

REEVES MEMORIAL MEDICAL CENTER**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT****FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009**

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 **JUN 13 2012**

Reeves Memorial Medical Center
 Financial Statements
 and
 Independent Auditors' Report
 Years Ended December 31, 2011, 2010, and 2009

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**Ward 3, 4 and 10 Hospital Service District
of the Parish of Union, State of Louisiana
Management's Discussion and Analysis**

This section of the Hospital Service District's (the "District") annual financial report presents background information and management's analysis of the District's financial performance during the fiscal year that ended on December 31, 2011. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The District's total assets increased by \$716,579 due to an increase in cash received from grants for meeting meaningful use standards and to provide care for indigent/low income patients. In FY 2010 total assets had decreased by \$541,951 due to large write offs of prior year accounts receivable balances. The FY 2009 increase of \$470,056 was due mainly to the purchase of a computer system to facilitate the use of electronic medical records. Grant money of \$826,000 was received in 2009 by the District for this purchase. Total assets increased by \$193,580 or 5% in 2008.
- The \$1,486,566 increase in operating income was due to receipt of grant money for meeting meaningful use standards and to use in providing healthcare to indigent and/or low income patients. A decrease in operating revenues of \$369,033 occurred in 2010. This decrease is mainly attributable to a decrease in net patient service revenue of \$409,681. Also grant revenue for capital assets or projects are now required to be presented below the non operating revenue on the Statement of Revenues, Expenses, and Changes in Net Assets. This change in presentation affected prior years 2009, 2008, and 2007 by revising the amount of operating revenues for each year. A loss of \$109,278 in FY 2009 was preceded by an increase of \$564,440 in fiscal year 2008. Charges for services were increased by 20% in 2008 which explains part of the overall increase in net operating revenues. Operating expenses increased in 2011 by \$384,955 mainly because of increases in salaries compared to a decrease of \$153,381 or 3% in FY 2010 and increases of approximately \$409,120 or 7% in 2009. In fiscal year 2011 there was an operating income increase of \$1,101,611 created primarily from the grant income received. The District had losses from operations of approximately \$658,557 and \$442,905, in fiscal years 2010 and 2009, respectively. There was a gain from operations of \$75,493 in fiscal year 2008.
- The District received revenues for Uncompensated Cost Reimbursement in the amount of \$300,016, \$404,924, \$352,785, and \$563,112, for fiscal years 2011, 2010, 2009, and 2008, respectively. Additional monies were paid as grant income to be used for providing healthcare to indigent and/or low income patients.
- The District received property tax revenues of approximately \$259,509, \$269,627, \$259,511, and \$272,785 for fiscal years 2011, 2010, 2009, and 2008, respectively. The 5.34 mills ad valorem tax expired in fiscal year 2011 and was renewed for 2012 through 2021.
- Purchases of capital assets in fiscal year 2011 were approximately \$239,231 compared to purchases in 2010 which totaled \$234,957. Diagnostic equipment and renovations to the rural health clinic were the majority of the 2011 additions. In 2009 purchases of \$1,332,551 were made for computer equipment. The majority of 2010 purchases were related to software and/or equipment for the new computer system, vehicles, and the house on Cherry Street.

Required Financial Statements

The Financial Statements of the District report information about the District 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 District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. This statement measures improvements in the District's operations over the past three years and can

Ward 3, 4 and 10 Hospital Service District
of the Parish of Union, State of Louisiana
Management's Discussion and Analysis (Continued)

Required Financial Statements (Continued)

be used to determine whether the District 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 District's cash from operations, investing and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Hospital Service District

The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Hospital Service District's activities. These two statements report the net assets of the District and changes in them. Increases or decreases in the District'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 District's Balance Sheets are presented in Table 1 below:

TABLE 1
Condensed Balance Sheets

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total current assets	\$ 2,809,791	\$ 1,999,866	\$ 2,408,217	\$ 2,112,273
Capital assets - net	1,227,548	1,347,906	1,483,767	993,105
Other assets	<u>395,010</u>	<u>367,998</u>	<u>365,737</u>	<u>682,287</u>
Total assets	\$ <u>4,432,349</u>	\$ <u>3,715,770</u>	\$ <u>4,257,721</u>	\$ <u>3,787,665</u>
Current liabilities	\$ 755,989	\$ 539,434	\$ 470,221	\$ 387,612
Long-term liabilities	468,946	490,733	513,693	534,462
Invested in capital assets, net of related debt	735,881	834,515	949,305	438,786
Temporarily restricted net assets	39,622	40,604	39,622	22,832
Unrestricted net assets	<u>2,431,911</u>	<u>1,810,484</u>	<u>2,284,880</u>	<u>2,403,973</u>
Total liabilities and net assets	\$ <u>4,432,349</u>	\$ <u>3,715,770</u>	\$ <u>4,257,721</u>	\$ <u>3,787,665</u>

As can be seen in Table 1, total assets increased by \$716,579 compared to a decrease in 2010 by \$541,951, and increases in 2009 and 2008 of \$470,056, and \$193,580, respectively. The receipt of grants in 2011 was the primary reason for the increase in total assets. The large write off of prior years' accounts receivable balances is the main reason total assets decreased in fiscal year 2010.

Ward 3, 4 and 10 Hospital Service District
of the Parish of Union, State of Louisiana
Management's Discussion and Analysis (Continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the District's historical revenues and expenses for each of the fiscal years ended December 31, 2011, 2010, 2009, and 2008.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:				
Net patient service revenue	\$ 5,380,212	\$ 4,825,068	\$ 5,234,749	\$ 5,330,415
Property tax revenue	259,509	269,627	259,511	272,785
Other revenue	<u>1,057,754</u>	<u>116,214</u>	<u>85,682</u>	<u>86,020</u>
Total revenues	<u>6,697,475</u>	<u>5,210,909</u>	<u>5,579,942</u>	<u>5,689,220</u>
Expenses:				
Salaries and benefits	3,010,744	2,679,259	2,835,060	2,690,726
Medical supplies and drugs	331,326	353,979	428,428	460,220
Professional fees	1,162,079	1,288,387	1,560,716	1,528,079
Other expenses	1,281,577	1,106,707	805,042	704,620
Insurance and Depreciation	<u>468,695</u>	<u>441,134</u>	<u>393,601</u>	<u>230,082</u>
Total expenses	<u>6,254,421</u>	<u>5,869,466</u>	<u>6,022,847</u>	<u>5,613,727</u>
Operating income (loss)	443,054	(658,557)	(442,905)	75,493
Nonoperating revenues (expenses)				
Interest income	19,741	10,338	18,160	48,748
Interest expense	(22,658)	(23,200)	(24,525)	(25,948)
Gain (loss) on disposal of asset	<u>(240)</u>	<u>2,500</u>	<u>(1,879)</u>	<u>-0-</u>
Nonoperating income (loss), net	(3,157)	(10,362)	(8,244)	22,800
Excess of revenues over expenses				
before capital grants	439,897	(668,919)	(451,149)	98,293
Capital grants	<u>58,973</u>	<u>79,015</u>	<u>867,093</u>	<u>45,093</u>
Excess of revenues over expenses	498,870	(589,904)	415,944	143,386
Other comprehensive income				
Change in unrealized gain (loss) on securities	<u>22,941</u>	<u>1,700</u>	<u>(7,728)</u>	<u>(27,654)</u>
Increase (decrease) in unrestricted fund balance	\$ <u>521,811</u>	\$ <u>(588,204)</u>	\$ <u>408,216</u>	\$ <u>115,732</u>

