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CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO.2
SICILY ISLAND, LOUISIANA
FINANCIAL STATEMENTS
AND
AUDITOR'S REPORTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Release Date 8/2/06

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following discussion and analysis of Catahoula Parish Hospital District No. 2's financial performance provides an overview of the District's financial activities for the year ended December 31, 2005. Please read it in conjunction with the financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

Total assets decreased at December 31, 2005 from \$2,617,397 to \$2,417,334 or \$200,063 which is an 8% decrease. Total liabilities decreased at December 31, 2005 from \$674,046 in 2004 to \$615,261 or \$58,785, which is an 8.7% decrease from the prior year. Net patient revenue increased \$307,236 from 2004 while a change in net assets reflected a decrease of \$120,856.

The Fiduciary Fund experienced a net growth from 2004 to 2005 of \$159,423. This increase was attributed to employee contributions and market value growth.

HOW TO USE THIS ANNUAL REPORT

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

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

The four parishes, Catahoula, Concordia, Franklin, and Tensas, served by this project remain among the poorest in Louisiana. The four parishes are, additionally, considered part of the Mississippi Delta Catchments Area and represent the Nation's most disadvantaged populations. All four parishes have been designated as rural parishes

and have both a HPSA and Whole County MUA/MUP designation. Additionally, all contiguous parishes to the north, west, and south also have a HPSA designation. The poverty is overwhelming and, by many standards, is the most limiting health disparity in the service area. Approximately 32% of the service area lives at 100% of the Federal Poverty Level. Approximately 55% of the service area lives at 200% of the Federal Poverty Level (FPL). Even more compelling, according to the District's needs assessment 2003, is that over a fifth of the households in Catahoula, Concordia, and Franklin parishes have an annual income of less than \$10,000.

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

The District received 40% of its funding from Section 330 of the Public Health Service. Other sources of revenue consist of program income generated by Medicare, Medicaid, Private Insurance, and Self Pay payers. The District operates a cost-efficient, efficacious service focusing on the maximization of collections from patient services while maintaining costs at the lowest possible levels, without impacting on the quality of service. The District anticipates maximizing revenue by aggressively pursuing third party reimbursements for services and by assisting the individuals that it serves to apply for any benefit programs for which they are entitled. For cases where individuals do not have insurance, the District offers sliding fee services based on the person's ability to pay. CPHD will responsibly collect all deductibles and co-pays. In addition to billing Medicaid and Medicare for services based on enhanced reimbursement, the District has sought and received support from various funding sources of revenue including a private foundation for new service implementation. The five year support is now complete; therefore, future revenues may vary. The District will continue to seek other sources of local funds and continue to contract to provide additional sources of revenue as we have in the past. The District's Board of Directors recognizes the need to seek alternative sources of revenue and through continuous strategic planning, commits to ensuring financial viability is maintained. In developing its budget for fiscal year 2006, it was important that we maintained the optimal level of service to our clients and the public as we did in 2005 and as expected by the U.S. Department of Health and Human Services Health Resources and Services Administration (HRSA) and the Bureau of Primary Health Care (BPHC).

The District is currently maximizing all possible resources. The District operates three medical clinics, a dental clinic and a mobile van unit. All grants and contracts from Federal and other agencies have been approved for FY 2006. There have been significant changes to the funding levels of Federal grants. Accordingly, we have set our initial budget to provide increased levels of service next year.

During the year 2005, the U.S. Department of Health and Human Services initiated a plan to award 105 new health center grants totaling more than \$ 63 million. Catahoula Parish Hospital District No. 2 was one of the recipients of an additional award to expand access to comprehensive primary health care services. The District received additional support from HRSA to open a new access Point in Ferriday (Concordia Parish), Louisiana. Therefore, the budget for 2006 will significantly increase both in the revenues and expenditures.

CONTACTING THE DISTRICT'S MANAGEMENT

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

MEMBER
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MEMBER
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

DAUZAT, BEALL & DEBEVEC, CPAs

A PROFESSIONAL CORPORATION

INDEPENDENT AUDITOR' REPORT

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

We have audited the accompanying financial statements of business-type activity of Catahoula Parish Hospital Service District No. 2, as of and for the year ended December 31, 2005, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board if Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-133. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catahoula Parish Hospital Service District No. 2 at December 31, 2005 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2006 on our consideration of the Catahoula Parish Hospital Service District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and agents.

