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**UNION GENERAL HOSPITAL, INC.**  
*Farmerville, Louisiana*

***REPORT OF EXAMINATION***

***For the Years Ended  
June 30, 2002 and 2001***

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 12-24-02

**PARRISH • MOODY & FIKES, p.c.**  
*Certified Public Accountants  
Waco, Texas*



# UNION GENERAL HOSPITAL, INC.

## FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2002 AND 2001

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**INDEPENDENT AUDITOR'S REPORT**

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To the Board of Directors  
Union General Hospital, Inc.  
Farmerville, Louisiana

We have audited the accompanying balance sheets of Union General Hospital, Inc. (the "Hospital") as of June 30, 2002 and 2001, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 Union General Hospital, Inc., as of June 30, 2002 and 2001, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2002, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

*Parrish, Moody & Fikes, p.c.*

Waco, Texas  
September 6, 2002

UNION GENERAL HOSPITAL, INC.

BALANCE SHEETS

JUNE 30, 2002 AND 2001

Assets	2002	2001
<b>Current assets</b>		
Cash and cash equivalents	\$858,059	\$324,685
Assets limited as to use - current	0	1,517
Patient accounts receivable, net	973,166	792,632
Other current assets	<u>463,145</u>	<u>431,953</u>
Total current assets	<u>2,294,370</u>	<u>1,550,787</u>
<b>Assets limited as to use - long-term</b>	94,379	50,002
<b>Property and equipment, net</b>	1,703,094	1,829,035
<b>Other assets</b>	<u>181,420</u>	<u>181,420</u>
<b>Total assets</b>	<u>\$4,273,263</u>	<u>\$3,611,244</u>

Liabilities and Net Assets	2002	2001
<b>Current liabilities</b>		
Note payable	\$0	\$6,307
Current portion of long-term debt	6,563	5,824
Accounts payable	214,788	247,279
Estimated third-party payor settlements payable	521,766	132,091
Accrued expenses	<u>246,712</u>	<u>199,032</u>
Total current liabilities	<u>989,829</u>	<u>590,533</u>
<b>Long-term debt, net of current portion</b>	<u>9,844</u>	<u>0</u>
Total liabilities	<u>999,673</u>	<u>590,533</u>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Unrestricted	2,266,621	1,864,865
Temporarily restricted	<u>1,006,969</u>	<u>1,155,846</u>
Total net assets	<u>3,273,590</u>	<u>3,020,711</u>
<b>Total liabilities and net assets</b>	<u>\$4,273,263</u>	<u>\$3,611,244</u>

The accompanying notes are an integral part of these financial statements.

**UNION GENERAL HOSPITAL, INC.**

**STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

	2002	2001
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$6,439,030	\$5,348,816
Other revenue	135,338	116,031
Contributions	<u>242,714</u>	<u>195,961</u>
Total revenues, gains, and other support	<u>6,817,082</u>	<u>5,660,808</u>
<b>Expenses</b>		
Operating expenses	5,464,633	4,730,948
Depreciation and amortization	171,671	192,088
Interest	154	5,739
Provision for bad debts	<u>843,420</u>	<u>836,565</u>
Total expenses	<u>6,479,878</u>	<u>5,765,340</u>
<b>Operating income (loss)</b>	337,204	(104,532)
<b>Other income</b>		
Investment income	<u>9,969</u>	<u>13,653</u>
<b>Excess (deficit) of revenues over expenses</b>	347,173	(90,879)
Net assets released from restrictions	<u>54,583</u>	<u>42,506</u>
<b>Increase (decrease) in unrestricted net assets</b>	<u>\$401,756</u>	<u>\$(48,373)</u>

The accompanying notes are an integral part of these financial statements.