Ward 3, 4 and 10 Hospital Service District
of the Parish of Union, State of Louisiana
Management's Discussion and Analysis (Continued)

Sources of Revenue

Operating Revenue

During fiscal year 2011, the District 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 District's facilities. On December 30, 2005, the District changed its status for Medicare reimbursement purposes from a prospectively paid (PPS) hospital to a cost based reimbursement or critical access hospital. This change resulted in more reimbursement from Medicare. 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 revenue received for meeting meaningful use standards and to provide healthcare to indigent and/or low income patients. If the District continues to meet the criteria, grant money may be available for a short period of time. Other revenue also contains cafeteria sales, HPSA incentive income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payer for the fiscal years:

**TABLE 3
Payer Mix by Percentage**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	52%	50%	37%	50%
Medicaid	21%	20%	13%	20%
Commercial and other third-party payers	17%	17%	40%	22%
Other	<u>10%</u>	<u>13%</u>	<u>10%</u>	<u>8%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Non-operating Income

The District holds investments in its Balance Sheets that are invested primarily in Certificates of Deposit. Total investments were \$342,027, \$319,086, and \$317,422 for 2011, 2010, and 2009, respectively. Earned interest on investments was \$3,410, \$5,477, and \$12,181, for fiscal years 2011, 2010, and 2009, respectively. Capital grant income for fiscal years 2011, 2010, and 2009 was \$58,973, \$79,015, and \$867,093, respectively.

Operating and Financial Performance

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Assets between 2011, 2010, and 2009:

Acute and swing patient admissions decreased by 80, 146, and 193, in fiscal years 2011, 2010, and 2009, respectively. Acute and swing patient days decreased by 266, 728, and 884 in 2011, 2010, and 2009, respectively, compared to an increase of 435 in fiscal year 2008. This downward trend is responsible for the decreases in operating income that can be seen if the operating grant and tax receipts are removed from operating income. Decreases in volume led to decreases in patient revenue. The District increased patient charges by department in 2009, 2008, and 2007. This action aided in offsetting the decreases in census days.

Ward 3, 4 and 10 Hospital Service District
of the Parish of Union, State of Louisiana
Management's Discussion and Analysis (Continued)

Operating and Financial Performance (Continued)

As a critical access hospital the average length of stay is required to be 3.96 days or less. The District is continuing a downward trend in average length of stay for acute days in 2011 at 3.45 compared to 3.48, 3.71, and 3.79 in 2010, 2009, and 2008.

Total net patient service revenue increased in 2011 by \$555,144 after two years of decreases in 2010 and 2009 of \$409,681 and \$95,666, respectively, which reflected the drop in inpatient volume. The gross patient service revenue is down, but so are the Medicare and Medicaid allowances. Change in rates has contributed to the decrease in allowances and better collection procedures in place in 2011 aided in lowering the allowances.

The District's gross accounts receivable increased by \$14,167 in 2011 compare to decreases in 2010 and 2009, respectively of \$893,387 and \$432,267. Gross accounts receivable increased \$417,740 in 2008. The poor economic climate has contributed to difficulty in collecting monies owed to the District. The District is utilizing a collection agency to increase the collection percentage. Large write offs of prior year balances coupled with the drop in patient service revenue contributed to the large decrease in accounts receivable and the decrease in average days in net accounts receivable to 36 and 33 days in 2011 and 2010 compared to 84 days in fiscal year 2009. The District continues to exert every effort to assist patients in finding funding sources for health care.

Salaries and benefits increased by \$331,485 due to efforts by the District to have personnel in place to take advantage of electronic health record/meaningful use standards in addition to 3% merit raises given to staff. They had decreased by \$155,801 in fiscal year 2010 due to cut backs in staffing levels. In fiscal year 2009 the District made an extensive effort to keep salaries and benefits at prior year levels. They did increase by \$144,334, which is a smaller increase than in prior years. Reasons for the salary and benefit increases in prior years included a 403(b) plan, the addition of the central supply department, and additional registered nurses in emergency department to comply with regulations, and across the board pay increases of approximately 3% for part of 2009.

The cost of medical supplies continued a downward trend with decreases of \$22,653, \$74,449 and \$31,792 in 2011, 2010, and 2009, respectively, reflecting lower volume.

Medical professional fees also trended lower with decreases of \$126,308 and \$272,329 in 2011 and 2010, respectively, compared to the small increase in 2009 of \$32,637. The decrease is partially due to new contracts with various physicians for ER coverage and a change in the way rural health clinic visits are paid. Rural health clinic visits decreased in 2011 by 2,622 to 8,400 following a decrease of 996 to 11,022 in 2010, continuing a downward trend from 2009.

Provision for bad debts decreased in 2011 by \$224,537 to \$663,720. Increased collection efforts, use of a collection agency, and write offs of older accounts account for this decrease. This provision had increased in 2010, 2009, and 2008 by \$43,383, \$197,266, and \$18,973, respectively to \$888,257, \$844,874, and \$647,608.

Other expenses, including insurance and depreciation, increased by 13%, compared to increases of 29% and 28% in 2010 and 2009, respectively. Purchased services (support for new computer system) and rentals are the main increases in other expenses.

Ward 3, 4 and 10 Hospital Service District
of the Parish of Union, State of Louisiana
Management's Discussion and Analysis (Continued)

Capital Assets

During fiscal year 2011, investment in capital assets equaled \$239,231 consisting of equipment and renovations to the rural health clinic. All are included in Table 4 below.

**TABLE 4
Capital Assets**

	December 31, <u>2011</u>	December 31, <u>2010</u>	December 31, <u>2009</u>	December 31, <u>2008</u>
Land	\$ 30,614	\$ 30,614	\$ 23,454	\$ 23,454
Land improvements	32,060	32,060	18,224	18,224
Leasehold improvements	8,060	8,060	-0-	-0-
Buildings	1,321,290	1,233,166	1,204,876	1,174,453
Fixed equipment	271,289	295,026	295,026	308,220
Major moveable equipment	2,203,104	2,147,677	2,015,271	1,239,269
Transportation equipment	45,205	45,205	21,874	21,874
Minor equipment	1,477	1,477	1,477	15,727
Construction in progress	<u>26,933</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	3,940,032	3,793,285	3,580,202	2,801,221
Accumulated depreciation	<u>2,712,484</u>	<u>2,445,379</u>	<u>2,096,435</u>	<u>1,808,116</u>
Net capital assets	\$ <u>1,227,548</u>	\$ <u>1,347,906</u>	\$ <u>1,483,767</u>	\$ <u>993,105</u>

Contacting the Hospital Service District's Financial Manager

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



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Bernice, Louisiana

We have audited the accompanying financial statements of Ward 3, 4 and 10 Hospital Service District of the Parish of Union, State of Louisiana d/b/a Reeves Memorial Medical Center (the "District"), a component unit of the Union Parish Police Jury, Bernice, Louisiana, as of and for the years ended December 31, 2011, 2010, and 2009, as listed in the foregoing table of contents. These financial statements are the responsibility of the District'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reeves Memorial Medical Center as of December 31, 2011, 2010, and 2009, and the respective changes in financial position and cash flows, thereof 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 our report dated May 21, 2012, on our consideration of the District'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 audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages "i" through "vi" be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic

Board of Commissioners
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Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
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financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. 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. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Justin Miller & Will

Certified Public Accountants
Alexandria, Louisiana

May 21, 2012



Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Balance Sheets
December 31,

ASSETS	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets:			
Cash and cash equivalents (Notes 2 & 3)	\$ 1,275,469	\$ 756,452	\$ 353,371
Accounts receivable, net (Note 4)	524,073	437,304	1,197,691
Estimated third-party payor settlements	241,737	303,004	215,313
Other receivables	485,552	173,507	367,806
Inventory	199,589	234,949	230,474
Prepaid expenses	<u>83,371</u>	<u>94,650</u>	<u>43,562</u>
Total current assets	<u>2,809,791</u>	<u>1,999,866</u>	<u>2,408,217</u>
Assets limited as to use (Note 6)	45,060	40,604	39,622
Capital assets (Note 5)	1,227,548	1,347,906	1,483,767
Investments (Note 3)	342,027	319,086	317,422
Other assets (Note 7)	<u>7,923</u>	<u>8,308</u>	<u>8,693</u>
Total assets	<u>\$ 4,432,349</u>	<u>\$ 3,715,770</u>	<u>\$ 4,257,721</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 183,714	\$ 319,712	\$ 291,812
Accrued expenses and withholdings payable (Note 9)	249,538	197,064	157,640
Deferred revenue	300,016	-0-	-0-
Current portion of long-term debt (Note 8)	<u>22,721</u>	<u>22,658</u>	<u>20,769</u>
Total current liabilities	<u>755,989</u>	<u>539,434</u>	<u>470,221</u>
Long-term debt (Note 8)	<u>468,946</u>	<u>490,733</u>	<u>513,693</u>
Total liabilities	<u>1,224,935</u>	<u>1,030,167</u>	<u>983,914</u>
Net assets:			
Invested in capital assets, net of related debt	735,881	834,515	949,305
Temporarily restricted net assets	39,622	40,604	39,622
Unrestricted net assets	<u>2,431,911</u>	<u>1,810,484</u>	<u>2,284,880</u>
Total net assets	<u>3,207,414</u>	<u>2,685,603</u>	<u>3,273,807</u>
Total liabilities and net assets	<u>\$ 4,432,349</u>	<u>\$ 3,715,770</u>	<u>\$ 4,257,721</u>

See accompanying notes to financial statements.

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Net patient service revenue (Note 12)	\$ 5,380,212	\$ 4,825,068	\$ 5,234,749
Property tax revenue (Note 14)	259,509	269,627	259,511
Grant income	983,339	14,825	8,512
Contributions	7	500	-0-
Other operating revenue	<u>74,408</u>	<u>100,889</u>	<u>77,170</u>
Total revenues	<u>6,697,475</u>	<u>5,210,909</u>	<u>5,579,942</u>
Expenses:			
Salaries and benefits	3,010,744	2,679,259	2,835,060
Medical supplies and drugs	331,326	353,979	428,428
Professional fees	1,162,079	1,288,387	1,560,716
Other expenses	1,281,577	1,106,707	805,042
Insurance	108,962	78,542	76,747
Depreciation and amortization	<u>359,733</u>	<u>362,592</u>	<u>316,854</u>
Total expenses	<u>6,254,421</u>	<u>5,869,466</u>	<u>6,022,847</u>
Operating income (loss)	443,054	(658,557)	(442,905)
Nonoperating revenues (expenses)			
Interest income	19,741	10,338	18,160
Interest expense	(22,658)	(23,200)	(24,525)
Gain (loss) on disposal of assets	<u>(240)</u>	<u>2,500</u>	<u>(1,879)</u>
Nonoperating income (loss), net	(3,157)	(10,362)	(8,244)
Excess of revenues (expenses) before capital grants	439,897	(668,919)	(451,149)
Capital grants (Note 17)	<u>58,973</u>	<u>79,015</u>	<u>867,093</u>
Excess of revenues (expenses)	498,870	(589,904)	415,944
Other comprehensive income			
Change in unrealized gain (loss) on securities	<u>22,941</u>	<u>1,700</u>	<u>(7,728)</u>
Comprehensive income (loss)	<u>521,811</u>	<u>(588,204)</u>	<u>408,216</u>
Beginning net assets	<u>2,685,603</u>	<u>3,273,807</u>	<u>2,865,591</u>
Ending net assets	\$ <u>3,207,414</u>	\$ <u>2,685,603</u>	\$ <u>3,273,807</u>

See accompanying notes to financial statements.

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Statements of Cash Flows
Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 5,293,443	\$ 5,585,455	\$ 4,853,889
Other receipts from operations	1,066,485	492,449	(80,125)
Cash payments to employees and for employee-related cost	(2,658,254)	(2,855,662)	(2,782,884)
Cash payments for other operating expenses	<u>(2,973,688)</u>	<u>(2,639,835)</u>	<u>(2,822,682)</u>
Net cash provided (used) by operating activities	<u>727,986</u>	<u>582,407</u>	<u>(831,802)</u>
Cash flows from investing activities:			
Investments	-0-	36	324,227
Interest income	<u>19,741</u>	<u>10,338</u>	<u>18,160</u>
Net cash provided (used) by investing activities	<u>19,741</u>	<u>10,374</u>	<u>342,387</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(238,990)	(226,347)	(807,131)
Gain (loss) on disposal of assets	(240)	2,500	(1,879)
Proceeds from capital grants	58,973	79,015	867,093
Bond issue costs and deposits	385	385	385
Cash invested in assets limited as to use	(4,456)	(982)	(15,790)
Payments on long-term debt	(21,724)	(21,071)	(19,857)
Interest expense on long-term debt	<u>(22,658)</u>	<u>(23,200)</u>	<u>(24,525)</u>
Net cash provided (used) by capital and related financing activities	<u>(228,710)</u>	<u>(189,700)</u>	<u>(1,704)</u>
Net increase (decrease) in cash and cash equivalents	519,017	403,081	(491,119)
Beginning cash and cash equivalents	<u>756,452</u>	<u>353,371</u>	<u>844,490</u>
Ending cash and cash equivalents	\$ <u>1,275,469</u>	\$ <u>756,452</u>	\$ <u>353,371</u>

See accompanying notes to financial statements.

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 443,054	\$ (658,557)	\$ (442,905)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	359,348	362,207	316,469
Changes in:			
Accounts receivable, net	(86,769)	760,387	(380,860)
Estimated third-party payor settlements	61,267	(87,691)	(275,224)
Other receivable	(312,045)	194,299	(150,094)
Inventory	35,360	(4,475)	(21,919)
Prepaid expenses	11,278	(51,087)	(18,877)
Accounts payable	(135,997)	27,900	129,231
Accrued expenses and withholdings payable	52,474	39,424	12,377
Deferred revenue	<u>300,016</u>	<u>-0-</u>	<u>-0-</u>
Net cash provided (used) by operating activities	\$ <u>727,986</u>	\$ <u>582,407</u>	\$ <u>(831,802)</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ <u>22,658</u>	\$ <u>23,200</u>	\$ <u>24,525</u>
Unrealized gain (loss) recorded to investments and net assets	\$ <u>22,941</u>	\$ <u>1,700</u>	\$ <u>(7,728)</u>

See accompanying notes to financial statements.

