

BUNKIE GENERAL HOSPITAL
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2006, 2005, AND 2004

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

Release Date 1/24/07

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
d/b/a BUNKIE GENERAL HOSPITAL
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

TABLE OF CONTENTS

	PAGE NO.
Management's Discussion and Analysis	i-vi
Independent Auditors' Report on the Basic Financial Statements and Supplementary Information	1-2
Financial Statements	
Balance Sheets	3
Statements of Revenue, Expenses, and Changes in Net Assets	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-22
Supplementary Information	
Schedules of Net Patient Service Revenue	24-27
Schedules of Other Revenue	28
Schedules of Expenses	29-32
Schedules of Patient Statistics	33
Schedule of Insurance	34
Schedules of Per Diem and Other Compensation Paid to Board Members	35
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>GOVERNMENT AUDITING STANDARDS</u>	36-37

**Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis of the Basic Financial Statements
Years ended June 30, 2006, 2005, and 2004**

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 years ended June 30, 2006, 2005, and 2004. Please read Management's analysis in conjunction with the financial statements presented in this report. Amounts presented in tables are rounded to the nearest thousand.

Financial Highlights

- The Hospital's total assets decreased by \$5,000, increased by \$880,000, and decreased by \$935,000 approximately for 2006, 2005, 2004, respectively.
- During the year, the Hospital's total operating revenues increased by \$870,000, decreased by \$197,000, and decreased by \$423,000 approximately for 2006, 2005, and 2004, respectively. Expenses increased by approximately \$973,000, decreased by \$1,152,000 and decreased by \$23,000 for 2006, 2005, and 2004, respectively. The Hospital had a loss from operations of \$40,000, a gain from operations of \$63,000, and a loss of \$892,000 for 2006, 2005, and 2004, respectively.
- The Hospital received revenues for Uncompensated Costs Reimbursement (UCC) in the amount of \$954,000, \$1,034,000, and \$746,000, for 2006, 2005, and 2004, respectively. UCC is partial payment by Medicaid for losses incurred for treating Medicaid and uninsured patients.
- The Hospital received ad valorem tax revenues of approximately \$80,000, \$80,000, \$77,000, for 2006, 2005, and 2004 respectively.
- The Hospital's significant capital acquisitions for the 2006 fiscal year included several pieces of medical equipment such as an ultrasound machine, a portable x-ray machine, and lab equipment. Total additions were \$387,000. In 2005, a \$1,000,000 heating ventilation and air-conditioning upgrade was completed.
- The Hospital sold controlling interest in its home health operations to Louisiana Health Care Group (LHCG) on March 1, 2004 for \$200,000. This resulted in a joint venture between the Hospital and LHCG where the Hospital has a minority one-third interest in the new Bunkie Home Care, which resulted in \$59,000, \$91,000, and \$9,000 of income for fiscal years ended 2006, 2005, and 2004, respectively.

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 amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The Balance Sheet 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 two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statements 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

**Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis of the Basic Financial Statements
Years ended June 30, 2006, 2005, and 2004**

Required Financial Statements (Continued)

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 changes in them. Increases 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.

Net Assets

A summary of the Hospital's Balance Sheets are presented in Table 1 below:

**TABLE 1
Condensed Balance Sheets**

	2006	2005	2004	2003
Total current assets	\$ 1,736	\$ 1,807	\$ 1,627	\$ 2,327
Capital assets - net	3,023	2,964	2,309	2,536
Other assets, including board designated investments	174	167	122	130
Total assets	\$ 4,933	\$ 4,938	\$ 4,058	\$ 4,993
Current liabilities	\$ 741	\$ 1,718	\$ 750	\$ 931
Long-term debt outstanding and other long-term liabilities	1,242	263	476	578
Total liabilities	1,983	1,981	1,226	1,509
Net assets	2,950	2,957	2,832	3,484
Total liabilities and net assets	\$ 4,933	\$ 4,938	\$ 4,058	\$ 4,993

As can be seen in Table 1, total assets decreased by \$5,000 to \$4,933,000 in fiscal year 2006, down slightly from fiscal year 2005. Total liabilities increase by \$2,000 to \$1,983,000 in fiscal year 2006, up slightly from fiscal year 2005.

**Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis of the Basic Financial Statements
Years ended June 30, 2006, 2005, and 2004**

Summary of Revenue, Expenses and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2006, 2005, 2004, and 2003. Revenues are up by \$871,000 with related expenses up by \$972,000 resulting in an operating loss in fiscal 2006 of \$40,000. Increased revenue and expenses are the result of increased volume in both the inpatient and outpatient services. A change in Hospital status in late fiscal 2004 to "critical access" and cost reimbursement for Medicare services has helped to match revenue with expenses and reduce losses.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue				
Net patient service revenue	\$ 7,935	\$ 7,055	\$ 7,428	\$ 7,844
Ad valorem taxes	80	80	77	78
Other	476	485	313	319
Total revenue	8,491	7,620	7,818	8,241
Expenses				
Salaries and benefits	4,168	3,670	3,833	3,892
Other expenses	4,032	3,619	4,550	4,504
Depreciation and amortization expense	331	270	327	337
Total expenses	8,531	7,559	8,710	8,733
Operating income (loss)	(40)	61	(892)	(492)
Nonoperating income				
Interest income	33	64	40	37
Gain on sale of interest in discontinued operations	-0-	-0-	200	-0-
Excess of revenues (expenses)	(7)	125	(652)	(455)
Net assets at beginning of year	2,957	2,832	3,484	3,939
Net assets at end of year	\$ 2,950	\$ 2,957	\$ 2,832	\$ 3,484

**Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis of the Basic Financial Statements
Years ended June 30, 2006, 2005, and 2004**

Sources of Revenue

Operating Revenue

During fiscal year 2006, the Hospital derived the majority 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 payers, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payers is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes grant income, gains (losses) for disposals of equipment, joint venture revenue, cafeteria sales, and revenue from services provided to physicians, rental income and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payer for the fiscal years ended June 30,

**TABLE 3
Payer Mix by Percentage**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Commercial / managed care	14.9%	16.7%	13.6%	15.5%
Medicare	56.4%	51.8%	62.2%	59.2%
Medicaid	20.9%	21.6%	17.2%	17.7%
Self-pay & other	7.8%	9.9%	7.0%	7.6%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Nonoperating Income

The Hospital holds designated and restricted funds in its Balance Sheets that are invested primarily in Money Market Investment Accounts held with local federal reserve banks. Income from these investments was a small part of the total interest income.

Operating and Financial Performance

The following relates to the Hospital's Statements of Revenue, Expenses and Changes in Net Assets for 2006, 2005 and 2004:

Overall activity at the Hospital (acute, swing, and psychiatric), as measured by patient discharges, was 697, 649, and 689 in 2006, 2005 and 2004, respectively. Patient days increased 12.9% to 2,550, in 2006.

**Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis of the Basic Financial Statements
Years ended June 30, 2006, 2005, and 2004**

Operating and Financial Performance (Continued)

The acute hospital average length of stay was 3.1 in fiscal 2006, up slightly from 2.8 in fiscal 2005. Average daily census was up slightly as well in fiscal 2006 at 7.7 from 6.1 in fiscal 2005. Increased volume in fiscal 2006 led to an increase in patient service revenue of \$880,000 and a slightly greater increase in related expenses.

Outpatient revenue, professional fees for emergency physicians, and hospitalist charges all contributed to an increase in outpatient revenues. The Hospital continues to utilize a "hospitalist program" whereby contracted emergency physicians are also granted admitting privileges. "Hospitalist" admit and attend inpatients and are paid fixed fees for services. The Hospital generates a charge and bills for these services.