**UNION GENERAL HOSPITAL, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2002 AND 2001**

	2002	2001
<b>Unrestricted net assets:</b>		
Excess (deficit) of revenues over expenses	\$347,173	\$(90,879)
Net assets released from restrictions	<u>54,583</u>	<u>42,506</u>
Increase (decrease) in unrestricted net assets	<u>401,756</u>	<u>(48,373)</u>
<b>Temporarily restricted net assets:</b>		
Contributions	69,600	353,656
Assets removed	(163,894)	0
Net assets released from restrictions	<u>(54,583)</u>	<u>(42,506)</u>
Increase (decrease) in temporarily restricted net assets	<u>(148,877)</u>	<u>311,150</u>
<b>Increase (decrease) in net assets</b>	<b>252,879</b>	<b>262,777</b>
<b>Net assets, beginning of year</b>	<b><u>3,020,711</u></b>	<b><u>2,757,934</u></b>
<b>Net assets, end of year</b>	<b><u>\$3,273,590</u></b>	<b><u>\$3,020,711</u></b>

The accompanying notes are an integral part of these financial statements.

**UNION GENERAL HOSPITAL, INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

	2002	2001
<b>Cash flows from operating activities</b>		
Change in net assets	\$252,879	\$262,777
Adjustment to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	171,671	192,088
Restricted assets contributed and associated investment income	(69,600)	353,656
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(180,534)	36,837
(Increase) decrease in other assets	(31,192)	(53,922)
Increase (decrease) in accounts payable and accrued expenses	15,189	(233,176)
(Increase) decrease in third-party payor settlements	389,675	274,285
Other prepaids, deferrals, and accruals, net	<u>0</u>	<u>6,313</u>
Net cash provided by (used in) operating activities	<u>548,088</u>	<u>838,858</u>
<b>Cash flows from investing activities</b>		
Change in assets whose use is limited	(42,860)	17,606
Change in investments	0	15,000
Purchase of property and equipment	<u>(45,730)</u>	<u>(527,240)</u>
Net cash provided by (used in) investing activities	<u>(88,590)</u>	<u>(494,634)</u>
<b>Cash flows from financing activities</b>		
Restricted assets contributed and associated investment income	69,600	(353,656)
Proceeds from issuance of long-term debt	4,276	0
Principal payments on long-term debt and notes payable	<u>0</u>	<u>(22,785)</u>
Net cash provided by (used in) financing activities	<u>73,876</u>	<u>(376,441)</u>
Net increase (decrease) in cash and cash equivalents	533,374	(32,217)
<b>Cash balance, beginning of period</b>	<u>324,685</u>	<u>356,902</u>
<b>Cash balance, end of period</b>	<u>\$858,059</u>	<u>\$324,685</u>

The accompanying notes are an integral part of these financial statements.

UNION GENERAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS

*(Continued)*

FOR THE YEARS ENDED

JUNE 30, 2002 AND 2001

	2002	2001
<b>Supplemental disclosures of cash flow information</b>		
Cash payments for:		
Interest (net of interest capitalized)	<u>\$178</u>	<u>\$5,778</u>

The accompanying notes are an integral part of these financial statements.

**UNION GENERAL HOSPITAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

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**1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Union General Hospital, Inc. (the "*Hospital*"), located in Farmerville, Louisiana, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, emergency care, behavioral health care, and home health services for the residents of Farmerville, Louisiana, and the surrounding area. Admitting physicians are primarily practitioners in the local area.

On November 22, 1983, the Hospital leased the hospital facilities from East Union Parish Hospital Service District (the "*District*"). The hospital facilities were originally built by the District, which issued ad valorem tax bonds to finance its construction. The Hospital's financial obligation under the lease is to maintain the leased premises in good repair and replace equipment as needed. The District's cost basis of these facilities is included in property and equipment with the net book value of the facilities being reported as temporarily restricted net assets. The current year's depreciation of these assets is reported as net assets released from restrictions.

**Use of Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

**Investments**

Investments in debt securities (if any) are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

UNION GENERAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001

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1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets Whose Use is Limited

Assets limited as to use primarily include cash designated by the board for the payment of employee benefits. The board maintains direct control of the funds set aside for employee benefits and may at its discretion subsequently use these funds for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet at June 30, 2002 and 2001.