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Ward 3, 4 and 10 Hospital Service District of the Parish of Union, State of Louisiana (referred to as the "District") was created by an ordinance of the Union Parish Police Jury on July 11, 1967, and beginning September 2010 is referred to as Reeves Memorial Medical Center.

The District is a political subdivision of the Union Parish Police Jury whose jurors are elected officials. Its commissioners are appointed by the Union Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Union Parish Police Jury is the financial reporting entity for the District. Accordingly, the District was determined to be a component unit of the Union 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 District and do not present information on the police jury, the general governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides outpatient, emergency, rural health clinic, acute inpatient, and skilled nursing (through "swing beds") services. The District converted to a Medicare critical care hospital (CAH) on December 30, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

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.

Basis of Accounting

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

forth in 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 deposits 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 Union Parish residents and grants credit to patients, substantially all of whom are local residents.

The District'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. One physician admits over 90% of the Hospital's patients. The District also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 12. Accordingly, changes in federal or state legislation or interpretations of rules have a significant impact on the District.

Net Patient Service Revenues

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

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

Inventory

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

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The entity is a political subdivision and exempt from taxation.

Capital Assets

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

Buildings	15 to 40 years
Machinery and Equipment	5 to 20 years
Furniture and Fixtures	5 to 15 years

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

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

Net Assets

Net assets of the District are classified in four components. Net assets invested in capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. Restricted non expendable net assets equal the principal portion of permanent endowments. The District has no restricted expendable or non expendable net assets at this time. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted. It is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenues and Expenses

The District'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 District's principal activity. Operating revenue also includes property taxes passed to provide the District with revenue to operate and maintain the District. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions

From time to time, the District receives grants and contributions from the State of Louisiana, individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose(s) are reported as operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Use of Estimates

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

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

Risk Management

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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. Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose "cash in banks" is comprised of the account balances according to the bank's records.

Ward 3, 4 and 10 Hospital Service District
 Of the Parish of Union, State of Louisiana
 Reeves Memorial Medical Center
 Notes to Financial Statements
 Years Ended December 31, 2011, 2010, and 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Account balances according to bank's records at December 31, 2011, for the District are as follows:

	Community Trust Bank Cash	Community Trust Bank <u>Certificates of Deposits</u>
Cash in banks	\$ <u>1,327,705</u>	\$ <u>174,984</u>
Insured by FDIC	\$ <u>250,000</u>	\$ <u>174,984</u>
Collateralization at fair market value	\$ <u>1,077,705</u>	\$ <u>-0-</u>
Uncollateralized	\$ <u>-0-</u>	\$ <u>-0-</u>

Custodial Credit Risks – Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the District be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The District's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the District's name at December 31, 2011, 2010, and 2009.

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Ward 3, 4 and 10 Hospital Service District
 Of the Parish of Union, State of Louisiana
 Reeves Memorial Medical Center
 Notes to Financial Statements
 Years Ended December 31, 2011, 2010, and 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The carrying amount of deposits and investments are included in the District's balance sheets as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Carrying amount			
Deposits	\$ 1,275,469	\$ 756,452	\$ 353,371
Investments	202,807	202,807	202,843
Donated stocks	<u>139,220</u>	<u>116,279</u>	<u>114,579</u>
	<u>\$ 1,617,496</u>	<u>\$ 1,075,538</u>	<u>\$ 670,793</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 1,275,469	\$ 756,452	\$ 353,371
Investments	<u>342,027</u>	<u>319,086</u>	<u>317,422</u>
	<u>\$ 1,617,496</u>	<u>\$ 1,075,538</u>	<u>\$ 670,793</u>

Investment in LHA Trust consists of allocations of equity from the Louisiana Hospital Association Malpractice and Worker's Compensation Trust Funds. Allocations consist of Capital Reserve funds set aside for the District.

Investments in marketable equity securities consist of stocks donated to the District in 1988. An analysis at December 31 is as follows:

		----- Fair Value -----		
	<u>Shares</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Exxon Corporation	800	\$ 67,808	\$ 58,496	\$ 54,552
Pfizer	3300	<u>71,412</u>	<u>57,783</u>	<u>60,027</u>
Total market value		139,220	116,279	114,579
Less cost basis		<u>(14,456)</u>	<u>(14,456)</u>	<u>(14,456)</u>
Unrealized gain (loss)		<u>\$ 124,764</u>	<u>\$ 101,823</u>	<u>\$ 100,123</u>

The District records these registered securities under the provision of the FASB Statement No. 115. These securities are classified as available for sale and are therefore recorded at fair value and unrealized gains are recognized as a component of fund equity. Fair values are based upon quoted market prices as of the fiscal year end.

Ward 3, 4 and 10 Hospital Service District
 Of the Parish of Union, State of Louisiana
 Reeves Memorial Medical Center
 Notes to Financial Statements
 Years Ended December 31, 2011, 2010, and 2009

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Patient accounts receivable	\$ 1,255,432	\$ 1,241,413	\$ 2,134,564
Other accounts receivable	<u>571</u>	<u>423</u>	<u>659</u>
	1,256,003	1,241,836	2,135,223
Estimated uncollectibles	<u>(731,930)</u>	<u>(804,532)</u>	<u>(937,532)</u>
 Net patient accounts receivable	 \$ <u>524,073</u>	 \$ <u>437,304</u>	 \$ <u>1,197,691</u>

The following is a summary of the mix of gross receivables from patients and third-party payors at December 31:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	27%	23%	39%
Medicaid	9%	13%	19%
Commercial and other third-party payers	12%	14%	10%
Patients	<u>52%</u>	<u>50%</u>	<u>32%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 5 - CAPITAL ASSETS

The following is a summary of capital assets and related accumulated depreciation:

	December 31, <u>2010</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2011</u>
Land	\$ 30,614	\$ -0-	\$ -0-	\$ 30,614
Land improvements	32,060	-0-	-0-	32,060
Leasehold improvements	8,060	-0-	-0-	8,060
Buildings	1,233,166	94,597	6,473	1,321,290
Fixed equipment	295,026	-0-	23,737	271,289
Major moveable equipment	2,147,677	117,701	62,274	2,203,104
Transportation equipment	45,205	-0-	-0-	45,205
Minor equipment	1,477	-0-	-0-	1,477
Construction in progress	<u>-0-</u>	<u>26,933</u>	<u>-0-</u>	<u>26,933</u>
Total	3,793,285	239,231	92,484	3,940,032
Accumulated depreciation	<u>2,445,379</u>	<u>359,348</u>	<u>92,243</u>	<u>2,712,484</u>
Net capital assets	\$ <u>1,347,906</u>	\$ <u>(120,117)</u>	\$ <u>241</u>	\$ <u>1,227,548</u>

The following is a summary of capital assets and related accumulated depreciation:

	December 31, <u>2009</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2010</u>
Land	\$ 23,454	\$ 7,160	\$ -0-	\$ 30,614
Land improvements	18,224	13,836	-0-	32,060
Leasehold improvements	-0-	8,060	-0-	8,060
Buildings	1,204,876	28,290	-0-	1,233,166
Fixed equipment	295,026	-0-	-0-	295,026
Major moveable equipment	2,015,271	132,406	-0-	2,147,677
Transportation equipment	21,874	45,205	21,874	45,205
Minor equipment	<u>1,477</u>	<u>-0-</u>	<u>-0-</u>	<u>1,477</u>
Total	3,580,202	234,957	21,874	3,793,285
Accumulated depreciation	<u>2,096,435</u>	<u>370,818</u>	<u>21,874</u>	<u>2,445,379</u>
Net capital assets	\$ <u>1,483,767</u>	\$ <u>(135,861)</u>	\$ <u>-0-</u>	\$ <u>1,347,906</u>

