

HOSPITAL SERVICE DISTRICT WARDS 3, 4 AND 10
OF THE PARISH OF UNION, STATE OF LOUISIANA
TRI-WARD GENERAL HOSPITAL AND CLINIC

MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2004, 2003, AND 2002

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 7-13-05

Tri-Ward General Hospital and Clinic
Financial Statements
and
Independent Auditors' Report
Years Ended December 31, 2004, 2003, and 2002

Table of Contents

	<u>Page No.</u>
Management's Discussion and Analysis	i
Independent Auditors' Report on the Financial Statements and Supplementary Information	1
Basic Financial Statements	
Balance Sheets	3-4
Statements of Revenue, Expenses, and Changes in Net Assets	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8
Supplemental Information	
Statements of Net Patient Service Revenue	27-29
Statements of Other Revenue	30
Statements of Expenses - Salaries and Benefits	31
Statements of Expenses - Medical Supplies and Drugs	32
Statements of Expenses - Medical, Professional and Contract Services	33
Statements of Expenses - Other	34
Statements of Per Diem and Other Compensation Paid to Board Members	35
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	36

Hospital Service District Wards 3, 4, and 10 of the Parish of Union
Management's Discussion and Analysis
Of the Basic Financial Statements
Years ended December 31, 2004 and 2003

This section of the Hospital Service District's 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, 2004. Please read it in conjunction with the financial statements in this report

Financial Highlights

- The District's total assets increased by approximately \$109,374 or approximately 3.51%
- During the year, the District's net operating revenues increased approximately \$546,621 or 14.48% to \$4,321,597 from the prior year while expenses increased approximately \$270,663 or 6.97%. The District had a gain from operations of approximately \$168,697 which compares to a loss of \$107,261 the previous year
- The District received revenues for Uncompensated Costs Reimbursement in the amount of \$478,550 compared to \$102,570 the previous year.
- The District received property tax revenues of approximately \$208,909 compared to \$193,472 the previous year.
- The District made \$277,226 in capital acquisitions for the fiscal year

Required Financial Statements

The Basic 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 Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in the District's operations over the past two years and can 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 Revenue, 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.

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

Net Assets

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

TABLE 1
Condensed Balance Sheets

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Total current assets	\$ 1,685,419	\$ 1,519,067	\$ 166,352	10.95%
Capital assets - net	1,001,698	841,535	160,163	19.03%
Other assets	<u>538,058</u>	<u>755,199</u>	<u>(217,141)</u>	<u>-28.75%</u>
 Total assets	 \$ <u>3,225,175</u>	 \$ <u>3,115,801</u>	 \$ <u>109,374</u>	 <u>3.51%</u>
 Current liabilities	 \$ 176,261	 \$ 226,277	 \$ (50,016)	 -22.10%
Long-term liabilities	608,709	629,356	(20,647)	-3.28%
Invested in capital assets, net of related debt	376,590	196,580	180,010	91.57%
Temporarily restricted net assets	20,494	216,285	(195,791)	-90.52%
Unrestricted net assets	<u>2,043,121</u>	<u>1,847,303</u>	<u>195,818</u>	<u>10.60%</u>
 Total liabilities and net assets	 \$ <u>3,225,175</u>	 \$ <u>3,115,801</u>	 \$ <u>109,374</u>	 <u>3.51%</u>

As can be seen in Table 1, total assets were increased by \$109,374 to \$3,225,175 in fiscal year 2004, up from \$3,115,801 in fiscal year 2003

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, 2004 and 2003.

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

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

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Net patient service revenue	\$ 3,715,775	\$ 3,130,857	\$ 584,918	18.68%
Grant revenue	29,978	12,677	17,301	136.48%
Property tax revenue	208,909	193,472	15,437	7.98%
Other revenue	<u>366,935</u>	<u>437,970</u>	<u>(71,035)</u>	<u>-16.22%</u>
 Total revenue	 <u>4,321,597</u>	 <u>3,774,976</u>	 <u>546,621</u>	 <u>14.48%</u>
Expenses:				
Salaries and benefits	1,674,096	1,563,621	110,475	7.07%
Medical supplies and drugs	286,863	288,559	(1,696)	-0.59%
Professional and contract services	1,009,063	969,558	39,505	4.07%
Other expenses	503,455	502,893	562	0.11%
Insurance	59,450	55,348	4,102	7.41%
Interest	24,534	6,342	18,192	286.85%
Depreciation	117,288	102,289	14,999	14.66%
Provision for bad debt	<u>478,151</u>	<u>393,627</u>	<u>84,524</u>	<u>21.47%</u>
 Total expenses	 <u>4,152,900</u>	 <u>3,882,237</u>	 <u>270,663</u>	 <u>6.97%</u>
 Operating income (loss)	 168,697	 (107,261)	 275,958	 -257.28%
Nonoperating income				
Interest income	<u>30,984</u>	<u>47,210</u>	<u>(16,226)</u>	<u>-34.37%</u>
 Excess of revenue over expenses	 199,681	 (60,051)	 259,732	 -432.52%
 Change in unrealized gains (loss) on securities	 <u>(19,644)</u>	 <u>20,556</u>	 <u>(40,200)</u>	 <u>-195.56%</u>
 Increase (decrease) in unrestricted fund balance	 \$ <u>180,037</u>	 \$ <u>(39,495)</u>	 \$ <u>219,532</u>	 <u>-555.85%</u>

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

Sources of Revenue

Operating Revenue

During fiscal year 2004, 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 Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payers is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes interest income, cafeteria sales, revenue from services provided to physicians, rental income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payer for the fiscal years ended December 31, 2004.