Management continues to focus on reducing accounts receivable and becoming more aggressive in collection efforts. As a result of these efforts, average days of charges in gross accounts receivable (net of contractual adjustments, but without bad debt) have declined to 76.1 in 2006 from 86.3 in 2005, and 104.9 in 2004. The Hospital continues to exert every effort to assist patients in finding funding sources for health care. The Hospital provides a Medicaid application center for persons interested in applying for Medicaid coverage. The Hospital also takes applications to help determine eligibility for a prescription drug program ("CMAP") that is funded by the Rapides Foundation in Alexandria, Louisiana. The Hospital also offers a charity care program for those who can prove indigence. In 2006, charity care charges were \$17,058.

Salaries increased in 2006 by approximately \$316,000 from the 2005 level. This increase was mainly due to physician instability. The loss of one full time physician required that the Hospital use contract physicians and increase the remaining physician's salary to sustain the ability to treat patients. Benefit expense increase as well by approximately \$181,000. This increase is a result of increased hospitalization insurance costs incurred by the Hospital for several claims paid out of the Hospital's self-funded health plan.

The costs of medical supplies increased for 2006 by approximately \$101,000 due to increased inpatient census and outpatient volume. Increase supply costs in ancillary departments also contributed to the cost increase as compared to fiscal 2005.

Medical professional fees increased from in 2006 by approximately \$220,000. This increase is the result of a full year of an outpatient psychiatric program that began mid year of 2005. A full time psychiatrist was hired to for the program.

Provision for bad debts decreased by \$210,000 from fiscal year 2005 to 2006. This decrease is due to the clean up of uncollectible accounts in 2005 as well as a direct result of increased collection efforts.

Other expenses remained relatively unchanged from 2006 to 2005.

**Hospital Service District No. 1 of Avoyelles Parish, State of Louisiana
(dba Bunkie General Hospital)
Management's Discussion and Analysis of the Basic Financial Statements
Years ended June 30, 2006, 2005, and 2004**

Capital Assets

During fiscal year 2006, the Hospital's capital assets increase by \$265,000 as the HVAC unit project was completed. The \$88,000 of Construction in Progress represents an upgrade to the Hospital's boiler.

**TABLE 4
Capital Assets**

	2006	2005	2004	2003
Land and land improvements	\$ 379	\$ 379	\$ 374	\$ 369
Buildings and fixed equipment	4,243	4,178	3,177	3,165
Equipment	2,211	2,011	2,118	2,139
Subtotal	6,833	6,568	5,669	5,673
Less: accumulated depreciation	3,898	3,603	3,454	3,180
Construction in progress	88	-	95	43
Net property, plant & equipment	<u>\$ 3,023</u>	<u>\$ 2,965</u>	<u>\$ 2,310</u>	<u>\$ 2,536</u>

On May 1, 2004, the Hospital converted to a Critical Access Hospital ("CAH"). Over time, funds availability should increase which would allow investing in capital renovations and capital equipment replacement for the future.

Long-term Debt

At 2006 fiscal year-end, the Hospital had \$1,432,000 in total debt. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Additions of new debt were \$1,225,000 for the chiller/HVAC replacement project that was completed in 2006. Total debt outstanding represents 29% of the Hospital's total assets at June 30, 2006.

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

To the Board of Commissioners
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
Bunkie, Louisiana

We have audited the accompanying financial statements of the Hospital Service District No. 1, Parish of Avoyelles, dba Bunkie General Hospital (the Hospital), a component unit of the Avoyelles Parish Police Jury, as of and for the years ended June 30, 2006, 2005 and 2004, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bunkie General Hospital, as of June 30, 2006, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 30, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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 audits.

Our audits were performed for the purpose of forming an opinion on the 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 financial statements. Such information has been subjected to auditing procedures applied by us in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements.

Board of Commissioners
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
Page Two

Management's discussion and analysis on pages "i" through "vi" is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Austin, Miller & Wells

Certified Public Accountants
November 30, 2006



HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 467,986	\$ 901,760	\$ 380,782
Patient accounts receivable, net of estimated uncollectibles (Note 4)	993,048	623,364	978,774
Inventory	204,391	203,252	208,323
Prepaid expenses	<u>70,238</u>	<u>78,748</u>	<u>59,172</u>
Total current assets	1,735,663	1,807,124	1,627,051
Assets limited as to use (Note 6)	139,851	128,868	104,485
Property, plant and equipment, net (Note 5)	3,022,584	2,963,820	2,309,334
Other assets	<u>34,269</u>	<u>37,840</u>	<u>17,254</u>
Total assets	\$ <u>4,932,367</u>	\$ <u>4,937,652</u>	\$ <u>4,058,124</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses (Note 7)	\$ 549,579	\$ 682,878	\$ 586,736
Current maturities of long-term debt (Note 8)	190,504	1,033,747	163,252
Deferred revenue	<u>600</u>	<u>600</u>	<u>-0-</u>
Total current liabilities	740,683	1,717,225	749,988
Long-term debt, net of current maturities (Note 8)	<u>1,241,798</u>	<u>263,053</u>	<u>476,212</u>
Total liabilities	<u>1,982,481</u>	<u>1,980,278</u>	<u>1,226,200</u>
Net assets:			
Invested in capital assets, net of related debt	1,590,282	1,667,020	1,669,870
Restricted net assets	117,338	107,018	83,278
Unrestricted net assets	<u>1,242,266</u>	<u>1,183,336</u>	<u>1,078,776</u>
Total net assets	<u>2,949,886</u>	<u>2,957,374</u>	<u>2,831,924</u>
Total liabilities and net assets	\$ <u>4,932,367</u>	\$ <u>4,937,652</u>	\$ <u>4,058,124</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue:			
Net patient service revenue	\$ 7,934,838	\$ 7,055,132	\$ 7,428,129
Ad valorem taxes	80,190	79,659	77,371
Other	<u>475,578</u>	<u>485,607</u>	<u>313,226</u>
Total revenue	<u>8,490,606</u>	<u>7,620,398</u>	<u>7,818,726</u>
Expenses:			
Salaries and benefits	4,167,540	3,669,649	3,831,772
Medical supplies and expenses	865,347	763,948	790,426
Medical professional fees	1,816,148	1,596,083	2,362,426
Other expenses	1,140,334	1,118,266	1,178,289
Insurance	142,042	105,867	189,142
Depreciation and amortization expense	330,660	270,065	327,410
Interest expense	<u>68,544</u>	<u>34,640</u>	<u>30,872</u>
Total expenses	<u>8,530,615</u>	<u>7,558,518</u>	<u>8,710,337</u>
Operating income (loss)	<u>(40,009)</u>	<u>61,880</u>	<u>(891,611)</u>
Nonoperating income:			
Interest income	32,521	63,570	39,771
Gain on sale of interest in discontinued operations (Note 18)	<u>-0-</u>	<u>-0-</u>	<u>200,000</u>
Excess of revenues (expenses)	(7,488)	125,450	(651,840)
Net assets at beginning of year	<u>2,957,374</u>	<u>2,831,924</u>	<u>3,483,764</u>
Net assets at end of year	\$ <u>2,949,886</u>	\$ <u>2,957,374</u>	\$ <u>2,831,924</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 8,033,074	\$ 7,827,690	\$ 8,328,267
Cash received from sale of interest in discontinued operations	-0-	-0-	200,000
Cash payments to employees and for employee-related cost	(4,064,256)	(3,519,570)	(3,777,839)
Cash payments for other operating expenses	<u>(4,193,512)</u>	<u>(3,674,598)</u>	<u>(4,792,168)</u>
Net cash provided (used) by operating activities	<u>(224,694)</u>	<u>633,522</u>	<u>(41,740)</u>
Cash flows from investing activities:			
Interest on investments	<u>32,521</u>	<u>63,570</u>	<u>39,771</u>
Net cash provided by investing activities	<u>32,521</u>	<u>63,570</u>	<u>39,771</u>
Cash flows from non-capital financing activities:			
Ad valorem taxes	<u>80,190</u>	<u>79,659</u>	<u>77,371</u>
Net cash provided by non-capital financing activities	<u>80,190</u>	<u>79,659</u>	<u>77,371</u>
Cash flows from capital and related financing activities:			
Proceeds from sale of property and equipment	8,988	74,544	12,800
Purchases of property and equipment	(386,754)	(928,630)	(80,640)
Proceeds from assets limited as to use	(10,983)	(24,383)	(7,626)
Proceeds from new debt	346,386	821,614	57,000
Principal paid on long-term debt	(210,884)	(164,278)	(147,876)
Interest paid on long-term debt	<u>(68,544)</u>	<u>(34,640)</u>	<u>(30,872)</u>
Net cash used by capital and related financing activities	<u>(321,791)</u>	<u>(255,773)</u>	<u>(197,214)</u>
Net increase (decrease) in cash and cash equivalents	(433,774)	520,978	(121,812)
Cash and cash equivalents, beginning of year	<u>901,760</u>	<u>380,782</u>	<u>502,594</u>
Cash and cash equivalents, end of year	\$ <u>467,986</u>	\$ <u>901,760</u>	\$ <u>380,782</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 STATEMENTS OF CASH FLOWS (Continued)
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$	<u>66,208</u>	\$	<u>23,245</u>	\$	<u>32,241</u>
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Reconciliation of income from operations to net cash provided by operating activities:

Operating income (loss)	\$	(40,009)	\$	61,880	\$	(891,611)
Gain from sale of interest in discontinued operations		-0-		-0-		200,000
Interest expense considered capital financing activity		68,544		34,640		30,872
Ad valorem taxes considered a financing activity		(80,190)		(79,659)		(77,371)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization		330,660		270,065		327,410
(Gain) loss on disposal of assets		(7,658)		(66,465)		(717)
Payments to medical students		-0-		-0-		(12,000)
Development costs		(429)		(24,586)		(5,204)
Provision for bad debts		1,242,820		1,452,528		882,142
(Increase) decrease in current assets:						
Patient accounts receivable, net		(1,612,504)		(1,097,118)		(292,473)
Inventory		(1,139)		5,071		(445)
Prepaid expenses		8,510		(19,576)		(10,588)
Increase (decrease) in current liabilities:						
Accounts payable and accrued expenses		(133,299)		96,142		(191,755)
Deferred revenue		<u>-0-</u>		<u>600</u>		<u>-0-</u>

Net cash provided (used) by operating activities

	\$	<u>(224,694)</u>	\$	<u>633,522</u>	\$	<u>(41,740)</u>
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See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 1 – ORGANIZATION AND OPERATIONS

Legal Organization

The Avoyelles Parish Hospital Service District (the "Hospital" or the "District") was created by an ordinance of the Avoyelles Parish Police Jury on February 14, 1968. The District is comprised of and embraces the territory contained within the Parish of Avoyelles, State of Louisiana, as constituted as of the date of the ordinance.

The Hospital is a political subdivision of the Avoyelles Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Avoyelles Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Avoyelles Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Avoyelles Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the governmental units that comprise that financial reporting entity.

Nature of Business

The Hospital provides outpatient, emergency, skilled nursing (through "swing-beds"), acute inpatient hospital services and home health services. On October 7, 1993, the Hospital converted 20 acute beds to an adolescent care psychiatric unit. In July 1994, the Hospital opened an outpatient rural health clinic and hired a nurse practitioner and a physician to provide non-emergency services to the community. In July 1997, the adolescent care psychiatric unit was converted to a geriatric care psychiatric unit. In fiscal 2002, the Hospital employed several new physicians and began to operate fee based clinics for the new physicians. On March 1, 2004, the Hospital sold its home health operation to a joint venture, in which the Hospital holds a one-third (1/3) interest. On May 1, 2004, the Hospital converted to a 25 bed critical access hospital (CAH). As part of this conversion, the geriatric care psychiatric unit closed. In June 2006, the Hospital began work to reopen the geriatric care psychiatric unit.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Method of Accounting

The Hospital uses the accrual method of accounting. 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

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting (Continued)

the Louisiana Governmental Audit Guide, and to the AICPA, Audit and Accounting Guide - Health Care Organizations, 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.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Avoyelles 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 a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 12. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenue

The Hospital 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.

Upon conversion to CAH status on May 1, 2004, most services to Medicare patients are now reimbursed by Medicare on a reasonable cost basis, which is subject to retroactive audit, and adjustment for inpatient, outpatient, swing bed, and rural health clinic services.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

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

Changes in Reporting Classification

The classification of certain prior year amounts have been changed to reflect consistent reporting when compared to current year balances. The financial statement format has been changed to reflect changes in the AICPA Audit and Accounting Guide - Health Care Organizations.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line method of determining depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

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

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expenses

The Hospital's statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs. 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.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – 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 to give an indication of the level of risk assumed at June 30, 2006, 2005 and 2004. 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 were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2006, 2005, and 2004.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 4 – ACCOUNTS RECEIVABLE

A summary of accounts receivable as of June 30, is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patient accounts receivable	\$ 2,250,181	\$ 2,117,347	\$ 3,025,866
Due (to) from governmental third-party reimbursement programs	153,645	(60,226)	(111,839)
Other receivables	<u>85,222</u>	<u>30,243</u>	<u>45,962</u>
	2,489,048	2,087,364	2,959,789
Estimated uncollectibles	<u>(1,496,000)</u>	<u>(1,464,000)</u>	<u>(1,981,015)</u>
 Patient accounts receivable, net of estimated uncollectibles	 \$ <u>993,048</u>	 \$ <u>623,364</u>	 \$ <u>978,774</u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	12%	11%	14%
Medicaid	8%	4%	2%
Commercial and other third-party payors	15%	15%	14%
Other patients	<u>65%</u>	<u>70%</u>	<u>70%</u>
 Total	 <u>100%</u>	 <u>100%</u>	 <u>100%</u>

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

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, and related accumulated depreciation at June 30, 2006, 2005, and 2004.

	June 30, <u>2005</u>	<u>Additions</u>	<u>Deductions</u>	June 30, <u>2006</u>
Land	\$ 88,352	\$ -0-	\$ -0-	\$ 88,352
Land improvements	290,454	-0-	-0-	290,454
Buildings	3,809,772	65,551	-0-	3,875,323
Fixed equipment	367,255	-0-	-0-	367,255
Major moveable equipment	2,011,197	233,057	33,481	2,210,773
Construction in progress	<u>-0-</u>	<u>88,146</u>	<u>-0-</u>	<u>88,146</u>
 Total	 6,567,030	 386,754	 33,481	 6,920,303
Accumulated depreciation	<u>3,603,210</u>	<u>326,660</u>	<u>32,151</u>	<u>3,897,719</u>

Net property, plant and equipment	\$ <u>2,963,820</u>	\$ <u>60,094</u>	\$ <u>1,330</u>	\$ <u>3,022,584</u>
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	June 30, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	June 30, <u>2005</u>
Land	\$ 88,352	\$ -0-	\$ -0-	\$ 88,352
Land improvements	285,418	5,036	-0-	290,454
Buildings	2,809,021	1,000,751	-0-	3,809,772
Fixed equipment	367,255	-0-	-0-	367,255
Major moveable equipment	2,117,824	18,206	124,833	2,011,197
Construction in progress	<u>95,363</u>	<u>-0-</u>	<u>95,363</u>	<u>-0-</u>
 Total	 5,763,233	 1,023,993	 220,196	 6,567,030
Accumulated depreciation	<u>3,453,899</u>	<u>266,065</u>	<u>116,754</u>	<u>3,603,210</u>