Inventories

Inventories represent dietary and medical supplies on hand and are valued at the latest invoice price which approximates the lower of cost (first-in, first-out) or market.

Prepaid Expenses

Prepaid expenses are amortized on a straight-line basis over the period of the respective terms.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations (if any) is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets (if any) such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

UNION GENERAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001

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1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets (if any) are those assets whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets (if any) have been restricted by donors to be maintained by the Hospital in perpetuity.

Unconditional promises to give cash and other assets to the Hospital (if any) are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give (if any) are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, may include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

UNION GENERAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001

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1. **DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**Charity Care**

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient revenue.

**Income Taxes**

The Hospital is a Louisiana not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include provisions for income taxes.

**Presentation**

Certain prior year amounts may have been reclassified in order to be presented comparatively with the current year classifications.

2. **NET PATIENT SERVICE REVENUE**

Prior to August 1, 2000, Medicare and Medicaid inpatient acute care services rendered to program beneficiaries were 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.

Subsequent to receiving its Critical Access Hospital designation on August 1, 2000, Medicare and Medicaid inpatient acute care services rendered to program beneficiaries, certain inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under these programs and the appropriateness of their admission are subject to an independent review.

**UNION GENERAL HOSPITAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

**2. NET PATIENT SERVICE REVENUE (Continued)**

Subject to the above mentioned review, the retroactive settlements payable to these programs at June 30, 2002 and 2001, respectively were \$(521,766) and \$(132,091). Adjustments to these amounts (if any) will be recognized in the year of determination.

	<u>2002</u>	<u>2001</u>
Current cost report payable to Medicare	\$ (312,707)	\$ (238,949)
Current cost report receivable from Medicaid	76,115	64,406
Prior year payable to Medicare	(349,580)	-
Prior year receivable from Medicaid	<u>64,406</u>	<u>42,452</u>
	<u>\$ (521,766)</u>	<u>\$ (132,091)</u>

The Hospital has also entered into agreements with Blue Cross and certain commercial insurance carriers, health maintenance organizations, etc. The future impact of these changes is dependent upon interpretation of new regulations, patient acuity, and treatment patterns and has not been estimated. The basis for payment to the Hospital under these various agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Hospital's previous reimbursements are also subject to review by federal authorities. These authorities have several initiatives in progress. No material liabilities have been identified to date under these review programs; however, the potential exists for future claims. These will be recognized in the year the amounts are determined, if any.

**3. UNCOMPENSATED CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. Additionally, the Hospital foregoes charges relating to Medicare, Medicaid, and other third-party payors. Following is a schedule of patient service revenue at established rates and charges foregone for the years ended June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Gross patient service revenue	\$ 7,571,653	\$ 6,908,438
Medicare and Medicaid contractual adjustments	(1,642,438)	(2,054,062)
Charity care	(2,255)	(1,669)
Disproportionate share	<u>512,070</u>	<u>496,109</u>
	<u>\$ 6,439,030</u>	<u>\$ 5,348,816</u>

**UNION GENERAL HOSPITAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

**3. UNCOMPENSATED CARE** *(Continued)*

Including bad debts, the total amount of uncompensated care was \$1,976,043 and \$2,396,187 in 2002 and 2001, respectively.

**4. LIMITED USE ASSETS AND INVESTMENTS**

The components of assets limited as to use at June 30, 2002 and 2001, is set forth in the following table. Investments are stated at fair value.