**TABLE 3
Payer Mix by Percentage**

	<u>2004</u>	<u>2003</u>
Medicare	53.37%	42.50%
Medicaid	21.33%	18.00%
Commercial & Other	25.30%	39.50%

Non-operating Income

The District holds investments in its Balance Sheets that are invested primarily in the Certificates of Deposit. These investments were \$508,036 in total that earned \$8,234 interest income.

Operating and Financial Performance

The following summarizes the District's Statements of Revenue, Expenses, and Changes in Net Assets between 2004 and 2003:

Overall activity at the District, as measured by patient admissions, increased 2.51% to 450 in 2004 from 439 in 2003. Patient days decreased 7.58% to 1,549 in 2004 from 1,676 in 2003. Average length of stay decreased to 3.50 in 2004 from 3.87 in 2003.

Operating and Financial Performance

Total net patient service revenue increased by approximately \$584,918 or 18.68%. The change is attributed to Medicare & Medicaid contractials adjusted by the Dispro Funds received and the increase in revenue with the respiratory therapy department being added.

Gross accounts receivable have decreased by \$18,700 for the District. Average days in net accounts receivable have decreased to 36 in 2004 from 47 in 2003. The District continues to exert every effort to assist patients in finding funding sources for health care.

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

Operating and Financial Performance (Continued)

Salaries increased by approximately \$89,796 over the prior year. Benefits increased by \$20,679 over the previous year. Increases are mainly due to the addition of the respiratory therapy department, dietary pickup, part-time employee added to maintenance, pay increases of approximately 3%, and increase in accrued vacation time.

The cost of medical supplies remained fairly constant over the previous year because inpatient and emergency room volume remained fairly constant.

Medical professional fees increased by approximately \$39,500 due to an increase in hospitalists' services.

Provision for bad debts was increased by approximately \$84,524.

Pharmacy expenses were decreased by approximately \$13,000 because of better utilization of contract medications.

Other expenses increased slightly due to inflation and increased patient volumes.

Capital Assets

During fiscal year 2004, the District invested approximately \$277,226 in capital assets included in Table 4 below.

**TABLE 4
Capital Assets**

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 23,454	\$ 23,454	\$ -0-	0.00%
Land improvements	10,680	10,680	-0-	0.00%
Buildings	978,645	858,268	120,377	14.03%
Fixed equipment	220,313	220,313	-0-	0.00%
Major moveable equipment	926,212	769,663	156,549	20.34%
Transportation equipment	21,874	21,874	-0-	0.00%
Minor equipment	1,477	1,177	300	25.49%
Construction in progress	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>0.00%</u>
 Total	 2,182,655	 1,905,429	 277,226	 14.55%
Accumulated depreciation	<u>1,180,957</u>	<u>1,063,894</u>	<u>117,063</u>	<u>11.00%</u>
Net property, plant, and equipment	 \$ <u>1,001,698</u>	 \$ <u>841,535</u>	 \$ <u>160,163</u>	 <u>19.03%</u>

Net property, plant, and equipment have increased because of acquisitions.

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

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.

Bobby G Lester, CPA
John S Wells, CPA
Robert G Miller, CPA
Paul A. Delaney, CPA
Mary L. Carroll, CPA

Brenda J Lloyd, CPA

LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303-3653

Telephone (318) 487-1450
Facsimile (318) 445-1184

Members
American Institute of CPA's
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Bernice, Louisiana

We have audited the accompanying basic financial statements of Tri-Ward General Hospital and Clinic (the "District"), a component unit of the Union Parish Police Jury, Bernice, Louisiana, as of and for the years ended December 31, 2004, 2003, and 2002, listed in the foregoing table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Tri-Ward General Hospital and Clinic as of December 31, 2004, 2003, and 2002, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America applicable to government entities.

In accordance with Government Auditing Standards, we have also issued a report dated March 10, 2005, on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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.

Board of Commissioners
Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Page Two

Our audits were conducted for the purpose of forming an opinion on the District's basic financial statements taken 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 basic financial statements. Such information has been subjected to the auditing 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 basic financial statements taken as a whole.

As discussed in Note 2 to the financial statements, effective January 1, 2003, the District changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board.

Management's discussion and analysis on pages "i" through "vi" 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 primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Certified Public Accountants

March 10, 2005

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Balance Sheets
December 31, 2004, 2003, and 2002

ASSETS	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current assets:			
Cash and cash equivalents (Note 3)	\$ 837,578	\$ 659,168	\$ 822,043
Limited use assets - required for current liabilities (Note 8)	35,852	-0-	18,445
Accounts receivable less estimated uncollectibles (Note 5)	638,591	710,773	678,404
Inventory	153,920	129,796	104,040
Prepaid expenses	<u>19,478</u>	<u>19,330</u>	<u>15,180</u>
 Total current assets	 <u>1,685,419</u>	 <u>1,519,067</u>	 <u>1,638,112</u>
Other assets:			
Property, plant, and equipment less accumulated depreciation (Note 6)	1,001,698	841,535	634,939
Investments (Note 4)	508,036	529,161	497,796
Limited use assets (Note 8)	20,494	216,285	427,519
Other assets (Note 7)	<u>9,528</u>	<u>9,753</u>	<u>9,753</u>
 Total assets	 \$ <u>3,225,175</u>	 \$ <u>3,115,801</u>	 \$ <u>3,208,119</u>