Net property, plant and equipment	\$ <u>2,309,334</u>	\$ <u>757,928</u>	\$ <u>103,442</u>	\$ <u>2,963,820</u>
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HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	June 30, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	June 30, <u>2004</u>
Land	\$ 88,352	\$ -0-	\$ -0-	\$ 88,352
Land improvements	280,743	4,675	-0-	285,418
Buildings	2,809,021	-0-	-0-	2,809,021
Fixed equipment	355,056	12,199	-0-	367,255
Major moveable equipment	2,139,109	11,528	32,813	2,117,824
Construction in progress	<u>43,125</u>	<u>52,238</u>	<u>-0-</u>	<u>95,363</u>
 Total	 5,715,406	 80,640	 32,813	 5,763,233
Accumulated depreciation	<u>3,179,886</u>	<u>294,746</u>	<u>20,733</u>	<u>3,453,899</u>
 Net property, plant and equipment	 \$ <u>2,535,520</u>	 \$ <u>(214,106)</u>	 \$ <u>12,080</u>	 \$ <u>2,309,334</u>

NOTE 6 – ASSETS LIMITED AS TO USE

On November 12, 1968, the Hospital accepted an offer from the Department of Housing and Urban Development to make a loan in order to aid in financing the construction of a new 30-bed general hospital. On May 15, 2004, the Hospital accepted an offer from the United States Department of Agriculture Rural Development to make a loan in order to acquire, construct and/or install improvements and replacements to the hospital facilities of the District, including appurtenant equipment and accessories. This indenture imposed restrictions on the Hospital. A summary of cash restrictions follows:

All income earned from operations of the Hospital is to be deposited in the hospital operating fund. Funds are to be expensed in the following order of priority and for the following purposes.

- (1) The payment of reasonable expenses of administration, operation and maintenance of the Hospital.
- (2) A cash transfer to the 1968 Hospital Bond and Interest Sinking Fund by the 15th day of each month, sums equal to one-fifth of the interest due on the next interest payment date, plus one-tenth of the principal due on the next principal payment date. Transfer will continue until a reserve of \$24,000 has been accumulated; thereafter, cash transfers will be made as are necessary to meet the current year's debt service requirements and maintain the reserve of \$24,000.
- (3) A cash transfer to the 1968 Hospital Repair and Replacement Reserve Fund of \$125 monthly until a reserve of \$15,000 has been accumulated and maintained in such amount. The money may be withdrawn for the purpose of paying extraordinary maintenance of repairs, renewals and replacement. Should the Hospital Bond and Interest Sinking Fund be insufficient to pay a required

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOUELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 6 – ASSETS LIMITED AS TO USE (Continued)

installment, funds in the Hospital Repair and Replacement Reserve Fund will be transferred to the extent required to eliminate the deficiency.

- (4) A cash transfer to the 2004 Hospital Revenue Bond and Interest Sinking Fund by the 20th day of each month, sums equal to the total amount of principal and interest falling due on the next payment date for the Bonds. During the first year the Bonds are outstanding, a monthly sum equal to one-twelfth of the interest due on the first payment date on the Bonds shall be transferred.
- (5) A cash transfer to the 2004 Hospital Revenue Bond Reserve Fund by the 20th day of each month, commencing with the month following completion of and acceptance of the improvements financed with the proceeds of the Bonds, a sum at least equal to five percent of the amount to be paid into the Sinking Fund. The transfer will continue until such time as there has been accumulated a sum equal to the highest principal and interest falling due in any year.
- (6) A cash transfer to the 2004 Hospital Depreciation and Contingency Fund by the 20th day of each month commencing with the month following completion of and acceptance of the improvements financed with the proceeds of the Bonds, a sum at least equal to five percent of the amount to be paid into the Sinking Fund. When a sum equal to the Debt Service Requirements has been accumulated in the Reserve Fund, the monthly payments into the Contingency Fund shall be increased to an amount equal to 10% of the amount being paid monthly into the Sinking Fund, and said payments are to continue over the life of the Bonds.

It is the contention of management that the accounting requirements of the revenue bond issues were met.

Pursuant to a resolution by the Board of Directors of the Hospital on January 18, 1973, a board-designated plant fund was established to be utilized for replacement of existing capital assets and the purchase of new capital assets. Those limited use funds described above contained the investments and accrued interest at June 30, as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
By Bond Indenture			
Hospital bond and interest sinking fund	\$ 102,338	\$ 92,018	\$ 68,278
Hospital repair and replacement reserve fund	15,000	15,000	15,000
By Board			
Dialysis building fund	22,513	21,850	21,207
LHA Trust deposits	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Noncurrent assets whose use is limited	\$ <u>139,851</u>	\$ <u>128,868</u>	\$ <u>104,485</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of accounts payable and accrued expenses as of June 30, follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Accounts payable	\$ 294,965	\$ 327,752	\$ 323,480
Salaries	75,964	126,861	104,807
Payroll taxes and other withholdings	4,359	1,146	42,421
Interest	14,878	12,542	1,147
Construction retainage	8,548	85,424	-0-
Compensated absences	<u>150,865</u>	<u>129,153</u>	<u>114,881</u>
 Total	 \$ <u>549,579</u>	 \$ <u>682,878</u>	 \$ <u>586,736</u>

NOTE 8 – LONG-TERM DEBT

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

	June 30, <u>2005</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2006</u>	Due Within <u>One Year</u>
Note payable	\$ 1,122,926	\$ -0-	\$ 956,293	\$ 166,633	\$ 78,444
Revenue Bonds	105,000	1,037,736	63,489	1,079,247	60,643
Capital lease obligations	<u>68,874</u>	<u>186,904</u>	<u>69,356</u>	<u>186,422</u>	<u>51,417</u>
 Total	 \$ <u>1,296,800</u>	 \$ <u>1,224,640</u>	 \$ <u>1,089,138</u>	 \$ <u>1,432,302</u>	 \$ <u>190,504</u>
	June 30, <u>2004</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2005</u>	Due Within <u>One Year</u>
Note payable	\$ 376,020	\$ 821,614	\$ 74,708	\$ 1,122,926	\$ 956,742
Revenue Bonds	125,000	-0-	20,000	105,000	20,000
Capital lease obligations	<u>138,444</u>	<u>-0-</u>	<u>69,570</u>	<u>68,874</u>	<u>57,005</u>
 Total	 \$ <u>639,464</u>	 \$ <u>821,614</u>	 \$ <u>164,278</u>	 \$ <u>1,296,800</u>	 \$ <u>1,033,747</u>

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 8 – LONG-TERM DEBT (Continued)

	June 30, <u>2003</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2004</u>	<u>Due Within One Year</u>
Note payable	\$ 389,148	\$ 57,000	\$ 70,128	\$ 376,020	\$ 74,096
Revenue Bonds	140,000	-0-	15,000	125,000	20,000
Capital lease obligations	<u>201,192</u>	<u>-0-</u>	<u>62,748</u>	<u>138,444</u>	<u>69,156</u>
 Total	 \$ <u>730,340</u>	 \$ <u>57,000</u>	 \$ <u>147,876</u>	 \$ <u>639,464</u>	 \$ <u>163,252</u>

The following are the terms and due dates of the Hospital's long-term debt at June 30,

- 5.48% note payable to Sabine State Bank, due in monthly installments of \$7,025 including principal and interest, collateralized by assignment of lease of dialysis building.
- 0.00% note payable to Ford Motor Credit, due in monthly installments of \$418.83, collateralized by a van.
- 4.75% revenue bonds due through November 1, 2009, collateralized by a pledge of the Hospital's gross receipts.
- 4.50% revenue bonds due through March 15, 2024, collateralized by a pledge of the Hospital's gross receipts.
- Various capital lease obligations at interest rates ranging from 0.00% to 1.90%, due in monthly installments through 2011 secured by leased equipment.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