	<u>2002</u>	<u>2001</u>
Internally designated for Hospital's employee sick leave plan	\$ 94,364	\$ 51,519
Internally designated for teleradiology grant	<u>15</u>	<u>-</u>
	94,379	51,519
Less current portion	<u>-</u>	<u>(1,517)</u>
	<u>\$ 94,379</u>	<u>\$ 50,002</u>

**5. CONCENTRATIONS OF CREDIT RISK**

**Accounts Receivable** - The Hospital is located in Farmerville, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2002</u>	<u>2001</u>
Medicare	31%	41%
Medicaid	11%	8%
Other third-party payors	7%	17%
Patients	<u>51%</u>	<u>34%</u>
	<u>100%</u>	<u>100%</u>

	<u>2002</u>	<u>2001</u>
Accounts receivable - GROSS	\$ 1,910,374	\$ 1,390,699
Allowance for bad debts and contractual adjustments	<u>(937,208)</u>	<u>(598,067)</u>
Accounts receivable - NET	<u>\$ 973,166</u>	<u>\$ 792,632</u>

UNION GENERAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001

5. CONCENTRATIONS OF CREDIT RISK (Continued)

**Bank Accounts** - State law requires that bank accounts be collateralized by a pledge of sufficient market value of qualifying securities for amounts invested in excess of the insured amount. Insurance and collateralization at June 30, 2002, follows:

	<u>2002</u>	<u>2001</u>
Insured (FDIC)	\$ 536,282	\$ 198,578
Collateralized by pledge of securities	336,868	251,093
Uncollateralized	-	32,529
Total	<u>\$ 873,150</u>	<u>\$ 482,200</u>

**Suppliers** - The Hospital is dependent on a third-party provider of emergency care services whose contract expires June 11, 2003. Failure to obtain favorable renewal of this contract or locate an alternative supplier could result in a future disruption of service to patients.

**Physicians** - The Hospital is dependent on local physicians practicing in its service area to provide admissions, emergency care services, and to utilize Hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on Hospital operations.

**Professional Liability** - The Hospital participates in the Louisiana Patients' Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. There is not a limitation placed on the number of occurrences covered.

Membership in the Louisiana Hospital Association Trust Fund provides additional coverage for the professional medical malpractice liability for the Hospital. Premiums paid to the fund are based on the loss experience of the Hospital. The portion of the funds that is refundable to the Hospital is included in other assets.

**Workers Compensation** - The Hospital participates in the Louisiana Hospital Association's Self-Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of assessments, if any, under this program. The portion of the fund that is refundable to the Hospital is included in other assets.

UNION GENERAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2002 AND 2001

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6. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2002 and 2001 follows:

	<u>2002</u>	<u>2001</u>	<u>Lives</u>
Land and improvements	\$ 20,243	\$ 20,243	
Buildings and improvements	664,983	613,638	15-40 years
Equipment	1,347,545	1,205,404	5-20 years
Facilities leased from District	<u>3,495,691</u>	<u>3,659,589</u>	5-20 years
	5,528,462	5,498,874	
Less accumulated depreciation and amortization	<u>(3,825,368)</u>	<u>(3,669,839)</u>	
	<u>\$ 1,703,094</u>	<u>\$ 1,829,035</u>	

7. NOTES PAYABLE

A summary of notes payable at June 30, 2002 and 2001 follows:

	<u>2002</u>	<u>2001</u>
Due to bank; payable monthly at \$929 including interest at 9.00%, uncollateralized.	\$ -	\$ 6,307

**UNION GENERAL HOSPITAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

**8. LONG-TERM DEBT**

A summary of long-term debt at June 30, 2002 and 2001, follows:

	<u>2002</u>	<u>2001</u>
Due to bank; payable monthly at \$546.89, 0% interest; secured with auto; matures December 12, 2004.	\$ 16,407	\$ -
Due to bank; payable monthly at \$1,481 including interest at 8.25%; secured with house and two lots; matures October 20, 2001.	-	5,824
	16,407	5,824
Less current portion	(6,563)	(5,824)
	<u>\$ 9,844</u>	<u>\$ -</u>

A summary of long-term debt obligations following June 30, 2002 follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>
2003	\$ 6,563
2004	6,563
2005	3,281
	<u>\$ 16,407</u>

**9. COMMITMENTS AND CONTINGENCIES**

**Operating Leases** - The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total rental expense in 2002 and 2001 for all operating leases was \$75,748 and \$54,631, respectively.