See accompanying notes to financial statements

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Balance Sheets (Continued)
December 31, 2004, 2003, and 2002

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current liabilities:			
Accounts payable	\$ 88,391	\$ 130,783	\$ 124,058
Accrued expenses and withholdings payable (Note 9)	71,472	79,895	134,308
Current installments of long-term debt (Note 11)	<u>16,398</u>	<u>15,599</u>	<u>5,162</u>
 Total current liabilities	 <u>176,261</u>	 <u>226,277</u>	 <u>263,528</u>
 Long-term debt (Note 11)	 <u>608,709</u>	 <u>629,356</u>	 <u>644,928</u>
 Total liabilities	 <u>784,970</u>	 <u>855,633</u>	 <u>908,456</u>
Net assets:			
Invested in capital assets, net of related debt	376,590	196,580	396,309
Temporarily restricted net assets	20,494	216,285	443,638
Unrestricted net assets	<u>2,043,121</u>	<u>1,847,303</u>	<u>1,459,716</u>
 Total net assets	 <u>2,440,205</u>	 <u>2,260,168</u>	 <u>2,299,663</u>
 Total liabilities and net assets	 \$ <u>3,225,175</u>	 \$ <u>3,115,801</u>	 \$ <u>3,208,119</u>

See accompanying notes to financial statements.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue:			
Net patient service revenue	\$ 3,715,775	\$ 3,130,857	\$ 3,310,986
Grant revenue (Note 17)	29,978	12,677	10,253
Property tax revenue (Note 13)	208,909	193,472	131,972
Other revenue	<u>366,935</u>	<u>437,970</u>	<u>425,304</u>
 Total revenue	 <u>4,321,597</u>	 <u>3,774,976</u>	 <u>3,878,515</u>
Expenses:			
Salaries and benefits	1,674,096	1,563,621	1,393,011
Medical supplies and drugs	286,863	288,559	270,477
Medical, professional, and contract services	1,009,063	969,558	986,513
Other expenses	503,455	502,893	440,978
Insurance	59,450	55,348	44,277
Interest	24,534	6,342	451
Depreciation and amortization	117,288	102,289	70,906
Provision for bad debt	<u>478,151</u>	<u>393,627</u>	<u>425,695</u>
 Total expenses	 <u>4,152,900</u>	 <u>3,882,237</u>	 <u>3,632,308</u>
 Operating income (loss)	 168,697	 (107,261)	 246,207
Nonoperating income			
Interest income	<u>30,984</u>	<u>47,210</u>	<u>42,162</u>
 Excess of revenue over expenses	 199,681	 (60,051)	 288,369
 Net assets at the beginning of year	 2,260,168	 2,299,663	 2,045,406
 Change in unrealized gains (loss) on securities	 <u>(19,644)</u>	 <u>20,556</u>	 <u>(34,112)</u>
 Net assets at end of year	 \$ <u>2,440,205</u>	 \$ <u>2,260,168</u>	 \$ <u>2,299,663</u>

See accompanying notes to financial statements.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Cash Flows
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 3,309,806	\$ 2,704,861	\$ 2,970,338
Other receipts from operations	569,970	644,119	567,529
Cash payments for other operating expenses	(1,889,643)	(1,839,539)	(1,703,470)
Cash payments to employees and for employee-related cost	<u>(1,682,519)</u>	<u>(1,618,034)</u>	<u>(1,364,796)</u>
Net cash provided (used) by operating activities	<u>307,614</u>	<u>(108,593)</u>	<u>469,601</u>
Cash flows from investing activities:			
LHA insurance trust	(6,594)	(4,053)	6,700
Certificates of deposits	8,075	(6,756)	9,444
Investment income	<u>30,984</u>	<u>47,210</u>	<u>42,162</u>
Net cash provided (used) by investing activities	<u>32,465</u>	<u>36,401</u>	<u>58,306</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(277,451)	(308,885)	(384,531)
Bond issue costs and deposits	225	-0-	(9,623)
Cash invested in limited use assets	159,939	229,679	(480,076)
Proceeds from revenue bonds	-0-	-0-	650,000
Payments on long-term debt	(19,848)	(5,135)	(1,999)
Interest expense on long-term debt	<u>(24,534)</u>	<u>(6,342)</u>	<u>(451)</u>
Net cash provided (used) by capital and related financing activities	<u>(161,669)</u>	<u>(90,683)</u>	<u>(226,680)</u>
Net increase (decrease) in cash and cash equivalents	178,410	(162,875)	301,227
Cash and cash equivalents, beginning of year	<u>659,168</u>	<u>822,043</u>	<u>520,816</u>
Cash and cash equivalents, end of year	\$ <u>837,578</u>	\$ <u>659,168</u>	\$ <u>822,043</u>