<u>Years Ending June 30,</u>	<u>Long-term debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 139,087	\$ 55,161	\$ 51,417	\$ 1,860
2008	142,808	49,232	37,130	1,334
2009	69,908	43,608	37,548	916
2010	70,197	40,524	37,975	489
2011	46,941	38,167	22,352	85
2012 - 2016	269,102	156,536	-0-	-0-
2017 - 2021	336,861	88,777	-0-	-0-
2022 - 2026	<u>170,976</u>	<u>13,811</u>	<u>-0-</u>	<u>-0-</u>
	 \$ <u>1,245,880</u>	 \$ <u>485,816</u>	 \$ <u>186,422</u>	 \$ <u>4,684</u>

Assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases in the amount of \$120,557 is included in depreciation expense. Net book value of capital leases is \$223,689, \$103,132, and \$156,635 in 2006, 2005, and 2004, respectively.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOUELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 9 – OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2006, that have initial or remaining lease terms in excess of one year:

<u>Years Ending June 30,</u>	<u>Amount</u>
2007	\$ <u>20,484</u>
Total minimum lease payments	\$ <u>20,484</u>

NOTE 10 – COMPENSATED ABSENCES

Full-time employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital charged operations during the reported periods ended for accrued paid days. Accrued amounts are reported in Note 7 of these financial statements. 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 Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 11 – PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital 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 ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the PCF's exposure to \$400,000 per occurrence.

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

NOTE 12 – 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.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 12 – PATIENT SERVICE REVENUE (Continued)

Medicare - Inpatient acute, most outpatient, swing bed, and rural health clinic (RHC) care services rendered to Medicare program beneficiaries are settled based upon reasonable cost, subject to retroactive audit. Interim rates are paid based upon estimates of anticipated costs.

Medicaid - Inpatient acute and RHC services are reimbursed based on prospectively determined per diem rates. 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. For cost settlements, the District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

Commercial - The District 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 following is a summary of the Hospital's net patient service revenues for the years ended June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross patient service charges	\$ 14,727,537	\$ 12,501,990	\$ 13,817,170
Contractual allowances	(6,446,625)	(4,993,062)	(6,166,693)
Provision for bad debts	(1,242,820)	(1,452,528)	(882,142)
Uncompensated cost reimbursement	953,890	1,034,412	746,465
Policy discounts and charity care	<u>(57,144)</u>	<u>(35,680)</u>	<u>(86,671)</u>
	<u>\$ 7,934,838</u>	<u>\$ 7,055,132</u>	<u>\$ 7,428,129</u>

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>2006</u>	<u>2005</u>	<u>2004</u>
Medicare and Medicaid gross patient charges	\$ 10,332,332	\$ 9,180,199	\$ 10,185,521
Contractual adjustments (without UCC)	<u>(5,491,543)</u>	<u>(4,256,443)</u>	<u>(4,901,825)</u>
Net program patient service revenue	<u>\$ 4,840,789</u>	<u>\$ 4,923,756</u>	<u>\$ 5,283,696</u>
Percent of total patient gross charges	<u>70%</u>	<u>73%</u>	<u>74%</u>
Percent of total net patient revenues	<u>61%</u>	<u>70%</u>	<u>71%</u>

The Hospital received interim amounts of \$953,890, \$1,034,412, and \$746,465, for Medicaid and self-pay uncompensated care services for the years ended June 30, 2006, 2005, and 2004, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOUELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 12 – PATIENT SERVICE REVENUE (Continued)

retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. 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.

NOTE 13 – CHARITY CARE

The Hospital has a policy of providing charity care to patients who can prove they are indigent. Charity care charges were \$17,058, \$21,802, and \$35,881 for the respective fiscal periods ended June 30, 2006, 2005, and 2004, the cost of which is approximately sixty percent (60%).

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

The principal contingencies are described below:

Third-Party Cost-Based Revenues (Notes 2 and 12) - Cost reimbursements and claims are subject to examination by agencies administering the programs. 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.

Federal and state budget restraints are increasing the time period taken to pay Medicare and Medicaid claims and the Medicaid program is delaying payment of year-end statements. 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 fraud and abuse statutes as well as other 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.

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

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

The Hospital 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 Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The Hospital's account balance in the Louisiana Hospital Association Trust Fund is \$145,184.

Medical Benefits Trust - The Hospital maintains a medical benefits trust. The Hospital and employees contribute on a 50/50 basis amounts required to cover the health benefits cost of the employees. Employees with more than 90 days of service can participate.

The trust pays all claims from funds provided from the Hospital. The trust agreement provides that should it not have sufficient funds to cover its obligations, the Hospital is obligated to fund the shortfall.

The Hospital purchases "excess" insurance coverage that provides for payment of individual claims in excess of \$10,000 or aggregate annual claims in excess of \$226,838. The Hospital and employees contribute on a 50/50 basis amounts required to cover the insurance premiums.

Unused Line of Credit - At June 30, 2004, the Hospital had \$1,000,000 of unused line of credit to be drawn upon as needed. The line of credit was not renewed for fiscal year 2005.

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the Hospital. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 15 – RETIREMENT PROGRAM

Employees have available retirement coverage through an employee funded defined contribution plan, Bunkie Hospital Service Defined Compensation Program, administered by Nationwide Retirement Solutions. Each pay period the Hospital contributes to an additional plan for full-time employees who work 64 or more hours per pay period. Each employee will be required to contribute a minimum of 3% of their base pay toward the program. Employees will become 100% vested in the Hospital's contributions after three full years of employment.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total payroll	\$ 3,285,869	\$ 2,969,423	\$ 3,040,618
Total covered payroll	2,433,968	2,052,716	2,003,980
Employee contributions	136,761	149,210	126,653
Employer contributions	62,166	58,107	65,531
Percentage employee contributions	5.6%	7.3%	6.3%
Percentage employer contributions	2.6%	2.8%	3.3%

NOTE 16 – AD VALOREM TAXES

The District levies real estate taxes on all real property on a calendar year basis, at a rate enacted by the Board of Commissioners as recommended by the local tax assessor. Property taxes are collected through the local sheriff and remitted, net of collection fees, to the District. The sheriff's office is responsible for collection, including establishing lien, levy and due dates of property taxes. The current tax expires in 2009 and is expected to be renewed at current levy rates. The property tax calendar includes these dates:

Levy date	August 16
Lien date	August 16
Due date	December 31

NOTE 17 – JOINT VENTURE

The Hospital entered into a cooperative endeavor (i.e. joint venture) with a home health company on March 1, 2004. The Hospital shares one-third of the profits and losses, and leases space to this organization.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Hospital's share of profits (losses)	\$ <u>59,445</u>	\$ <u>91,396</u>	\$ <u>9,024</u>
Rental income	\$ <u>13,976</u>	\$ <u>6,850</u>	\$ <u>3,300</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

NOTE 18 – DISCONTINUED OPERATIONS

The Hospital discontinued home health services on March 1, 2004. The sale resulted in a gain of \$200,000 and a one-third interest in a joint venture (Note 17). The following is a summary of discontinued home health operations included in the accompanying financial statements:

	<u>2006</u>		<u>2005</u>		<u>2004</u>
Net home health revenue	\$ -0-	\$	-0-	\$	334,255
Operating expenses	-0-		-0-		251,608
Income from operations	<u>\$ -0-</u>	\$	<u>-0-</u>	\$	<u>82,647</u>

NOTE 19 – PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for 2005 have been restated to correct an error in the Medicare cost report settlement. The effect of the restatement was to increase net income, increase due from governmental third party reimbursement programs in Net Patient Accounts Receivable, and increase Net Assets (Unrestricted) for 2005 by \$120,334.