**Litigation** - The Hospital is the defendant in certain litigation arising in the normal course of its business. In the opinion of management and the Hospital's legal counsel, the claims are without merit and the awards for damages (if any) resulting from these claims will not exceed the applicable insurance coverage. Therefore, the Hospital has made no provision in the financial statements for loss contingency related to these suits.

**UNION GENERAL HOSPITAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

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**9. COMMITMENTS AND CONTINGENCIES (Continued)**

**Management Agreements** - The Hospital entered into a contract for administrative services with Glenwood Regional Medical Center, which automatically renews each year. This contract requires that the management company provide personnel to perform duties as the Hospital administrator. The Hospital pays a fixed fee of approximately \$48,000 per year. Subsequent to year end, the fixed fee increased to approximately \$54,000 per year.

**10. PHYSICIAN GUARANTEE AND LOAN**

During fiscal year 2001, the Hospital entered into an agreement with a physician guaranteeing a minimum income in return for his agreement to practice in the surrounding area. This agreement requires the Hospital to make advances in months the physician's net income falls below certain amounts. The physician is required to maintain his practice in Farmerville for a specified time period. Each year after the specified period that he practices in Farmerville, one-third of the amount advanced will be forgiven. A receivable of \$136,211 and \$136,569 was recorded as of June 30, 2002 and 2001, respectively.

Under this agreement, the Hospital also makes monthly payments directly to the financing company to repay the physician's outstanding student education loan. The physician is required to maintain his practice in Farmerville for a specified time period. Each year after the specified period that he practices in Farmerville, one-fourth of the amount owed will be forgiven. A receivable of \$25,352 and \$12,006 was recorded as of June 30, 2002 and 2001, respectively, for the loan.

**11. EMPLOYEE BENEFITS**

**Compensated Absences** - As of June 30, 2002 and 2001, the Hospital has accrued a compensated absence liability of \$143,423 and \$117,584, respectively. The Hospital does pay accrued vacation absences upon termination if proper notice and termination procedures are followed. The Hospital also pays accrued sick leave to employees who have been employed with the Hospital for 20 years at the time of termination, for employees that were hired before November 1992 and if proper notice and termination procedures are followed.

**12. PENSION PLAN**

The Hospital has a discretionary contribution plan covering substantially all of its employees with over 1,040 hours of service. Employees are allowed to contribute up to 20% of compensation. Contributions by the Hospital, if any, are up to the discretion of the Board. During the years ended June 30, 2002 and 2001, the Hospital did not contribute to the plan.

**UNION GENERAL HOSPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2002 AND 2001**

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**13. FUNCTIONAL EXPENSES**

The Hospital provides general health care services to residents within its geographic vicinity. Expenses related to providing these services are as follows:

	<u>2002</u>	<u>2001</u>
Health care services	\$ 5,709,523	\$ 5,212,227
General and administrative	<u>760,356</u>	<u>553,113</u>
	<u>\$ 6,469,879</u>	<u>\$ 5,765,340</u>

**14. CONTRIBUTIONS**

In November 1998, the voters of the District approved the authorization of a ten-year, \$5 million, property tax levy on all taxable property located within the District. The tax can be used for constructing, maintaining, improving, equipping, and operating the Hospital facilities. The District Board of Directors determines how the tax proceeds will be spent. The Hospital may receive a portion of the tax proceeds from the District as a contribution. During the years ended June 30, 2002 and 2001, the Hospital received a portion of the District tax receipts in the amount of \$242,589 and \$195,961, respectively.

*SUPPLEMENTAL INFORMATION*

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

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To the Board of Directors  
Union General Hospital, Inc.  
Farmerville, Louisiana

We have audited the financial statements of Union General Hospital, Inc. (the "*Hospital*") as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated September 6, 2002. We conducted our audits in accordance with U.S. generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Union General Hospital, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-1, 02-2, 02-3, 01-1, 01-2, and 01-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Union General Hospital Inc., in a separate letter dated September 6, 2002.