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



Dautat, Beall, & Debevec, CPAs, APC
June 23, 2006

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF NET ASSETS
DECEMBER 31 2005

ASSETS

Cash and cash equivalents	\$ 362,474
Investments	319,042
Accounts receivable, net	357,024
Other receivables	55,620
Prepays	36,855
Inventories	46,647
Capital Assets	
Land	31,077
Buildings	1,289,918
Equipment	991,494
Less accumulated depreciation	(1,072,817)
TOTAL ASSETS	<u>2,417,334</u>

LIABILITIES

Accounts payable	196,200
Accrued expenses	157,787
Deferred revenue	7,542
Revenue bonds, current portion	20,581
Due to fiscal intermediaries	879
Revenue bonds	232,272
TOTAL LIABILITIES	<u>615,261</u>

NET ASSETS

Invested in capital assets, net of related debt	1,239,672
Restricted for debt service	82,339
Restricted for contingencies	13,376
Unrestricted	466,683
TOTAL NET ASSETS	<u>\$ 1,802,070</u>

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Changes in</u> <u>Net Assets</u>	
<u>Expenses</u>	<u>Charges For</u> <u>Services</u>	<u>Operating</u> <u>Grants</u>	<u>Business-Type</u>	<u>Total</u>	
Primary Government					
Business-Type Activities					
Rural Health Provider	\$2,542,810	\$ 1,431,003	\$ 973,191	\$ (138,616)	\$ (138,616)
Total Primary Government	\$2,542,810	\$ 1,431,003	\$ 973,191		
 General Revenues					
Property taxes				5,695	5,695
Investment income				12,065	12,065
Total General Revenues				17,760	17,760
Changes in Net Assets				(120,856)	(120,856)
 Net Assets, January 1				1,922,926	1,922,926
Net Assets, December 31				\$ 1,802,070	\$ 1,802,070

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency Funds</u>
ASSETS	
Investments, at fair value	<u>\$1,239,323</u>
Total Assets	<u><u>\$1,239,323</u></u>
LIABILITIES	
Deferred compensation benefits payable	<u>\$1,239,323</u>
Total Liabilities	<u><u>\$1,239,323</u></u>

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF NET ASSETS
PROPIETARY FUND
DECEMBER 31, 2005

Business-Type Activity
Rural Health Provider

ASSETS

Current

Cash and cash equivalents	\$ 362,474
Investments	319,042
Accounts receivable, net	357,024
Other receivables	55,620
Prepays	36,855
Inventories	46,647
Total Current Assets	1,177,662

Capital Assets

Land	31,077
Buildings	1,289,918
Equipment	991,494
Less accumulated depreciation	(1,072,817)
Total Capital Assets	1,239,672

Total Assets	2,417,334
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LIABILITIES

Current

Accounts payable	196,200
Accrued expenses	157,787
Deferred revenue	7,542
Revenue bonds, current portion	20,581
Total Current Liabilities	382,110

Long Term

Due to fiscal intermediaries	879
Revenue bonds	232,272
Total Long Term Liabilities	233,151

Total liabilities	615,261
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NET ASSETS

Restricted for debt service	82,339
Restricted for contingencies	13,376
Unrestricted	1,706,355
Total Net Assets	\$ 1,802,070

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended December 31, 2005

	Business-Type Activity Rural Health Provider
OPERATING REVENUE	
Net Patient service revenue	\$ 1,426,660
Other Revenue	4,343
Total operating revenue	<u>1,431,003</u>
OPERATING EXPENSES	
Salaries and wages	1,430,754
Utilities and telephone	95,371
Office supplies and expense	44,493
Medical supplies and drugs	112,645
Contractual fees	196,157
Payroll taxes	64,898
Travel	19,570
Repairs and maintenance	114,890
Equipment rentals	22,666
Insurance	151,418
Fees, dues, and subscriptions	34,859
Retirement expense	51,818
Patient transportation	12,787
Bad debt expense	52,786
Depreciation	93,129
Other	426
Recruitment and training	13,410
Rent	18,000
Total operating expenses	<u>2,530,077</u>
Loss from operations	<u>(1,099,074)</u>
NONOPERATING REVENUE(EXPENSES)	
Rural Health Initiative Grant proceeds	967,458
Grant proceeds-BHFD	5,733
Interest income	12,065
Tax revenue	5,695
Interest expense	(12,733)
Total non-operating revenue	<u>978,218</u>
Changes in Net Assets	(120,856)
Total Net Assets, January 1	<u>1,922,926</u>
Total Net Assets, December 31	<u><u>\$ 1,802,070</u></u>

