

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings.

This report is intended solely for the information and use of management and the office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Lester, Miller & Wells

Certified Public Accountants
October 26, 2005



Natchitoches Parish Hospital Service District
Auditors' Comments and Recommendations
For the Twelve Months Ended June 30, 2005

Internal Controls

1. Finding: - Bank reconciliations were not prepared timely; consequently, various adjustments were not posted to the general ledger until the subsequent fiscal year.

Recommendation: - Bank reconciliations should be prepared and reviewed during the month received, with all entries posted in the corresponding month.

Management's Response: - Bank reconciliations and required postings are now being prepared and recorded timely.

2. Finding: - Various account reconciliations contained errors which resulted in misstated balances. It was noted that the reconciliations were not being reviewed by a supervisor.

Recommendation: - We recommend that all account reconciliations be reviewed timely by a supervisor for errors. Any errors should be corrected before posting.

Management's Response: - All reconciliations will be reviewed and signed off by at least 1 management level position higher than the associate performing the reconciliation.

Compliance

1. Finding: - For years the District's management asserted and we believed the District qualified as tax exempt under Internal Revenue Service ("IRS") code section 501(c)(3). Recently the District's counsel, while engaged in a project, requested acknowledgement of 501(c)(3) status from the IRS because management was unable to locate its determination letter. The IRS does not have the District listed as a tax exempt organization under IRS code section 501(c)(3), which is required for its 403(b) retirement plan to be a "qualified" plan.

Recommendation: - We recommend working with counsel to contact the IRS and obtain 501(c)(3) status, and retroactively obtain IRS acknowledgement of a compliant plan under IRS code section 403(b) or conversion to a governmental plan under IRS code section 457.

Management's Response: - We have engaged legal counsel to work with the plan administrator to resolve this matter.

2. Finding: - The District commingled its regular monthly board meetings and minutes with the meetings of the Cooperative Endeavor between the District and Christus Healthcare.

Recommendation: - We suggest continuing work with counsel to clarify the record of past meetings and in the future to separate meetings and minutes.

Management's Response: - The recording of minutes and meetings will be separate in the future.