See accompanying notes to financial statements

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Cash Flows (Continued)
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ <u>24,534</u>	\$ <u>6,342</u>	\$ <u>451</u>
Unrealized gains recorded to investments and net assets	\$ <u>(19,644)</u>	\$ <u>20,556</u>	\$ <u>(34,112)</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 168,697	\$ (107,261)	\$ 246,207
Interest expense considered capital financing activity	24,534	6,342	451
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for bad debt	478,151	393,627	425,695
Depreciation	117,288	102,289	70,906
Changes in:			
Accounts receivable, net	(405,969)	(425,996)	(404,215)
Third-party payor	-0-	-0-	63,567
Inventory	(24,124)	(25,756)	(11,943)
Prepaid expenses	(148)	(4,150)	(1,558)
Accounts payable	(42,392)	6,725	52,276
Accrued expenses and withholdings payable	<u>(8,423)</u>	<u>(54,413)</u>	<u>28,215</u>
Net cash provided (used) by operating activities	\$ <u>307,614</u>	\$ <u>(108,593)</u>	\$ <u>469,601</u>

See accompanying notes to financial statements

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Hospital Service District Wards 3, 4, and 10 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 is referred to as Tri-Ward General Hospital and Clinic.

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 and inpatient acute hospital services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

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

Method of Accounting

The District uses the accrual method of accounting. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the District has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. District accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA Audit and Accounting Guide – Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by 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.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting (Continued)

On January 1, 2003, the District adopted the provisions of Statement No. 34 (Statement 34) of GASB, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue, expenses, and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

The adoption of Statement 34 resulted in the previously reported unrestricted fund balance amount being classified to conform to the above net asset classifications. Additionally, the District restated the 2002 statements of cash flows to conform to the direct method of reporting cash receipts and disbursements.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Credit Risk and Uncollectible Accounts

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.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. Two physicians admit 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.

The District leased space to and provided certain ancillary services to a rehabilitation hospital until November 2004. Revenues from these services were significant to the District's operations. As noted in Note 20, the District entered into a new agreement for rehab services.

Revenue and Expenses

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

Inventory

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

Changes in Reporting Classification

The classification of certain prior year amounts has been changed to reflect consistent reporting when compared to current year balances.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost for purchased assets or, if applicable, at fair market value on the date of donation. The District uses straight-line 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.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment (Continued)

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in checking, money market and certificates of deposits with original maturities of 90 days or less. The following is a summary of cash and cash equivalents:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Petty cash	\$ 575	\$ 575	\$ 575
Checking	651,488	475,457	620,834
Money market	<u>185,515</u>	<u>183,136</u>	<u>200,634</u>
Total	\$ <u>837,578</u>	\$ <u>659,168</u>	\$ <u>822,043</u>

One hundred thousand dollars of the above amount is covered by federal depository insurance. The remaining balances, with the exception of petty cash, are covered by collateral held by the pledging financial institution's trust departments in the District's name.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 4 - DEPOSITS AND INVESTMENTS

Investments consist of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Certificates of deposit	\$ 282,421	\$ 277,308	\$ 270,552
Investment in LHA trust fund	95,870	102,464	98,411
Investment in marketable securities	<u>129,745</u>	<u>149,389</u>	<u>128,833</u>
 Total investments	 \$ <u>508,036</u>	 \$ <u>529,161</u>	 \$ <u>497,796</u>

The District considers certificates of deposits with original maturities in excess of 90 days to be temporary cash investments. The District holds two certificates of deposit in the amounts of \$111,283 and \$171,138.

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>2004</u>	<u>2003</u>	<u>2002</u>
Exxon Corporation	800	\$ 41,008	\$ 32,800	\$ 27,952
Pfizer	3300	<u>88,737</u>	<u>116,589</u>	<u>100,881</u>
Total market value		129,745	149,389	128,833
Less cost basis		<u>(14,456)</u>	<u>(14,456)</u>	<u>(14,456)</u>
 Unrealized gain (loss)		 \$ <u>115,289</u>	 \$ <u>134,933</u>	 \$ <u>114,377</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.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

The District's cash and investments are categorized below to give an indication of the level of risk assumed at December 31, 2004, 2003, and 2002. Category (1) includes investments that are insured, or registered in the District's name, or for which the securities are held by the District or its agent in the District's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the District's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the District's name.

<u>2004</u>	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents, certificates of deposit	1,119,999	95,870	-0-	1,215,869
Donated stocks	<u>-0-</u>	<u>-0-</u>	<u>129,745</u>	<u>129,745</u>
Totals	\$ <u>1,119,999</u>	\$ <u>95,870</u>	\$ <u>129,745</u>	\$ <u>1,345,614</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

<u>2003</u>	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S.				
Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents, certificates of deposit	936,476	102,464	-0-	1,038,940
Donated stocks	<u>-0-</u>	<u>-0-</u>	<u>149,389</u>	<u>149,389</u>
Totals	\$ <u>936,476</u>	\$ <u>102,464</u>	\$ <u>149,389</u>	\$ <u>1,188,329</u>
<u>2002</u>	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S.				
Government	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash and cash equivalents, certificates of deposit	1,092,595	98,411	-0-	1,191,006
Donated stocks	<u>-0-</u>	<u>-0-</u>	<u>128,833</u>	<u>128,833</u>
Totals	\$ <u>1,092,595</u>	\$ <u>98,411</u>	\$ <u>128,833</u>	\$ <u>1,319,839</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 5 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patients	\$ 1,177,661	\$ 1,196,340	\$ 951,651
Taxes receivable	91,580	96,148	101,459
Estimated third-party payor settlements	20,476	14,718	45,200
Other	<u>163,497</u>	<u>193,124</u>	<u>124,273</u>
	1,453,214	1,500,330	1,222,583
Estimated uncollectibles	<u>(814,623)</u>	<u>(789,557)</u>	<u>(544,179)</u>
 Total	 \$ <u>638,591</u>	 \$ <u>710,773</u>	 \$ <u>678,404</u>