This report is intended for the information of the Hospital's board of directors and management, and the Legislative Auditor's Office of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

*Parrish Moody Jones, P.C.*

Waco, Texas  
September 6, 2002

**UNION GENERAL HOSPITAL**  
**SUMMARY SCHEDULE OF AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

---

**02-1 Segregation of Duties —**

The Hospital has a lack of segregation of duties. While management has segregated certain specific functions and attempts to provide control commensurate with the Hospital's level of staffing, the overall control of accounting data is more concentrated than desirable. This problem is common in small and medium sized facilities that are forced to control personnel costs at the expense of improved control. We suggest that you evaluate whether your level of control is appropriate for your current situation.

**Response:** The Hospital reviewed their check signing policy and will require another person's signature other than Juanita Sanford for check signing.

**02-2 Compliance Plan —**

In March of 1998, the Office of Inspector General (OIG) issued compliance program guidance for hospitals and is updated annually. This guidance contains some suggestions that do not appear to be specifically incorporated in your current plan. It is important to keep these plans in perspective. Adoption of a compliance plan may result in mitigation of future penalties; however, OIG makes no promises regarding this mitigation. Also, the Hospital is not required to adopt the OIG suggestions.

Nonetheless, we strongly suggest that the Hospital evaluate its plan in light of the OIG pronouncements. If the Hospital is ever accused of non-compliance, it likely will have to justify departures from the OIG plan.

One important element in the Hospital's compliance plan is that the Hospital use pattern analysis to help evaluate compliance. Although many monitoring techniques are available, one effective tool to promote and ensure compliance is the performance of regular, periodic compliance audits by internal or external auditors who have expertise in federal and state health care statutes, regulations, and federal health care program requirements. At a minimum, these audits should be designed to address the Hospital's compliance with laws governing kickback arrangements, the physician self-referral prohibition, CPT/HCPCS ICD-9 coding, claim development and submission, reimbursement, cost reporting, and marketing. In addition, the audits and reviews should inquire into the Hospital's compliance with specific rules and policies that have been the focus of particular attention on the part of the Medicare fiscal intermediaries or carriers, and law enforcement, as evidenced by OIG Special Fraud Alerts, OIG audits and evaluations and law enforcement's initiatives.

**Response:** The Hospital is revising its compliance procedures to include pattern analyses and compliance audits, and continually makes efforts to ensure compliance with the OIG compliance program.

**UNION GENERAL HOSPITAL**  
**SUMMARY SCHEDULE OF AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**02-3 Outstanding Checks —**

We noted in the operating account reconciliation that there were outstanding checks that were over 90 days old. It is our recommendation that the Hospital follow up on these old, outstanding checks to determine if they should be voided and reissued. We also noted on the Hospital's checks that there are no types of legends on the check noting that the check is void after a reasonable period of time. Although the Hospital maintains a list of all old, outstanding checks, we recommend that the Hospital have a time frame printed on the checks, such as 60 or 90 days, to aid the Hospital in tracking these old, outstanding checks. We also suggest that the Hospital review the provisions of Louisiana Revised Statutes 9:151-181 to determine what items (if any) may need to be turned over to the Louisiana Department of Treasury.

**Response:** The Hospital is reviewing patient refunds and reissuing checks if a patient's address is known. The Hospital is also reviewing the requirements for submitting unclaimed checks to the State of Louisiana and will file the appropriate reports as necessary.

**UNION GENERAL HOSPITAL**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**01-1 Segregation of Duties —**

The Hospital has a lack of segregation of duties. While management has segregated certain specific functions and attempts to provide control commensurate with the Hospital's level of staffing, the overall control of accounting data is more concentrated than desirable. This problem is common in small and medium sized facilities that are forced to control personnel costs at the expense of improved control. We suggest that you evaluate whether your level of control is appropriate for your current situation.