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2005

	Business-Type Activity Rural Health Provider
Cash Flows from Operating Activities	
Cash received from patient services	\$ 1,321,565
Cash received from miscellaneous sources	4,343
Cash paid to employees	(1,300,800)
Cash paid to suppliers	(890,400)
Net Cash Flows from Operating Activities	<u>(865,292)</u>
Cash Flows from Non-capital Financing Activities	
Grants	973,191
Taxes	5,695
Net Cash Flows from Financing Activities	<u>978,886</u>
Cash Flows from Capital and Related Financing Activities	
Payment of debt	(19,694)
Payment of interest	(12,733)
Purchase of capital assets	(43,699)
Payments to fiscal intermediaries	(14,931)
Net Cash Flows from Capital and Related Financing Activities	<u>(91,057)</u>
Cash Flows from Investing Activities	
Interest and dividends	12,065
Purchase of investments	(62,905)
Net Cash Flows from Investing Activities	<u>(50,840)</u>
Net Change in Cash	(28,303)
Cash and Cash Equivalents, January 1	390,777
Cash and Cash Equivalents, December 31	<u>\$362,474</u>
Total operating expenses	
Reconciliation of Operating Loss to Net Cash Flow from Operating Activities	
Operating Loss	(\$1,099,074)
Add depreciation expense	93,129
(Increase) Decrease in current assets	
Accounts receivable, net	(58,126)
Other receivables, net	230,556
Prepaid expenses	7,426
Inventories	(15,062)
(Increase) Decrease in current liabilities	
Accounts payable	63,008
Deferred revenue	(126,845)
Accrued expenses	39,696
Net cash flow from operating activities	<u><u>(\$865,292)</u></u>

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

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

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF ACTIVITIES

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

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

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

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

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

During the year ended December 31, 2005, the **District's** operations were funded by a Community Health Service Rural Health Initiative (RHI) grant awarded under Section 330 of the Public Health Services Act, as amended. Various restrictions are placed on expenditures of these funds. Reconciliations of used and unused funds are prepared at the end of the program year and the propriety of such funds determined by the Department of Health and Human Services.

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

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

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

Financial Reporting Entity

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

- > *Statement No. 34 - Basic Financials Statements-and Management's Discussion and Analysis-for State and Local Governments*

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

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Significantly, the District's statement of net assets includes both noncurrent assets and noncurrent liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

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

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

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

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

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

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

Basic Financial Statements

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

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

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

Income Taxes

The **District's** income is exempt from taxation.

Uncollectible Accounts

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

Inventory

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

Property, Plant, and Equipment

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

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

Expenses from additions, major renewals and betterments are capitalized and expenses for maintenance and repairs are charges 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 the disposal. Gains or losses resulting from property disposal are credited or charged to current operations.

NOTE 2: CASH AND CASH EQUIVALENTS/INVESTMENTS

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

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

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

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

	Enterprise Fund	Agency Fund
Cash and cash equivalents	\$427,343	\$1,239,323
Investments	319,041	\$0
	<u>\$746,384</u>	<u>\$1,239,323</u>

All deposits held at financial institutions and insured by the FDIC and secured by the pledge of securities owned by the fiscal agent bank on December 31, 2005, as follows:

Total deposits	\$746,384	
Total FDIC insurance	\$216,317	
Total uncollateralized	<u>\$530,067</u>	(Category I)
(Collateralized securities held by the pledging financial institution or agent but not in the name of Catahoula Parish Hospital Service District #2)	<u>\$653,153</u>	(Category III)

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

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

NOTE 3 OTHER RECEIVABLES

A summary of the proprietary fund other receivables at December 31, 2005 is presented below:

Property tax receivable	\$3,294
Interest receivable	2,577
Third party reimbursement-Net	49,749
Totals	<u>\$55,620</u>

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

NOTE 4 PROPRIETARY FUND PROPERTY, PLANT AND EQUIPMENT

A summary of the enterprise fund property, plant and equipment and accumulated depreciation at December 31, 2005 is provided:

Property, Plant and Equipment

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Land	\$31,077			\$31,077
Building	1,273,336			1,273,336
Building improvements	16,582			16,582
Furniture and equipment	359,296	17,909		377,205
Medical equipment	527,520	7,338		534,858
Vehicles	60,979	18,452		79,431
Totals	<u>\$2,268,790</u>	<u>\$43,699</u>	<u>\$0</u>	<u>\$2,312,489</u>

Accumulated Depreciation

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Building	\$297,920	\$33,324		\$331,244
Building improvements	12,763	1,081		13,844
Furniture and equipment	301,409	18,336		319,745
Medical equipment	321,152	34,661		355,813
Vehicles	48,045	4,126		52,171
Totals	<u>\$981,289</u>	<u>\$91,529</u>	<u>\$0</u>	<u>\$1,072,817</u>

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

NOTE 5: PROPRIETARY FUND ACCRUED EXPENSES

Accrued expenses of the enterprise fund at December 31, 2005 is comprised of salaries payable and related payroll expenses.