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment and related accumulated depreciation for the year ended December 31, 2004:

	<u>2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>2004</u>
Land	\$ 23,454	\$ -0-	\$ -0-	\$ 23,454
Land improvements	10,680	-0-	-0-	10,680
Buildings	858,268	120,377	-0-	978,645
Fixed equipment	220,313	-0-	-0-	220,313
Major moveable equipment	769,663	156,549	-0-	926,212
Transportation equipment	21,874	-0-	-0-	21,874
Minor equipment	1,177	300	-0-	1,477
Construction in progress	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 Total	 1,905,429	 277,226	 -0-	 2,182,655
Accumulated depreciation	<u>1,063,894</u>	<u>117,063</u>	<u>-0-</u>	<u>1,180,957</u>
Net property, plant, and equipment	 \$ <u>841,535</u>	 \$ <u>160,163</u>	 \$ <u>-0-</u>	 \$ <u>1,001,698</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT (Continued)

The following is a summary of property, plant, and equipment and related accumulated depreciation for the year ended December 31, 2003:

	<u>2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>2003</u>
Land	\$ 23,454	\$ -0-	\$ -0-	\$ 23,454
Land improvements	6,767	3,913	-0-	10,680
Buildings	471,276	386,992	-0-	858,268
Fixed equipment	220,313	-0-	-0-	220,313
Major moveable equipment	667,818	101,845	-0-	769,663
Transportation equipment	-0-	21,874	-0-	21,874
Minor equipment	1,177	-0-	-0-	1,177
Construction in progress	<u>205,739</u>	<u>-0-</u>	<u>205,739</u>	<u>-0-</u>
 Total	 1,596,544	 514,624	 205,739	 1,905,429
Accumulated depreciation	<u>961,605</u>	<u>102,289</u>	<u>-0-</u>	<u>1,063,894</u>
Net property, plant, and equipment	 \$ <u>634,939</u>	 \$ <u>412,335</u>	 \$ <u>205,739</u>	 \$ <u>841,535</u>

The following is a summary of property, plant, and equipment and related accumulated depreciation for the year ended December 31, 2002:

	<u>2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>2002</u>
Land	\$ 23,454	\$ -0-	\$ -0-	\$ 23,454
Land improvements	6,767	-0-	-0-	6,767
Buildings	446,403	24,873	-0-	471,276
Fixed equipment	220,313	-0-	-0-	220,313
Major moveable equipment	512,224	155,594	-0-	667,818
Transportation equipment	-0-	-0-	-0-	-0-
Minor equipment	1,177	-0-	-0-	1,177
Construction in progress	<u>-0-</u>	<u>205,739</u>	<u>-0-</u>	<u>205,739</u>
 Total	 1,210,338	 386,206	 -0-	 1,596,544
Accumulated depreciation	<u>890,700</u>	<u>70,905</u>	<u>-0-</u>	<u>961,605</u>
Net property, plant, and equipment	 \$ <u>319,638</u>	 \$ <u>315,301</u>	 \$ <u>-0-</u>	 \$ <u>634,939</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 7 - OTHER ASSETS

Other assets consist of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Meter deposits	\$ 130	\$ 130	\$ 130
Unamortized bond issue costs	<u>9,398</u>	<u>9,623</u>	<u>9,623</u>
 Total	 <u>\$ 9,528</u>	 <u>\$ 9,753</u>	 <u>\$ 9,753</u>

NOTE 8 - LIMITED USE ASSETS

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Restricted by board</u>			
Protested taxes	\$ -0-	\$ -0-	\$ 2,326
 <u>Restricted by third-parties</u>			
HRSA Grant	-0-	8,579	-0-
Community Encourager	1,174	1,404	-0-
Bond sinking fund	-0-	-0-	29,250
Bond reserve fund	10,247	10,050	1,464
Bond contingency fund	10,247	10,050	1,464
Construction fund	34,678	64,318	9,792
Construction fund receivable	<u>-0-</u>	<u>121,884</u>	<u>401,668</u>
 Total assets limited as to use	 56,346	 216,285	 445,964
 Less amounts required for current liabilities	 <u>(35,852)</u>	 <u>-0-</u>	 <u>(18,445)</u>
 Total assets limited as to use	 <u>\$ 20,494</u>	 <u>\$ 216,285</u>	 <u>\$ 427,519</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 9 - ACCRUED EXPENSES AND WITHHOLDINGS PAYABLE