Ward 3, 4 and 10 Hospital Service District
 Of the Parish of Union, State of Louisiana
 Reeves Memorial Medical Center
 Notes to Financial Statements
 Years Ended December 31, 2011, 2010, and 2009

NOTE 5 - CAPITAL ASSETS (Continued)

The following is a summary of capital assets and related accumulated depreciation:

	December 31, <u>2008</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2009</u>
Land	\$ 23,454	\$ -0-	\$ -0-	\$ 23,454
Land improvements	18,224	-0-	-0-	18,224
Buildings	1,174,453	30,423	-0-	1,204,876
Fixed equipment	308,220	-0-	13,194	295,026
Major moveable equipment	1,239,269	792,365	16,363	2,015,271
Transportation equipment	21,874	-0-	-0-	21,874
Minor equipment	15,727	-0-	14,250	1,477
Construction in progress	<u>-0-</u>	<u>509,763</u>	<u>509,763</u>	<u>-0-</u>
Total	2,801,221	1,332,551	553,570	3,580,202
Accumulated depreciation	<u>1,808,116</u>	<u>316,469</u>	<u>28,150</u>	<u>2,096,435</u>
Net capital assets	\$ <u>993,105</u>	\$ <u>1,016,082</u>	\$ <u>525,420</u>	\$ <u>1,483,767</u>

NOTE 6 - ASSETS WHOSE USE IS LIMITED

The following assets are restricted as to use as designated below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Restricted by third-parties</u>			
Bond reserve fund	\$ 22,530	\$ 20,302	\$ 19,811
Bond contingency fund	<u>22,530</u>	<u>20,302</u>	<u>19,811</u>
Total assets limited as to use	\$ <u>45,060</u>	\$ <u>40,604</u>	\$ <u>39,622</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 7 - OTHER ASSETS

Other assets consist of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Meter deposits	\$ 1,220	\$ 1,220	\$ 1,220
Unamortized bond issue costs	<u>6,703</u>	<u>7,088</u>	<u>7,473</u>
Total	\$ <u>7,923</u>	\$ <u>8,308</u>	\$ <u>8,693</u>

NOTE 8 - LONG-TERM DEBT

The following is a summary of the changes in long-term debt at December 31, 2011, 2010, and 2009:

	<u>December 31, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2011</u>	<u>Due Within One Year</u>
Series 2002 Hospital Revenue Bonds	\$ <u>513,391</u>	\$ <u>-0-</u>	\$ <u>21,724</u>	\$ <u>491,667</u>	\$ <u>22,721</u>
Total	\$ <u>513,391</u>	\$ <u>-0-</u>	\$ <u>21,724</u>	\$ <u>491,667</u>	\$ <u>22,721</u>
	<u>December 31, 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2010</u>	<u>Due Within One Year</u>
Series 2002 Hospital Revenue Bonds	\$ <u>534,462</u>	\$ <u>-0-</u>	\$ <u>21,071</u>	\$ <u>513,391</u>	\$ <u>22,658</u>
Total	\$ <u>534,462</u>	\$ <u>-0-</u>	\$ <u>21,071</u>	\$ <u>513,391</u>	\$ <u>22,658</u>
	<u>December 31, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2009</u>	<u>Due Within One Year</u>
Series 2002 Hospital Revenue Bonds	\$ <u>554,319</u>	\$ <u>-0-</u>	\$ <u>19,857</u>	\$ <u>534,462</u>	\$ <u>20,769</u>
Total	\$ <u>554,319</u>	\$ <u>-0-</u>	\$ <u>19,857</u>	\$ <u>534,462</u>	\$ <u>20,769</u>

**Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009**

NOTE 8 - LONG-TERM DEBT (Continued)

The following is the term and due date of the Hospital's long-term debt at December 31:

- *Series 2002 Hospital Service Bonds at 4.5%, due in 2027, collateralized by a pledge and dedication of District revenue.*

On August 20, 2002, the Series 2002 Hospital Revenue Bonds were issued. The bonds are secured by a lien and privilege on the District's income and revenues.

The District has covenanted to set rates so that revenues are sufficient to pay all reasonable and necessary expenses of operating and maintaining the District.

Other requirements under the terms of indebtedness are as follows:

- *Sale or disposition of District capital assets is limited. Future debt agreements may not take priority over this series of debt.*
- *Create and maintain three funds:*
- *Sinking Fund: Make monthly deposits equal to pro rata portion of the next principal and/or interest payment.*
- *Reserve Fund: Make monthly deposits equal to 5% of the amount to be paid into the "Sinking Fund" until there has been accumulated a sum equal to the highest principal and interest falling due in any year on the bonds payable from the "Sinking Fund" as a Debt Service Reserve (the "Debt Service Requirement").*
- *Contingency Fund: Make monthly deposits equal to 5% of the amount paid into the "Sinking Fund". When a sum equal to the Debt Service Requirement has been accumulated in the "Reserve Fund" the monthly payments shall be increased to 10% of the amount being paid monthly into the "Sinking Fund".*
- *Maintain all assets in first class repair and working order.*
- *Carry full insurance coverage with a responsible licensed Louisiana company.*
- *Maintain complete and accurate records and have an annual audit.*
- *Protect tax exempt status and refrain from activities that would require payment of arbitrage to the IRS.*
- *Submit an audit report in accordance with OMB Circular A-133 within the earlier of 30 days after the borrower's receipt of the auditor's report or nine months after the end of the audit period.*

Ward 3, 4 and 10 Hospital Service District
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Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal and interest payments on long-term debt are as follows:

<u>Year ending December 31,</u>	<u>Long-term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2012	\$ 22,721	\$ 21,660	\$ 44,381
2013	23,765	20,617	44,382
2014	24,857	19,525	44,382
2015	25,999	18,383	44,382
2016	27,193	17,189	44,382
2017-2021	155,894	66,014	221,908
2022-2026	195,147	26,759	221,906
2027	<u>16,091</u>	<u>165</u>	<u>16,256</u>
Total	\$ <u>491,667</u>	\$ <u>190,312</u>	\$ <u>681,979</u>

NOTE 9 - ACCRUED EXPENSES AND WITHHOLDINGS PAYABLE

Accrued expenses and withholdings payable at December 31 consist of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Accrued interest	\$ 683	\$ 683	\$ 795
Accrued payroll taxes	12,998	4,795	5,767
State and federal income taxes payable	2,901	2,871	2,473
State unemployment tax payable	11,759	-0-	1,988
Accrued expenses	4,595	2,937	8,120
Accrued vacation	115,717	97,602	64,351
Accrued payroll	<u>100,885</u>	<u>88,176</u>	<u>74,146</u>
Total	\$ <u>249,538</u>	\$ <u>197,064</u>	\$ <u>157,640</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 10 - COMPENSATED ABSENCES

Employees of the District are entitled to paid time off and extended illness benefit days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of accrued compensation for future extended illness benefit days and, accordingly, no liability has been recorded in the accompanying financial statements. However, vested paid time off has been recorded as a liability in the accompanying financial statements at employee earning rates in effect at the balance sheet date.