NOTE 20 – SUBSEQUENT EVENTS

The Board approved the issuance of an additional \$300,000 of revenue bonds on August 28, 2006. The first \$45,000 of the bonds is at a 0% interest rate. The remaining \$255,000 of the bonds is at a 5.25% interest rate.

SUPPLEMENTARY INFORMATION

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOUELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF NET PATIENT SERVICE REVENUE
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Routine services:			
Adult and pediatric	\$ 499,675	\$ 411,115	\$ 343,100
Psychiatric unit	23,000	-0-	2,100,000
Swing-bed	<u>146,675</u>	<u>152,050</u>	<u>123,700</u>
Total routine services	<u>669,350</u>	<u>563,165</u>	<u>2,566,800</u>
Other professional services:			
Operating room			
Inpatient	-0-	8,851	9,933
Outpatient	<u>925</u>	<u>14,295</u>	<u>55,987</u>
Total operating room	<u>925</u>	<u>23,146</u>	<u>65,920</u>
Recovery room			
Inpatient	-0-	-0-	-0-
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>110</u>
Total recovery room	<u>-0-</u>	<u>-0-</u>	<u>110</u>
Anesthesia			
Inpatient	-0-	900	2,765
Outpatient	<u>-0-</u>	<u>600</u>	<u>15,280</u>
Total anesthesia	<u>-0-</u>	<u>1,500</u>	<u>18,045</u>
Radiology			
Inpatient	511,841	489,659	515,097
Outpatient	<u>2,024,723</u>	<u>1,831,281</u>	<u>1,655,090</u>
Total radiology	<u>2,536,564</u>	<u>2,320,940</u>	<u>2,170,187</u>
Laboratory			
Inpatient	938,301	808,542	877,759
Outpatient	<u>2,712,928</u>	<u>2,531,667</u>	<u>2,359,426</u>
Total laboratory	<u>\$ 3,651,229</u>	<u>\$ 3,340,209</u>	<u>\$ 3,237,185</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Blood			
Inpatient	\$ 15,986	\$ 16,911	\$ 14,413
Outpatient	<u>11,097</u>	<u>8,695</u>	<u>15,555</u>
Total blood	<u>27,083</u>	<u>25,606</u>	<u>29,968</u>
Inhalation therapy			
Inpatient	155,871	133,822	337,429
Outpatient	<u>57,984</u>	<u>49,665</u>	<u>89,398</u>
Total inhalation therapy	<u>213,855</u>	<u>183,487</u>	<u>426,827</u>
Physical therapy			
Inpatient	11,849	16,784	15,348
Outpatient	<u>180</u>	<u>-0-</u>	<u>354</u>
Total physical therapy	<u>12,029</u>	<u>16,784</u>	<u>15,702</u>
Cardiac rehab			
Inpatient	-0-	-0-	-0-
Outpatient	<u>76,870</u>	<u>90,225</u>	<u>77,418</u>
Total cardiac rehab	<u>76,870</u>	<u>90,225</u>	<u>77,418</u>
Electrocardiology			
Inpatient	37,315	35,445	31,450
Outpatient	<u>88,230</u>	<u>78,140</u>	<u>83,725</u>
Total electrocardiology	<u>125,545</u>	<u>113,585</u>	<u>115,175</u>
Electroencephalogram			
Inpatient	-0-	-0-	-0-
Outpatient	<u>5,225</u>	<u>8,550</u>	<u>3,800</u>
Total electroencephalogram	\$ <u>5,225</u>	\$ <u>8,550</u>	\$ <u>3,800</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Telemetry			
Inpatient	\$ 79,800	\$ 76,900	\$ 65,000
Outpatient	<u>10,300</u>	<u>11,700</u>	<u>15,400</u>
Total telemetry	<u>90,100</u>	<u>88,600</u>	<u>80,400</u>
Central supply			
Inpatient	475,453	370,894	168,989
Outpatient	<u>155,120</u>	<u>155,401</u>	<u>129,928</u>
Total central supply	<u>630,573</u>	<u>526,295</u>	<u>298,917</u>
Intravenous therapy			
Inpatient	235,414	227,179	215,455
Outpatient	<u>106,279</u>	<u>121,038</u>	<u>174,107</u>
Total intravenous therapy	<u>341,693</u>	<u>348,217</u>	<u>389,562</u>
Pharmacy			
Inpatient	692,337	629,524	664,023
Outpatient	<u>331,396</u>	<u>287,204</u>	<u>276,956</u>
Total pharmacy	<u>1,023,733</u>	<u>916,728</u>	<u>940,979</u>
Psychiatric therapies			
Inpatient	-0-	-0-	-0-
Outpatient	<u>1,669,430</u>	<u>756,565</u>	<u>-0-</u>
Total psychiatric therapies	<u>1,669,430</u>	<u>756,565</u>	<u>-0-</u>
Emergency room			
Inpatient	133,997	105,890	85,362
Outpatient	<u>1,146,168</u>	<u>1,018,042</u>	<u>1,073,518</u>
Total emergency room	\$ <u>1,280,165</u>	\$ <u>1,123,932</u>	\$ <u>1,158,880</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Emergency room physician			
Inpatient	\$ 161,675	\$ 159,520	\$ 216,308
Outpatient	<u>686,823</u>	<u>667,287</u>	<u>713,430</u>
Total emergency room physician	<u>848,498</u>	<u>826,807</u>	<u>929,738</u>
Observation room			
Inpatient	8,570	3,980	710
Outpatient	<u>111,225</u>	<u>123,580</u>	<u>118,450</u>
Total observation room	<u>119,795</u>	<u>127,560</u>	<u>119,160</u>
Dialysis treatment	-0-	5,850	900
Home health visits	-0-	-0-	341,605
Rural health clinic	872,782	635,652	356,018
Rural health clinic / FCC	429,826	-0-	-0-
Physician clinics	<u>102,267</u>	<u>458,587</u>	<u>473,874</u>
Total other professional services	<u>14,058,187</u>	<u>11,938,825</u>	<u>11,250,370</u>
Total patient service revenues	<u>14,727,537</u>	<u>12,501,990</u>	<u>13,817,170</u>
Deductions from revenue:			
Contractual adjustments	(6,446,625)	(4,993,062)	(6,166,693)
Provision for bad debts	(1,242,820)	(1,452,528)	(882,142)
Disproportionate share payment - Medicaid	953,890	1,034,412	746,465
Policy discounts and charity care	<u>(57,144)</u>	<u>(35,680)</u>	<u>(86,671)</u>
Total deductions from revenue	<u>(6,792,699)</u>	<u>(5,446,858)</u>	<u>(6,389,041)</u>
Net patient service revenue	\$ <u>7,934,838</u>	\$ <u>7,055,132</u>	\$ <u>7,428,129</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF OTHER REVENUE
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>		<u>2005</u>		<u>2004</u>
Cafeteria sales	\$ 29,826	\$	26,194	\$	27,469
Medical records fees	12,343		14,840		14,378
Vending machines	4,733		9,948		8,282
Fitness Center fees	13,018		14,910		19,342
Silver Society	1,476		1,980		2,178
Contributions	-0-		-0-		100
Gain (loss) on disposal of equipment	7,658		66,465		219
Rental income	129,076		124,200		122,646
Pharmacy prescription sales	33,659		35,392		48,947
Grant income	43,648		68,918		38,923
Joint venture income	59,445		91,396		9,024
Miscellaneous revenue	<u>140,696</u>		<u>31,364</u>		<u>21,718</u>
 Total other revenue	 \$ <u>475,578</u>	\$	 <u>485,607</u>	\$	 <u>313,226</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOUELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – SALARIES AND BENEFITS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries:			
Administrative and general	\$ 373,717	\$ 327,981	\$ 260,018
Business office	260,972	152,078	167,867
Communications	16,594	16,822	16,622
Plant operation	135,185	120,923	116,246
Housekeeping	86,825	83,269	83,183
Dietary	86,669	83,870	79,957
Nursing administration	60,825	106,865	109,606
Central supply	41,468	41,012	38,866
Medical records	108,934	104,695	108,437
Nursing services	406,452	370,260	378,900
Psychiatric inpatient unit	24,110	-0-	5,417
Operating room	-0-	427	4,416
Radiology	223,477	203,882	191,809
Laboratory	227,121	203,346	212,227
EKG	14,462	13,370	12,844
Cardiac rehab	45,988	40,052	40,732
Rural health clinic	529,665	386,532	243,156
Rural health clinic / FCC	220,429	-0-	-0-
Emergency room	338,237	492,345	400,326
Home health	-0-	895	161,287
Physician's office building	42,070	176,140	364,093
Fitness Center	<u>42,669</u>	<u>44,659</u>	<u>44,609</u>
Total salaries	<u>3,285,869</u>	<u>2,969,423</u>	<u>3,040,618</u>
Benefits:			
Payroll taxes	227,552	216,614	225,253
Hospitalization insurance	508,469	327,673	361,608
Deferred compensation	62,166	57,557	65,256
Workers compensation	73,456	91,137	130,481
Other	<u>10,028</u>	<u>7,245</u>	<u>8,556</u>
Total benefits	<u>881,671</u>	<u>700,226</u>	<u>791,154</u>
Total salaries and benefits	\$ <u>4,167,540</u>	\$ <u>3,669,649</u>	\$ <u>3,831,772</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – MEDICAL SUPPLIES AND EXPENSES
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Nursing services	\$ 28,318	\$ 15,572	\$ 23,558
Psychiatric unit	7,903	116	8,770
Operating room	15,522	9,292	2,458
Radiology	222,042	191,297	208,057
Laboratory	211,555	188,409	164,771
Blood	19,473	18,999	28,953
IV therapy	10,099	9,721	33,211
Respiratory therapy	4,684	1,605	13,349
EKG	2,790	-0-	-0-
Central supply	80,111	82,519	51,666
Pharmacy	230,769	208,626	223,693
Cardiac rehab	391	449	807
Rural health clinic	6,248	6,384	8,137
Rural health clinic / FCC	563	-0-	-0-
Emergency room	24,287	13,709	9,821
Observation room	38	575	394
Home health	-0-	-0-	7,458
Physician's office building	<u>554</u>	<u>16,675</u>	<u>5,323</u>
 Total medical supplies and expenses	 \$ <u>865,347</u>	 \$ <u>763,948</u>	 \$ <u>790,426</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – MEDICAL PROFESSIONAL FEES
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Administrative	\$ 45,487	\$ 20,168	\$ 7,140
Psychiatric unit	12,859	-0-	922,815
Operating room	1,047	-0-	-0-
Anesthesia	-0-	-0-	4,595
Radiology	950	1,370	975
Laboratory	108,383	120,258	107,484
Respiratory therapy	136,200	156,896	163,800
Physical therapy	6,883	9,710	47,235
Pharmacy	171,804	165,610	177,236
Dialysis	-0-	829	1,065
Cardiac rehab	2,775	1,300	-0-
Psychiatric therapy	316,578	144,593	-0-
Rural health clinic	-0-	-0-	35,191
Rural health clinic / FCC	137,572	-0-	-0-
Emergency room	824,994	754,287	815,824
Private physician office	<u>50,616</u>	<u>221,062</u>	<u>79,066</u>
Total medical professional fees	\$ <u>1,816,148</u>	\$ <u>1,596,083</u>	\$ <u>2,362,426</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF EXPENSES – OTHER EXPENSES
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Miscellaneous service fees	\$ 22,038	\$ 25,656	\$ 63,854
Legal	15,345	35,039	39,451
Accounting	85,840	98,309	80,143
Non medical supplies	302,903	308,282	307,263
Dietary - food expense	55,017	52,019	57,423
Grants	10,341	20,205	-0-
Repairs and maintenance	170,173	127,032	118,726
Utilities	231,132	178,700	165,885
Telephone	59,040	72,433	104,800
Home health and other mileage	8,173	12,269	20,250
Rentals	50,680	63,819	62,335
Education	5,966	5,645	4,387
Public relations	24,258	22,688	19,369
Dues and subscriptions	38,645	36,116	44,458
Minor equipment	1,623	-0-	-0-
Medical staff expense and relocation	1,433	6,443	3,313
Collection fees	16,394	12,782	33,343
Employee sales expense	24,070	24,832	41,603
Miscellaneous expense	<u>17,263</u>	<u>15,997</u>	<u>11,686</u>
 Total other expenses	 \$ <u>1,140,334</u>	 \$ <u>1,118,266</u>	 \$ <u>1,178,289</u>