Accrued expenses and withholdings payable at December 31, 2004, 2003, and 2002, consist of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Accrued interest	\$ 795	\$ 795	\$ 2,075
Accrued payroll taxes	1,898	15,214	4,161
State and federal income taxes payable	1,576	2,932	2,164
State unemployment tax payable	1,820	1,876	1,906
Accrued vacation & holiday	40,750	42,644	48,684
Accrued payroll	24,633	16,434	56,873
Retainage payable	<u>-0-</u>	<u>-0-</u>	<u>18,445</u>
 Total	 \$ <u>71,472</u>	 \$ <u>79,895</u>	 \$ <u>134,308</u>

NOTE 10 - COMPENSATED ABSENCES

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

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 11 - LONG-TERM DEBT

The following is a summary of long-term debt at December 31, 2004, 2003, and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
7.0 percent mortgage note, due February 2003, collateralized by a mortgage on property and house.	\$ -0-	\$ -0-	\$ 90
Series 2002 Hospital Revenue Bonds at a rate of 4.5%, collateralized by pledge and dedication of District revenue.	<u>625,107</u>	<u>644,955</u>	<u>650,000</u>
Total	625,107	644,955	650,090
Less current maturities of debt	<u>(16,398)</u>	<u>(15,599)</u>	<u>(5,162)</u>
Long-term debt maturities	\$ <u>608,709</u>	\$ <u>629,356</u>	\$ <u>644,928</u>

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 property, plant, and equipment 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".
- Collect payment on all services rendered.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 11 - LONG-TERM DEBT (Continued)

- 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.

Scheduled debt repayments over the next five years are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 16,398	\$ 27,984	\$ 44,382
2006	17,150	27,231	44,381
2007	17,939	26,444	44,383
2008	18,688	25,692	44,380
2009	19,622	24,760	44,382
2010 and thereafter	<u>535,310</u>	<u>156,796</u>	<u>692,106</u>
Total	\$ <u>625,107</u>	\$ <u>288,907</u>	\$ <u>914,014</u>

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 - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for cost reimbursement until January 1, 2006, unless legislation is passed to extend this provision. The additional payments received under the hold harmless provision was \$35,391, \$7,210, and \$34,964 for the years ended December 31, 2004, 2003, and 2002, respectively. Swing Bed routine services are reimbursed based on a prospectively determined rate per patient day. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2002.

Medicaid - Medicaid inpatient services are reimbursed based on a prospectively determined per diem rate. Most Medicaid outpatient services are reimbursed under 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. The District's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2001.

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 District generates a substantial portion of its charges from the Medicare and Medicaid programs at discounted rates.

A summary of gross Medicare and Medicaid charges for the years ended December 31, follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medicare and Medicaid gross patient charges	\$ 2,304,153	\$ 2,169,102	\$ 2,349,371
Contractual adjustments	<u>(460,939)</u>	<u>(469,632)</u>	<u>(450,614)</u>
Total patient revenues	\$ <u>1,843,214</u>	\$ <u>1,699,470</u>	\$ <u>1,898,757</u>
Percent of total patient gross charges	<u>56%</u>	<u>55%</u>	<u>58%</u>
Percent of net patient revenues	<u>50%</u>	<u>54%</u>	<u>57%</u>

NOTE 13 - 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 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, which will expire December 31, 2005, was renewed for the period 2006 through 2015. The 5.34 mills, which expired in 2001, was renewed for the period 2002 through 2011.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 14 - 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 Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence. Defense costs are not included in these amounts.

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 15 - BUSINESS AND CREDIT CONCENTRATIONS

The District grants credit to patients, substantially all of whom are local residents, under terms requiring timely repayment. The District generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies).

The mix of gross receivables from patients and third-party payors at December 31 was as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medicare and Medicaid	33%	33%	39%
Commercial insurance	16%	13%	16%
Patients	51%	54%	45%

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.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 16 - CONTINGENCIES (Continued)

The principal contingencies are described below:

Third-Party Government Based Revenues (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 programs, 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 determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the District.

Medicaid Uncompensated Cost - The District received interim amounts of \$478,550, \$102,570, and \$113,245 for Medicaid and self-pay uncompensated care services for the years ended December 31, 2004, 2003, and 2002, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the District has not made any provisions for such recoupments. Current regulation does not provide for settlement of underpayments by Medicaid. Management contends interim amounts 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.

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse

Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the 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 14) - 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.

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 16 - CONTINGENCIES (Continued)

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.

Various claims 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 determinations in those cases where liability can be measured.

NOTE 17 - GRANT REVENUE

During 2002 a Small Rural Hospital Improvement Program grant of \$10,253 was awarded to Tri-Ward General Hospital by the Louisiana Department of Health and Hospital's Office of Primary Care and Rural Health. The grant was used in complying with the Health Insurance Portability and Accountability Act of 1996.

During 2003 Tri-Ward General Hospital received two grants. The Health Resources and Services Administration (HRSA) Hospital Bioterrorism Grant in the amount of \$8,551 was received June 13, 2003. These proceeds were spent by March 1, 2004, per grant restrictions. The maximum amount receivable from the Better Health for the Delta Community Encourager Grant was \$17,000. Monies were advanced quarterly from December 15, 2003 through September 15, 2004.

In 2004, the District received two grants. The Health Resources and Services Administration (HRSA) awarded a grant in the amount of \$7,875 and a grant was awarded from the Small Rural Hospital Improvement Program (SHIP) in the amount of \$9,728. The remainder of the grant monies was received from the Better Health for the Delta Community Encourager Grant, \$12,735.