NOTE 11 - RETIREMENT PLAN

On June 30, 2007, the District began the Reeves Memorial Medical Center 403(b) Plan, which is a tax sheltered annuity (TSA) plan for employees of certain tax-exempt organizations. The plan was established in accordance with Section 403(b) of the *Internal Revenue Code of 1986*, as amended. Security Benefits is the Plan's third party administrator. At December 31, 2011 there were 31 plan members. Employees are eligible to participate in the plan beginning on the date of hire, with a maximum contribution of up to 100% of compensation. The 2011 contribution limit for those under age 50 is \$16,500 and for those 50 or older the limit is \$22,000. The District has elected to match 100% of the first 2% of the participating employees' compensation deferred to the plan. The District may choose to make annual discretionary non-elective contributions based on the employees' compensation during the plan year. The District holds all rights to change and/or stop its contribution at any time. Employees are immediately vested in their contributions. The District has a five-year vesting schedule that applies to the employer matching and non-elective contributions. The District's contributions were \$27,970, \$21,777, and \$27,878 compared to employee contributions of \$66,253, \$58,777, and \$68,697 for the years ended December 31, 2011, 2010, and 2009.

NOTE 12 - NET PATIENT SERVICE REVENUE

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

Medicare - Prior to December 30, 2005, inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. Certain outpatient services related to Medicare beneficiaries were paid based on a set fee per diagnosis with a hold harmless provision for cost reimbursement. Swing Bed routine services were reimbursed based on a prospectively determined rate per patient day. Rural health clinic services continue to be reimbursed based on a cost based reimbursement methodology. Effective December 30, 2005, the District became a "Critical Access Hospital" (CAH). This designation enables the District to receive cost based reimbursement for most services provided to Medicare beneficiaries on or after this date.

The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The

Ward 3, 4 and 10 Hospital Service District
 Of the Parish of Union, State of Louisiana
 Reeves Memorial Medical Center
 Notes to Financial Statements
 Years Ended December 31, 2011, 2010, and 2009

NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District.

Medicaid - Medicaid inpatient services are reimbursed based on a prospectively determined per diem rate. Some Medicaid outpatient services are reimbursed under a cost reimbursement methodology, while others are paid on a prospectively determined fee schedule. Rural health clinic services were paid based on a prospectively determined rate per visit until June 30, 2008, when it changed to a cost reimbursement methodology. The District is reimbursed at a tentative rate for cost based services with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

Commercial - The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The following is a summary of the Hospital's net patient service revenues for the years ended December 31:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross patient service revenues	\$ 6,756,298	\$ 7,095,735	\$ 6,989,441
Medicare and Medicaid contractual adjustments	(497,348)	(1,253,876)	(711,313)
Provision for bad debt	(663,720)	(888,257)	(844,874)
Administrative and other adjustments	(515,034)	(533,458)	(551,290)
Uncompensated care reimbursement	<u>300,016</u>	<u>404,924</u>	<u>352,785</u>
Net patient service revenues	\$ <u>5,380,212</u>	\$ <u>4,825,068</u>	\$ <u>5,234,749</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

The District 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 charges for the years ended December 31:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare and Medicaid charges	\$ 4,199,918	\$ 4,211,872	\$ 3,840,501
Contractual adjustments	<u>(497,348)</u>	<u>(1,253,876)</u>	<u>(711,313)</u>
Program patient service revenue	\$ <u>3,702,570</u>	\$ <u>2,957,996</u>	\$ <u>3,129,188</u>
Percent of total gross patient charges	<u>62%</u>	<u>59%</u>	<u>55%</u>
Percent of total net patient revenues	<u>69%</u>	<u>61%</u>	<u>60%</u>

The District received interim amounts of \$300,016, \$404,924, and \$352,785 for Medicaid and self-pay uncompensated care services (UCC) for the years ended December 31, 2011, 2010, and 2009, respectively, which represents 6%, 8%, and 7% of net patient revenues. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the District has not made any provisions for such recoupments. Current regulations do not provide for settlement of underpayments by Medicaid. 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. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

NOTE 13 - CHARITY CARE

The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated approximately \$67,465, \$34,463, and \$50,068 in 2011, 2010, and 2009, respectively. The costs, as determined using total cost of facility divided by the total gross patient revenues of the facility times the charity care charges, are \$62,680, \$28,620, and \$43,320, in 2011, 2010, and 2009.

NOTE 14 - PROPERTY TAX REVENUE

The District levies property taxes for the maintenance and operation of the facility. The taxes are collected by the Union Parish Sheriff's office for an 8% collection fee. Property tax notices are mailed by November 15 each year and are due by December 31. The lien date is January 31. The special maintenance and operation

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 14 - PROPERTY TAX REVENUE (Continued)

millage is a ten-year tax assessed on all taxable property within the District at the rate of 10.45 mills. The 5.11 mills tax, which expired December 31, 2005, was renewed for the period 2006 through 2015. The 5.34 mills tax, which expired in 2011, was renewed for the period 2012 through 2021.

NOTE 15 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the 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 District'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 redetermined utilizing actual losses of the District. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity in the trust in its financial statements.

NOTE 16 - CONTINGENCIES

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

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 12) - 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.

Further, in order to continue receiving reimbursement from the Medicare program, the District entered into an agreement with a government agent allowing the agent access to the District's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the District.

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,

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009

NOTE 16 - CONTINGENCIES (Continued)

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 District 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.

Professional Liability Risk (Note 15) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

Worker's Compensation Risk - The District carries worker's compensation insurance through the Louisiana Hospital Association Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any.

Litigation and other matters in the ordinary course of business are pending against the District. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determination in the case where liability can be measured.

NOTE 17 - GRANT REVENUE

In 2011, the District received grants totaling \$1,042,312. Medicaid paid the District approximately \$277,139 during the year ended December 31, 2011 as an incentive for implementing electronic health records. Payments can be retained and additional payments can be earned if the District meets certain criteria in future implementation, subject to audit. The District received grants totaling \$696,800 to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the District, along with the other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement. Various other grants were received during the year for other purposes.

In 2010, the District received grants totaling \$100,379. They included grant monies from Department of Health & Hospitals and the Rural Hospital Coalition of \$67,620 to be used to participate in the Louisiana Rural Health Information Exchange (LARHIX). Various other grants were received during the year for other purposes.

In 2009, the District received grants totaling \$875,605. They included a grant from Department of Health & Hospitals and the Rural Hospital Coalition of \$826,240 to be used to participate in the Louisiana Rural Health Information Exchange (LARHIX). Various other grants were received during the year for other purposes.

**Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Notes to Financial Statements
Years Ended December 31, 2011, 2010, and 2009**

NOTE 18 - COMMITMENTS

Effective July 1, 2009, a contract with a physician group providing coverage of the rural health clinic and the emergency room was renewed on a month to month basis. This contract provided for payments to the physicians based on a productivity formula for rural health visits and an hourly rate for emergency room services. In 2010 and 2011, coverage of the Emergency Room was provided by various individual physicians under contract with the District. The Rural Health Clinic was covered under an agreement based on a productivity formula for rural health visits.