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF PATIENT STATISTICS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Number of Beds			
Acute	25	25	28
Psychiatric	-0-	-0-	20
Bed Days Available			
Acute (down sized to 25 on May 1, 2004)	9,125	9,125	10,037
Psychiatric (eliminated April 30, 2004)	N/A	N/A	6,080
Patient Days			
Total Acute	1,829	1,496	1,225
Total Swing Bed	744	763	619
Total Psychiatric	N/A	N/A	2,103
Medicare Acute	1,276	1,014	910
Medicare Swing Bed	725	757	577
Medicare Psychiatric	N/A	N/A	2,063
Medicaid Acute	349	357	216
Percentage Occupancy			
Acute and Swing Bed	28.20	24.76	18.37
Psychiatric	N/A	N/A	33.93
Discharges			
Total Acute	582	529	425
Total Swing Bed	115	120	50
Total Psychiatric	N/A	N/A	214
Emergency Room Visits	6,955	6,545	7,015
Home Health Visits (joint venture March 1, 2004)	N/A	N/A	3,727
Rural Health Clinic Visits	7,742	7,026	5,497
Rural Health Clinic / FCC Visits	4,717	-0-	-0-

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
SCHEDULE OF INSURANCE
JUNE 30, 2006

<u>POLICY NUMBER</u>	<u>COMPANY</u>	<u>FROM</u>	<u>TO</u>	<u>TYPE OF INSURANCE</u>	<u>COVERAGE LIMITS</u>
HPL-0090-2005	LA Hospital Association Trust Fund Louisiana Patient Compensation Fund	1/1/2005	1/1/2006	Hospital Professional Liability	\$100,000 per claim/\$400,000 excess \$10,000,000 umbrella \$500,000 per occurrence \$10,000,000 umbrella
WC-0070-2006	LA Hospital Association	1/1/2006	1/1/2007	Workmen's Compensation	\$1,000,000 each accident
039LB103073248E	The Benchmark Agency	4/29/2006	4/28/2007	Directors, Officers and Trustees Indemnity Insurance including Healthcare Organization Reimbursement Policy	\$1,000,000 limit \$10,000 retention each loss
T22510605	EMC Insurance	5/18/2006	5/18/2007	Public Employee Bond	\$200,000 employee dishonesty \$200,000 forgery or alteration
1-57737	Lammico	1/1/2006	1/1/2007	Dr. Hines Comprehensive Professional	\$100,000 per claim \$300,000 annual aggregate
PPL-P02-000-2005	LA Hospital Association Trust Fund	7/1/2005	7/1/2006	Dr. Srivastava Comprehensive Professional	\$100,000 per claim \$300,000 annual aggregate \$400,000 La Patients Comp Fund
PPL-0313-2005	LA Hospital Association Physicians Trust Fund	4/3/2006	7/1/2006	Dr. Krupkin Comprehensive Professional	\$100,000 per claim \$300,000 annual aggregate \$400,000 La Patients Comp Fund
33-7702-D11-18B	State Farm	10/12/2005	4/10/2006	Liability on Business Auto	\$1,000,000 under insured motorist
45-8349-D11-18B		4/11/2006	10/11/2006	Comprehensive and Collision	\$1,000,000 uninsured motorist
33-7703-D11-18A					\$1,000,000 liability \$1,000 medical per person
MZF80420854	Fireman's Fund	4/11/2006	4/11/2007	Boiler and Machinery	\$11,221,411 property except business income