**Response:** Hospital is reviewing their check signing policy and will require someone other than Juanita Sanford to sign checks.

**Current Status:** The Hospital reviewed their check signing policy and will require another person's signature other than Juanita Sanford for check signing.

**01-2 Late Charges —**

During the course of our fieldwork, we noted that sometimes "late charges" would be added to a patient account. Late charges are simply charges that are not recorded on the patient account or the general ledger at the date of service. Rather, they are posted at some later date. Late charges have two implications:

- The account may already be billed when the charges are added to the account. Because the Hospital is reimbursed on a rate per day basis, this has no initial reimbursement effect for the Hospital. However, it does have a cost report effect at year-end. The bottom line is that according to Medicare these "late charges" do not exist.
- "Late charges" may cause revenues to be reported in the wrong accounting period. In order to improve this area, we suggest that the Hospital implement a policy that requires departments to report their charges in a timely manner.

**Response:** Hospital now requires all charges due to the business office the morning following the day of service.

**Current Status:** No similar findings were noted in the 2002 audit.

**01-3 Payroll Procedures —**

As part of our audit procedures, we examined a sampling of employee files for I-9 compliance. We noted that 1 out of 25 I-9s was missing. The Hospital should review its new employee file procedures and ensure that properly completed I-9s are included in each employee file. Because the items noted above were from a sample, it is possible that there may be more items of this nature.

**Response:** Hospital is now reviewing employee files periodically for completed I-9s.

**Current Status:** No similar findings were noted in the 2002 audit.

**UNION GENERAL HOSPITAL, INC.**  
*Farmerville, Louisiana*

***MANAGEMENT LETTER,  
COMMUNICATIONS WITH THE  
BOARD OF DIRECTORS  
AND SUPPLEMENTAL INFORMATION***

***For the Year Ended  
June 30, 2002***

**PARRISH • MOODY & FIKES, p.c.**  
*Certified Public Accountants  
Waco, Texas*



**UNION GENERAL HOSPITAL, INC.**

**MANAGEMENT LETTER,  
COMMUNICATIONS WITH THE BOARD OF DIRECTORS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2002**

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# *Section A*

**PARRISH • MOODY & FIKES, p.c.**

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OFFICES IN

WACO, MARLIN, AUSTIN,

DALLAS & LONGVIEW, TEXAS

September 6, 2002

Ms. Evalyn Ormond  
Union General Hospital, Inc.  
Farmerville, Louisiana

This letter is a recommendation letter which will offer other comments and suggestions that were not included in our internal control letter. That letter only contains items which were considered reportable conditions or material weaknesses under standards established by the American Institute of Certified Public Accountants. This letter focuses on other areas.

These recommendations are a result of our audit of the financial statements of Union General Hospital, Inc. as of June 30, 2002. These recommendations should be considered as a basis for further action and may need to be balanced with other goals. Therefore, these comments should be adapted to the mission of the Hospital as defined by the Board of Directors.

A copy of this letter is included in our supplemental report for information purposes, but it is not intended for general distribution.

If you have any questions regarding these or any other matters, please feel free to contact our office.

Sincerely,

**PARRISH • MOODY & FIKES, p.c.**

## ***OTHER MATTERS***

### **Billing —**

During the course of our fieldwork, we noted that no procedures were in place to ensure charges from all departments are actually billed to patients. While the Hospital has procedures requiring the accounting department to send monthly billing reports, which show departmental charges, to each individual departments, the departments do not review and reconcile these billing reports to the departments' records. We recommend that procedures be put in place requiring individual departments to review and reconcile billing reports to the departments' records to ensure that no patient charge is missed.

**Response:** The Hospital is reviewing its current procedures and implementing or enforcing, where necessary, procedures to ensure no patient charge is missed.