NOTE 19 - SUBSEQUENT EVENT

Events have been evaluated through May 21, 2012 for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Net Patient Service Revenue
Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Daily patient services:			
Room and board	\$ 851,502	\$ 767,763	\$ 421,600
Swing	<u>302,092</u>	<u>284,714</u>	<u>163,990</u>
 Total daily patient services	 <u>1,153,594</u>	 <u>1,052,477</u>	 <u>585,590</u>
 Other professional services:			
Radiology			
Inpatient	60,151	94,525	102,818
Outpatient	<u>356,119</u>	<u>380,218</u>	<u>223,511</u>
 Total radiology	 <u>416,270</u>	 <u>474,743</u>	 <u>326,329</u>
Laboratory			
Inpatient	177,115	244,157	269,084
Outpatient	<u>953,151</u>	<u>931,048</u>	<u>854,806</u>
 Total laboratory	 <u>1,130,266</u>	 <u>1,175,205</u>	 <u>1,123,890</u>
Blood			
Inpatient	56,568	12,754	17,046
Outpatient	<u>16,315</u>	<u>4,985</u>	<u>770</u>
 Total blood	 <u>72,883</u>	 <u>17,739</u>	 <u>17,816</u>
Respiratory therapy			
Inpatient	254,955	342,419	494,013
Outpatient	<u>31,053</u>	<u>36,915</u>	<u>73,124</u>
 Total respiratory therapy	 <u>286,008</u>	 <u>379,334</u>	 <u>567,137</u>
Physical therapy			
Inpatient	16,849	32,010	84,964
Outpatient	<u>117,049</u>	<u>76,378</u>	<u>135,932</u>
 Total physical therapy	 <u>\$ 133,898</u>	 <u>\$ 108,388</u>	 <u>\$ 220,896</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Net Patient Service Revenue (Continued)
Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Occupational therapy			
Inpatient	\$ 20,356	\$ 47,291	\$ 74,720
Outpatient	<u>83,442</u>	<u>102,637</u>	<u>114,417</u>
Total occupational therapy	<u>103,798</u>	<u>149,928</u>	<u>189,137</u>
Speech therapy			
Inpatient	5,131	3,086	4,939
Outpatient	<u>76</u>	<u>598</u>	<u>2,447</u>
Total speech therapy	<u>5,207</u>	<u>3,684</u>	<u>7,386</u>
EKG			
Inpatient	3,272	5,135	6,954
Outpatient	<u>35,704</u>	<u>25,583</u>	<u>25,603</u>
Total EKG	<u>38,976</u>	<u>30,718</u>	<u>32,557</u>
Medical supply			
Inpatient	100,930	148,174	251,662
Outpatient	<u>100,712</u>	<u>99,228</u>	<u>111,107</u>
Total medical supply	<u>201,642</u>	<u>247,402</u>	<u>362,769</u>
Pharmacy			
Inpatient	548,297	595,329	763,591
Outpatient	<u>218,659</u>	<u>221,688</u>	<u>191,844</u>
Total pharmacy	<u>766,956</u>	<u>817,017</u>	<u>955,435</u>
Ophthalmology			
Outpatient	<u>8,963</u>	<u>19,752</u>	<u>-0-</u>
Total ophthalmology	\$ <u>8,963</u>	\$ <u>19,752</u>	\$ <u>-0-</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Net Patient Service Revenue (Continued)
Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Rural health clinic			
Physician services	\$ 1,061,491	\$ 1,026,676	\$ 1,101,304
Ancillary income	<u>12,651</u>	<u>34,452</u>	<u>33,399</u>
Total rural health clinic	<u>1,074,142</u>	<u>1,061,128</u>	<u>1,134,703</u>
Emergency room			
Inpatient	206,397	365,438	401,713
Outpatient	<u>1,134,180</u>	<u>1,158,083</u>	<u>1,031,304</u>
Total emergency room	<u>1,340,577</u>	<u>1,523,521</u>	<u>1,433,017</u>
Monitor			
Inpatient	19,398	30,616	7,190
Outpatient	<u>3,720</u>	<u>4,083</u>	<u>25,589</u>
Total monitor	<u>23,118</u>	<u>34,699</u>	<u>32,779</u>
Total other professional services	<u>5,602,704</u>	<u>6,043,258</u>	<u>6,403,851</u>
Gross patient service charges	<u>6,756,298</u>	<u>7,095,735</u>	<u>6,989,441</u>
Deductions from charges:			
Medicare and Medicaid contractual adjustments	497,348	1,253,876	711,313
Provision for bad debt	663,720	888,257	844,874
Administrative and other adjustments	515,034	533,458	551,290
Uncompensated care reimbursement	<u>(300,016)</u>	<u>(404,924)</u>	<u>(352,785)</u>
Total deductions from charges	<u>1,376,086</u>	<u>2,270,667</u>	<u>1,754,692</u>
Net patient service revenue	\$ <u>5,380,212</u>	\$ <u>4,825,068</u>	\$ <u>5,234,749</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Other Operating Revenue
Years Ended December 31,

	<u>2011</u>		<u>2010</u>		<u>2009</u>
HPSA incentive	\$ 17,022	\$	17,915	\$	21,505
Dietary revenue	28,523		19,741		9,585
Health information	1,944		3,034		4,776
Discounts taken	8,846		10,787		16,881
Pharmacy revenue	3,257		8,862		8,771
Billing for physicians	-0-		6,636		14,174
Property insurance receipt	-0-		30,509		-0-
Miscellaneous revenue	<u>14,816</u>		<u>3,405</u>		<u>1,478</u>
Total other revenue	\$ <u>74,408</u>	\$	<u>100,889</u>	\$	<u>77,170</u>

Ward 3, 4 and 10 Hospital Service District
 Of the Parish of Union, State of Louisiana
 Reeves Memorial Medical Center
 Schedules of Expenses - Salaries and Benefits
 Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Administration	\$ 394,020	\$ 390,249	\$ 337,444
Plant maintenance	79,415	90,680	77,388
Housekeeping	57,649	40,750	57,868
Dietary	75,989	65,943	75,759
Nursing administration	77,906	95,470	133,619
Health information	132,658	135,679	158,408
Nursing services	713,539	580,346	737,741
Radiology	101,530	94,904	91,909
Laboratory	212,111	180,766	188,644
Respiratory therapy	30,106	36,009	39,840
EKG and EEG	4,740	392	282
Central supply	26,258	-0-	-0-
Pharmacy	55,312	56,499	57,908
Rural health clinic	385,760	311,505	262,870
Emergency room	<u>252,654</u>	<u>264,202</u>	<u>214,322</u>
 Total salaries	 <u>2,599,647</u>	 <u>2,343,394</u>	 <u>2,434,002</u>
 FICA/LUC	 216,000	 173,276	 188,723
Health/life insurance	131,922	114,745	140,536
403(b) matching contribution	27,970	21,776	27,878
Worker's compensation	<u>35,205</u>	<u>26,068</u>	<u>43,921</u>
 Total benefits	 <u>411,097</u>	 <u>335,865</u>	 <u>401,058</u>
 Total salaries and benefits	 <u>\$ 3,010,744</u>	 <u>\$ 2,679,259</u>	 <u>\$ 2,835,060</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Expenses - Medical Supplies and Drugs
Years Ended December 31,

	<u>2011</u>		<u>2010</u>		<u>2009</u>
Nursing services	\$ 14,055	\$	26,063	\$	11,118
Radiology	2,300		1,601		555
Laboratory	96,482		76,843		97,572
Blood	24,862		35,991		42,597
Respiratory therapy	13,556		12,525		18,222
Physical and occupational therapy	59		666		-0-
Pharmacy	145,152		173,412		235,679
Rural health clinic	27,691		24,595		7,873
Emergency room	7,032		2,283		14,812
Specialty clinic	<u>137</u>		<u>-0-</u>		<u>-0-</u>
Total medical supplies and drugs	\$ <u>331,326</u>	\$	<u>353,979</u>	\$	<u>428,428</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Expenses - Professional Fees
Years Ended December 31,