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

NOTE 6: COMPENSATED ABSENCES

The District's employees earn annual leave at a rate of one (1) day per month for three (3) years of service, and one and one-half day after three (3) years of service, and two (2) days per month after fifteen (15) years of employment. Annual leave can accrue up to 30 days. Accrued leave reflected in the financial statements is accumulated unused vacation as of December 31, 2005.

NOTE 7: BOARD OF COMMISSIONERS

Each of the commissioners served the District without compensation.

NOTE 8: CONTINGENCIES

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

The principal contingencies are described below:

Grant Awards - The ability of the District's continued operations is contingent upon continued funding from Public Health Service. A \$1,479,308 grant award has been approved for 2006.

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

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

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

NOTE 9: MEDICAID/MEDICARE THIRD PARTY REIMBURSEMENTS

At December 31, 2005, amounts due to and from fiscal intermediaries are subject to audit and adjustment by the fiscal intermediaries. These amounts have been reflected in the financial statements as assets and liabilities. An allowance for disputed costs has been estimated at 50% and reflected in these financial statements. Allowable costs are disputed upon audit by fiscal intermediaries.

NOTE 10: EMPLOYEES RETIREMENT

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

The deferred compensation is not available to participants until termination, retirement, or death. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, property or rights are the property of the District subject only to the claim of general creditors. Participants rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant. All funds paid into the plan are managed by the third party administrator selected by the District. At December 31, 2005, investments were recorded in an agency fund at the fair market value of \$1,239,323.00

NOTE 11: REVENUE BONDS

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

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

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

<u>Balance</u> <u>December 31, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2005</u>
\$1,079,900	\$209,679	\$50,256	\$1,239,323

CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
Notes-Continued

NOTE 13 BONDED DEBT

The **District** bonds outstanding at December 31, 2005, in the amount of \$252,852 are revenue bonds. All principal and interest requirements are funded by revenue generated by the **District**. At December 31, 2005, the **District** has accumulated \$69,957 in the debt service fund for future debt requirements. The bonds are due as follows:

<u>Year Ending December 31.</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2006	20,580	11,378	31,958
2007	21,506	10,452	31,958
2008	22,474	9,484	31,958
2009	21,506	10,452	31,958
2010	24,542	7,416	31,958
2011-2015	142,243	17,566	159,809
Total	<u>\$252,851</u>	<u>\$66,748</u>	<u>\$319,599</u>

NOTE 14 NEW EXPANSION

The **District** received funding from the Department of Health, Education and Welfare for a new satellite clinic located in Ferriday, Louisiana. During the year 2005, the U.S. Department of Health and Human Services initiated a plan to help communities create or expand access to comprehensive primary health care services. The District received an initial award of \$ 666,667 to expand services in Concordia Parish. Full target funding was awarded in February, 2006.

MEMBER
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DAUZAT, BEALL & DEBEVEC, CPAs

A PROFESSIONAL CORPORATION

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

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

We have audited the financial statements of the business-type activities of the Catahoula Parish Hospital Service District No. 2 as of and for the year needed December 31, 2005, which comprise the District's basic financial statements and have issued our report thereon dated June 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Catahoula Parish Hospital Service District No. 2 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

A handwritten signature in cursive script, appearing to read "Dautat Beall & Debevec".

Dautat, Beall, & Debevec, APC
June 23, 2006



DAUZAT, BEALL & DEBEVEC, CPAs

A PROFESSIONAL CORPORATION

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

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

Compliance

We have audited the compliance of the Catahoula Parish Hospital Service District No. 2 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The Catahoula Parish Hospital Service District No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Catahoula Parish Hospital Service District No. 2's management. Our responsibility is to express an opinion on the Catahoula Parish Hospital Service District No. 2's compliance based on our audit.

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

In our opinion, the Catahoula Parish Hospital Service District No. 2 complied, in all material respects,

with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Dautat, Beall, & Debevec, APC

June 23, 2006

**CATAHOULA PARISH HOSPITAL SERVICE DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005**

Section I - Summary of Auditor's Reports

Financial Statements

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

Federal Awards

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

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

MANAGEMENT'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

Finding 04-01

La. State Law Compliance

Summary : During the year ended December 31, 2004, the District experienced a computer failure prior to closing and making adjusting entries to the books. The recovery of files required outside computer technical assistance which caused the completion of the audit to be filed late with the Louisiana Legislative Auditor as required by State law.

Status: Resolved

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program Amount Received</u>	<u>Program Expenditures</u>
U.S. Department of Health and Human Services, Public Health Service				
<i>Direct Program:</i>				
Community Health Center Rural Health Initiative Grant	93.224	N/A	\$967,458	\$967,458
Total U.S. Department of Health and Human Services			<u>\$967,458</u>	<u>\$967,458</u>