HOSPITAL SERVICE DISTRICT NO. 1
 OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
 BUNKIE GENERAL HOSPITAL
 SCHEDULES OF PER DIEM AND
 OTHER COMPENSATION PAID TO BOARD MEMBERS
 YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	<u>Term Expires</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>
Board Members:							
Dr. Carl F. Jory (Deceased 2006)	11/14/10	\$	-0-	\$	-0-	\$	-0-
Mr. James Mixon	12/11/09		-0-		-0-		-0-
Ms. Nancy Carruth	02/13/08		-0-		-0-		-0-
Mr. Don Descant	02/13/08		-0-		-0-		-0-
Mr. Jeff Keys	02/13/08		320		440		440
Ms. Barbara Jones	11/15/06		240		280		280
Mr. Harry Normand	02/14/09		440		480		440



LESTER, MILLER & WELLS

A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

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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
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
Bunkie, Louisiana

We have audited the financial statements of the Hospital Service District No. 1, Parish of Avoyelles, a component of the Avoyelles Parish Police Jury (the "District" or the "Hospital") for the years ended June 30, 2006, 2005 and 2004 and have issued our report thereon dated November 30, 2006. 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 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 initiate, record, process, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of management comments.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that some of the reportable conditions described above rise to the level of a material weakness and are identified as such in the following schedules.

Board of Commissioners
Hospital Service District No. 1
Parish of Avoyelles, State of Louisiana
Page Two

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards.

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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Luter, Miller & Wells

Certified Public Accountants
November 30, 2006



HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
AUDITORS' COMMENTS AND RECOMMENDATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006
Page 1 of 4

2006, Management Comments

Condition: In examining the contractual allowance estimate for commercial insurance patients, the estimate had to be adjusted by \$367,637. Medicare and Medicaid allowances also required large adjustments.

Comment: We suggest management calculate payment percentages for IP, OP, RHC, etc. based upon the last four to six months remittance history with specific adjustment for unique changes, e.g. price increases, contract terms change, etc. These percentages should be used to estimate related contractual adjustments and allowances.

Management's Response: Management will review contractual allowance calculation and make accurate estimates.

Resolution: This matter remains unresolved.

2006, Compliance Violations

Condition: The Hospital purchased supplies from two local businesses that are/were owned by employees.

Comment: Governmental units can not transact business with its employees under R.S. 42:1112.

Management's Response: Management will keep an approved vendor list that will be cross referenced by the accounts payable clerks to ensure no business is done with employees.

Resolution: This matter has been resolved.

Condition: Several years ago the Hospital leased a building from a local businessman. After the lease was signed, and when subsequent renewals occurred, the businessman became an employee of the Hospital.

Comment: When the lease renewed after the businessman became employed, the lease became a violation of R.S. 42:1121.

Management's Response: Management will cross reference contracts in tickler file to ensure violations do not occur.

Resolution: This matter has been resolved.

2006, Material Weaknesses

Condition: In our inspection of all credit card expenditures, a member of management one level higher than the card holder was not approving all expenditures. Some expenditures for meals lacked documentation as to who was entertained, a clear business purpose, and what was purchased.



HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
AUDITORS' COMMENTS AND RECOMMENDATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006
Page 2 of 4

2006, Material Weaknesses (Continued)

Comment: One level of management above the card holder needs to approve the expenditures. Itemized receipts need to be obtained and they must document who was dining, what was purchased and the business purpose of the meal.

Management's Response: All credit card expenditures will be approved by CFO and reviewed by the Board to ensure proper approval and documentation.

Resolution: This matter has been resolved.

Condition: When checks are presented for signatures, supporting documents are not examined for approval.

Comment: Supporting documents, verifying the validity of the expense, need to be examined before checks are signed and mailed.

Management's Response: The CFO will review and approve all invoices prior to posting. The CFO will also sign checks along with the Administrator.

Resolution: This matter has been resolved.

Condition: Once checks are signed, the accounts payable clerk mails the checks to the vendors.

Comment: These duties need to be segregated.

Management's Response: A segregation of duties will occur by having someone else mail the checks. The checks will not be returned to the accounts payable clerk.

Resolution: This matter has been resolved.

Condition: Cancelled checks are not verified for proper signatures and endorsements to ensure that manipulation did not take place.

Comment: Cancelled checks should be verified for signatures and endorsements during the bank reconciliation process.

Management's Response: Management will ensure that verification of proper signature occurs during the bank reconciliation process.

Resolution: This matter has been resolved.

Condition: In discussing controls over bad debt write offs, it was disclosed that a member of management had authorized the write off of a relative's account in November 2004.



HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
AUDITORS' COMMENTS AND RECOMMENDATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006
Page 3 of 4

2006, Material Weaknesses (Continued)

Comment: It appears that this action violated R.S.'s 42:1111.A.(1), 42:1112, and 42:1116. Approval for such a write off, when appropriate, should come from at least one level above the employee whose account is being written off. Discussion of this matter with the Board resulted in this matter being brought to the parish district attorney.

Management's Response: Management has amended the accounts receivable adjustment policy to include requirement that a commissioner of the Board must approve write-offs of key management.

Resolution: This matter has been resolved.

Condition: During our review of contracts it was noticed that addendums were made without the Board's approval.

Comment: All contracts and changes should be approved by the Board. We suggest that management keep a tickler file of the contracts to allow timely review of renewals by management and the Board.

Management's Response: The administrative assistant will maintain a tickler file of contracts. All contracts will be reviewed by the Board 90 days before they are to be renewed. Contracts over \$5,000 will be approved by the Board.

Resolution: This matter has been resolved.

Condition: In reviewing the accrual for leave time, we noted leave time for upper management not approved at one level above them and an instance where an employee was allowed to take negative leave time.

Comment: Management should have their leave time approved by at least one level of management above them. The negative leave is tantamount to a loan to the employee and is not allowed by state law. When leave requests are made, the personnel department should insure excess time will not be paid.

Management's Response: The payroll clerk will not pay leave time without the proper form with approval. The payroll clerk will monitor leave time available before processing leave time requests to ensure a negative situation will not occur.

Resolution: This matter has been resolved.

2003, Material Weaknesses

Condition: Of 6,139 statements mailed to patients for the month of June, 272 were returned for incorrect addresses.

Comment: The process by which addresses are obtained from patients should be reviewed.



HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF AVOYELLES, STATE OF LOUISIANA
BUNKIE GENERAL HOSPITAL
AUDITORS' COMMENTS AND RECOMMENDATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006
Page 4 of 4

2003, Material Weaknesses (Continued)

Management's Response: The process of address confirmations upon admission/registration will be revised and new management will assure compliance with Hospital policy. The majority of the bad addresses returned were on aged accounts.

Resolution: This matter has been resolved.

Condition: In a sample of twenty bad debts, twelve of the bad debts written off did not have an approving signature.

Comment: A signature denoting approval should appear on each account detail before write off. Also, a higher supervisor should sign the summary list before posting.

Management's Response: Bad debt write-off policy and procedure is in the process of being revised and approval levels established. New business office management will assure that these policies will be adhered to.

Resolution: This matter has been resolved.