	<u>2011</u>		<u>2010</u>		<u>2009</u>
Health information	\$ 1,050	\$	5,695	\$	2,764
Nursing	35,262		74,392		96,747
Radiology	9,360		16,520		17,499
Laboratory	99,897		89,777		65,050
Physical therapy	57,849		37,318		99,873
Occupational therapy	57,935		64,402		68,100
Speech therapy	2,446		2,467		8,152
Ophthalmology	3,382		10,437		-0-
Rural health clinic	215,586		291,702		462,226
Emergency room	679,106		695,677		740,305
Specialty clinic	<u>206</u>		<u>-0-</u>		<u>-0-</u>
Total professional fees	\$ <u>1,162,079</u>	\$	<u>1,288,387</u>	\$	<u>1,560,716</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Expenses - Other Expenses
Years Ended December 31,

	<u>2011</u>		<u>2010</u>		<u>2009</u>
Purchased services	\$ 314,725	\$	308,923	\$	146,562
Accounting and legal	74,911		73,411		78,077
Non medical supplies	286,743		178,900		165,047
Repairs and maintenance	187,728		174,893		154,657
Utilities	97,097		87,775		69,663
Telephone	53,333		49,054		38,531
Travel	14,897		9,871		10,379
Rentals	139,086		122,216		43,417
Training	11,764		9,957		11,870
Promotion and advertising	2,821		6,462		3,142
Licensing and publications	49,275		43,864		46,755
Miscellaneous	26,090		16,258		16,071
Tax assessor fees	<u>23,107</u>		<u>25,123</u>		<u>20,871</u>
Total other expenses	\$ <u>1,281,577</u>	\$	<u>1,106,707</u>	\$	<u>805,042</u>

Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedules of Per Diem and Other Compensation Paid to Board Members
Years Ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Board members:			
Isaac Payne	\$ 440	\$ -0-	\$ 280
Bobby Couch	400	-0-	280
Jim Mabry	440	-0-	280
Penya Fields	280	-0-	-0-
Timothy Clement	<u>200</u>	<u>-0-</u>	<u>-0-</u>
Total	\$ <u>1,760</u>	\$ <u>-0-</u>	\$ <u>840</u>



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

To the Board of Commissioners
Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Bernice, Louisiana

We have audited the financial statements of Ward 3, 4 and 10 Hospital Service District of the Parish of Union, State of Louisiana d/b/a Reeves Memorial Medical Center (the "District"), a component unit of the Union Parish Police Jury, as of and for the years ended December 31, 2011, 2010, and 2009, and have issued our report thereon dated May 21, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and that we consider to be significant deficiencies in internal control over financial reporting: 2011-1, 2011-2, 2011-3, and 2011-4. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Commissioners
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Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and no other matter that is required to be reported under Government Auditing Standards.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, 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.

Leota Mulla & Wall

Certified Public Accountants
Alexandria, Louisiana

May 21, 2012



**Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedule of Findings and Responses
Year Ended December 31, 2011**

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified – No
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – No

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

FINDING 2011-1 – Estimate of Cost Report Receivables

Finding: The District did not record an accurate estimate for the current year Medicare and Louisiana Medicaid cost report settlement. Since Medicaid interim reimbursement rates were understated, the amount due from Louisiana Medicaid and the related revenue were materially understated.

Recommendation: An interim cost report projection should be made and an estimate of the Medicare and Medicaid cost report should be recorded to accurately reflect the revenue.

Response: Management will obtain a mid-year projection based on current cost report data to more accurately determine cost report receivable/payable and related contractual allowances. In addition to a mid-year projection, management will review increases and/or decreases in volume and cost at or near year end and will estimate and record any material changes in reimbursement.

FINDING 2011-2 – Estimate of Other Receivables

Finding: The District did not record accurate estimates of Property Taxes and Grant Receivables. This resulted in understatement of revenues and assets at year end.

Recommendation: Estimates should be recorded based on management's knowledge of previous property taxes received after year end and timely follow-up of ongoing projects should be performed by management.

Response: Management will prepare estimates based on the best available information.

**Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
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Schedule of Findings and Responses
Year Ended December 31, 2011**

Section II. Financial Statement Findings (Continued)

FINDING 2011-3 – Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the resources necessary to internally prepare or review the auditor's preparation of the District's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Response: Management has considered the recommendation and concluded that the implementation cost is greater than the benefit derived from correcting the control deficiency.

FINDING 2011-4 – Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Due to limited staffing with the technical skills to perform these duties, management feels that close supervision of the personnel assigned to those tasks is the preferred solution. Administration will continue to monitor these tasks on a daily basis.

Section III. Federal Award Findings

Not applicable

Section IV. Management Letter

Not applicable

**Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedule of Prior Year Findings and Responses
Year Ended December 31, 2011**

Section I. Financial Statement Findings

FINDING 2010-1 – Inventory

Finding: Posting of inventory disbursements was not done during the fiscal year. This resulted in understatement of expenses and overstatement of assets at year end.

Recommendation: Disbursements should be posted weekly. Review of inventory account in general ledger should be performed on a regular basis.

Response: The chief financial officer (CFO) contacted software vendor who provided additional training necessary to posting of inventory disbursements. The CFO will periodically review general ledger for weekly postings.

Current Status: Resolved

FINDING 2010-2 – Allowances

Finding: Contractual allowances were underestimated due to a large number of Medicaid denials.

Recommendation: Patient stays should be pre-certified if necessary with applicable insurance payors to determine the patients' qualification for benefits. If days are found to exceed the limit, then an allowance should be recorded.

Response: Personnel have received training and back up is in place for pre-certification of applicable insurance payors. Allowance will be recorded for days found to exceed the qualification limit.

Current Status: Resolved

FINDING 2010-3 – Reconciliations

Finding: Some reconciliation of subsidiary ledgers are not being performed on a monthly basis. This can affect the accuracy of interim financial information.

Recommendation: We recommend performing monthly reconciliations of all subsidiary ledgers to the general ledger.

Response: All subsidiary ledgers will be reconciled on a monthly basis.

Current Status: Resolved

**Ward 3, 4 and 10 Hospital Service District
Of the Parish of Union, State of Louisiana
Reeves Memorial Medical Center
Schedule of Prior Year Findings and Responses
Year Ended December 31, 2011**

Section I. Financial Statement Findings (Continued)

FINDING 2010-4 – Financial Statements

Fiscal Year Initially Reported: December 31, 2007

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the resources necessary to internally prepare or review the auditor's preparation of the District's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Response: Management has considered the recommendation and concluded that the implementation cost is greater than the benefit derived from correcting the control deficiency.

Current Status: Not resolved – see finding 2011-3

FINDING 2010-5 – Segregation of Duties

Fiscal Year Initially Reported: December 31, 2007

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Due to limited staffing with the technical skills to perform these duties, management feels that close supervision of the personnel assigned to those tasks is the preferred solution. Administration will continue to monitor these tasks on a daily basis.

Current Status: Not resolved – See finding 2011-4

Section II. Federal Award Findings

Not applicable

Section III. Management Letter

Not applicable