NOTE 18 - COMMITMENTS

The District entered into a three year contract with a physician group on July 1, 2002. This agreement provides for coverage of the rural health clinic and the emergency room. This contract provides for payments to the physicians based on a productivity formula for rural health visits and an hourly rate for emergency room services.

NOTE 19 - REHABILITATION HOSPITAL ARRANGEMENT

In January, 2003, the rehabilitation hospital that leased space and purchased ancillary services from the District filed for reorganization under Chapter 11 Bankruptcy. The District terminated this

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Notes to Financial Statements
Years Ended December 31, 2004, 2003, and 2002

NOTE 19 - REHABILITATION HOSPITAL ARRANGEMENT (Continued)

arrangement in November 2004. The rehabilitation hospital is indebted to the District for \$222,623 as of December 31, 2004. An allowance has been established equal to the amount due from the rehab hospital as collectibility is uncertain

NOTE 20 - SUBSEQUENT EVENT

The District entered into an arrangement with a rehabilitation hospital on February 26, 2005. The agreement provides for leasing of space and a cost-plus arrangement for certain ancillary services

The District renewed the contract with the physicians' group that provides coverage to the clinic and emergency room for an additional two years

SUPPLEMENTAL INFORMATION

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Net Patient Service Revenue
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Daily patient services:			
Room and board	\$ 320,410	\$ 338,090	\$ 352,820
Swing	<u>13,060</u>	<u>14,680</u>	<u>21,220</u>
Total daily patient services	<u>333,470</u>	<u>352,770</u>	<u>374,040</u>
Other professional services:			
Radiology			
Inpatient	69,275	71,857	66,909
Outpatient	<u>133,073</u>	<u>130,701</u>	<u>125,629</u>
Total radiology	<u>202,348</u>	<u>202,558</u>	<u>192,538</u>
Laboratory			
Inpatient	205,569	208,615	223,812
Outpatient	<u>428,521</u>	<u>449,593</u>	<u>464,460</u>
Total laboratory	<u>634,090</u>	<u>658,208</u>	<u>688,272</u>
Blood			
Inpatient	50,135	30,249	45,508
Outpatient	<u>11,651</u>	<u>7,350</u>	<u>11,620</u>
Total blood	<u>61,786</u>	<u>37,599</u>	<u>57,128</u>
IV solutions			
Inpatient	110,198	127,120	129,804
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total IV solutions	<u>\$ 110,198</u>	<u>\$ 127,120</u>	<u>\$ 129,804</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Net Patient Service Revenue (Continued)
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Oxygen			
Inpatient	\$ 340,593	\$ 305,988	\$ 330,226
Outpatient	<u>82,831</u>	<u>126,878</u>	<u>121,318</u>
Total oxygen	<u>423,424</u>	<u>432,866</u>	<u>451,544</u>
EKG			
Inpatient	10,780	14,124	11,132
Outpatient	<u>14,520</u>	<u>13,772</u>	<u>15,576</u>
Total EKG	<u>25,300</u>	<u>27,896</u>	<u>26,708</u>
Medical supply			
Inpatient	91,069	84,365	86,173
Outpatient	<u>46,265</u>	<u>41,360</u>	<u>29,433</u>
Total medical supply	<u>137,334</u>	<u>125,725</u>	<u>115,606</u>
Pharmacy			
Inpatient	385,113	424,595	434,303
Outpatient	<u>157,670</u>	<u>131,492</u>	<u>124,558</u>
Total pharmacy	<u>542,783</u>	<u>556,087</u>	<u>558,861</u>
Clinic/Rural Health Clinic			
Physician services	793,707	730,243	700,675
Ancillary income	<u>29,523</u>	<u>22,384</u>	<u>20,887</u>
Total Clinic/Rural Health Clinic	\$ <u>823,230</u>	\$ <u>752,627</u>	\$ <u>721,562</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Net Patient Service Revenue (Continued)
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Emergency room			
Inpatient	\$ 267,594	\$ 232,833	\$ 288,680
Outpatient	<u>523,335</u>	<u>444,692</u>	<u>445,365</u>
Total emergency room	<u>790,929</u>	<u>677,525</u>	<u>734,045</u>
Monitor			
Inpatient	8,120	7,652	6,389
Outpatient	<u>3,235</u>	<u>2,755</u>	<u>3,016</u>
Total monitor	<u>11,355</u>	<u>10,407</u>	<u>9,405</u>
Total other professional services	<u>3,762,777</u>	<u>3,608,618</u>	<u>3,685,473</u>
Gross patient service revenue	<u>4,096,247</u>	<u>3,961,388</u>	<u>4,059,513</u>
Deductions from revenue:			
Medicare and Medicaid contractual adjustments	481,857	572,202	563,860
Administrative and other adjustments	176,966	182,603	146,445
Rehab adjustments	200,199	178,296	151,467
Uncompensated care reimbursement	<u>(478,550)</u>	<u>(102,570)</u>	<u>(113,245)</u>
Total deductions from revenue	<u>380,472</u>	<u>830,531</u>	<u>748,527</u>
Net patient service revenue	\$ <u>3,715,775</u>	\$ <u>3,130,857</u>	\$ <u>3,310,986</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Other Revenue
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Vending machine	\$ 60	\$ 784	\$ 60
Medical records	4,552	2,644	2,239
Contributions	2,520	2,100	3,635
Discounts taken	15,039	15,072	11,882
Rental income	309,276	384,120	383,520
Miscellaneous revenue	<u>35,488</u>	<u>33,250</u>	<u>23,968</u>
 Total other revenue	 \$ <u>366,935</u>	 \$ <u>437,970</u>	 \$ <u>425,304</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Expenses - Salaries and Benefits
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Administration	\$ 256,770	\$ 254,778	\$ 239,697
Plant maintenance	51,371	45,335	44,243
Laundry	1,604	-0-	-0-
Housekeeping	47,338	39,054	36,065
Dietary	3,156	-0-	-0-
Nursing administration	121,939	111,963	108,321
Medical records	67,085	48,944	38,646
Nursing services	387,623	388,356	303,403
Radiology	75,640	70,190	59,255
Laboratory	128,070	123,605	122,987
Respiratory therapy	8,382	-0-	-0-
EKG and EEG	2,346	2,351	2,553
Pharmacy	55,852	52,783	51,520
Rural Health Clinic	110,729	96,266	91,838
Emergency room	<u>90,190</u>	<u>84,674</u>	<u>83,987</u>
 Total salaries	 <u>1,408,095</u>	 <u>1,318,299</u>	 <u>1,182,515</u>
 FICA/LUC	 115,549	 108,511	 98,413
Health/life insurance	126,644	117,044	95,852
Worker's compensation	<u>23,808</u>	<u>19,767</u>	<u>16,231</u>
 Total benefits	 <u>266,001</u>	 <u>245,322</u>	 <u>210,496</u>
 Total salaries and benefits	 \$ <u>1,674,096</u>	 \$ <u>1,563,621</u>	 \$ <u>1,393,011</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Expenses - Medical Supplies and Drugs
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Nursing services	\$ 11,182	\$ 5,116	\$ 3,872
Radiology	8,290	8,402	8,733
Laboratory	36,827	43,040	39,081
Blood	33,609	22,210	31,814
Respiratory therapy	13,746	12,785	10,609
EKG	1,252	514	54
Pharmacy	175,612	188,954	169,742
Rural Health Clinic	1,156	4,000	3,619
Emergency room	4,048	1,088	1,242
Monitor supplies	<u>1,141</u>	<u>2,450</u>	<u>1,711</u>
 Total medical supplies and drugs	 \$ <u>286,863</u>	 \$ <u>288,559</u>	 \$ <u>270,477</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Expenses - Medical, Professional and Contract Services
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medical records	\$ 7,140	\$ 5,254	\$ 27,013
Nursing	3,099	4,081	939
Radiology	27,000	24,430	22,179
Laboratory	46,217	38,325	45,932
Rural Health Clinic	402,925	396,540	401,761
Emergency room	<u>522,682</u>	<u>500,928</u>	<u>488,689</u>
 Total medical, professional, and contract services	 \$ <u>1,009,063</u>	 \$ <u>969,558</u>	 \$ <u>986,513</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Expenses - Other
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Consulting and purchased services - non medical	\$ 130,227	\$ 131,434	\$ 111,588
Accounting and legal	34,634	30,044	49,971
Non medical supplies	64,394	78,416	69,571
Repairs and maintenance	49,450	61,389	36,582
Utilities	57,122	55,594	47,626
Telephone	29,472	22,557	21,712
Travel	1,879	905	3,266
Rentals	55,479	50,273	46,462
Training	10,055	10,143	11,000
Promotion and advertising	5,853	5,038	3,865
Licensing and publications	35,557	26,448	23,163
Miscellaneous	13,855	12,828	16,172
Tax assessor fees	<u>15,478</u>	<u>17,824</u>	<u>-0-</u>
 Total other expenses	 \$ <u>503,455</u>	 \$ <u>502,893</u>	 \$ <u>440,978</u>

Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Statements of Per Diem and Other Compensation Paid to Board Members
Years Ended December 31, 2004, 2003, and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Board members:			
Oda Rockett	\$ 400	\$ 480	\$ 400
Isaac Payne	480	480	480
Clifton McIntosh	-0-	80	440
Nita Green	480	280	-0-
W.C. Reeves	360	320	440
Jennifer Lenard	440	400	440
 Totals	 \$ 2,160	 \$ 2,040	 \$ 2,200

Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA
Paul A. Delaney, CPA
Mary L. Carroll, CPA

Brenda J. Lloyd, CPA

LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303-3653

Telephone (318) 487-1450

Facsimile (318) 445-1184

Members
American Institute of CPA's
Society of Louisiana CPA's

Mailing Address:
P O. Box 8758
Alexandria, LA 71306-1758

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

To the Board of Commissioners
Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Bernice, Louisiana

We have audited the basic financial statements of Tri-Ward General Hospital and Clinic (the "District"), a component unit of the Union Parish Police Jury, as of and for the years ended December 31, 2004, 2003, and 2002, and have issued our report thereon dated March 10, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness

Compliance

As part of obtaining reasonable assurance about whether the District's basic 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 that are required to be reported under Government Auditing Standards.

Board of Commissioners
Hospital Service District Wards 3, 4, and 10
of the Parish of Union, State of Louisiana
Tri-Ward General Hospital and Clinic
Page Two

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



Certified Public Accountants

March 10, 2005