### **Maintenance and Repairs —**

During the course of our fieldwork, we noted that a maintenance and repair expense was recorded in a contract labor and professional fees account. This was done to ensure the expense was included in the correct department for cost reporting purposes. While this has no material impact on the financial statements, we recommend the expense be recorded in a maintenance and repair account to reflect the appropriate expense category for financial reporting.

**Response:** The Hospital will create a separate account in which to record maintenance and repair expenses.

### **Fixed Assets Policy —**

During the course of our fieldwork, we noted that the Hospital did not have a formal written policy that describes the approval for purchase or deletion of assets, the capitalization of assets, and the assignment of asset lives. We recommend that a written policy be developed to ensure that assets are consistently recorded and assets lives consistently assigned.

**Response:** The Hospital is developing a written policy to ensure that assets are consistently recorded and assets' lives consistently assigned.

### **Recording of Contractuals —**

During the course of our fieldwork, we noted that contractuals other than Medicare and Medicaid were being recorded in the same account with bad debt expense. Although, not currently material, we recommend that the contractuals other than Medicare and Medicaid be recorded in a separate account since these contractuals are not considered bad debt. Therefore, should these contractuals become material in the future, it would be easier to estimate the amounts.

**Response:** The Hospital will create a separate account in which to record contractuals other than Medicare and Medicaid.

## ***Section B***

**PARRISH • MOODY & FIKES, p.c.**  
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**ACCOUNTANT'S REPORT**

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To the Board of Directors  
Union General Hospital, Inc.  
Farmerville, Louisiana

We have compiled the accompanying balance sheet of Union General Hospital, Inc., as of the periods shown and the related statements of operations and supplemental statements of revenues and expenses shown at Section B-2, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying revenues and expenses and, accordingly, do not express an opinion or any other form of assurance on them.

U.S. generally accepted accounting principles call for patient revenues to be presented net of contractual adjustments. Because these are considered to be a very important factor in the results of operations, contractual adjustments have been included in the statements of operations. If U.S. generally accepted accounting principles had been followed, these statements would only have shown the net patient service revenues. There is no impact on the excess of revenues over expenses because of this presentation.

Since they have already been disclosed in the audited financial statements, management has elected to omit substantially all of the disclosures required by U.S. generally accepted accounting principles in this report. If the omitted disclosures were included with the income statements, they might influence the user's conclusions about the Hospital's results of operations. Accordingly, these income statements are not designed for those who are not informed about such matters.

The financial statements for the years ended June 30, 2002, 2001, and 2000, were audited by us, and we expressed an unqualified opinion on them in our respectively dated reports, but we have not performed any auditing procedures since the original dates of our auditors' reports.

The financial statements for the year ended June 30, 1999, were audited by another auditor, and they expressed an unqualified opinion on them.

Sections B-3 and D-1 through E-2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.

*Parrish, Moody & Fikes, P.C.*

Waco, Texas  
September 6, 2002

**Union General Hospital, Inc.**  
**Supplemental Information**  
**Details of Operating Income**  
**Amounts**  
**For the Years Ended June 30,**

	1999	2000	2001	2002
Inpatient revenue	\$5,110,281	\$5,549,574	\$3,663,895	\$3,636,415
Outpatient revenue	1,855,546	2,195,667	2,679,060	3,004,413
Home health revenue	418,789	394,719	565,483	586,536
Rural health clinic revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>344,289</u>
<b>Total patient service revenues</b>	<u>7,384,616</u>	<u>8,139,960</u>	<u>6,908,438</u>	<u>7,571,653</u>
Contractual deductions	(2,224,969)	(2,692,229)	(2,054,062)	(1,642,438)
Charity care	(103,661)	(97,614)	(1,669)	(2,255)
Disproportionate share and other credits	<u>136,888</u>	<u>246,818</u>	<u>496,109</u>	<u>512,070</u>
<b>Total contractual deductions</b>	<u>(2,191,742)</u>	<u>(2,543,025)</u>	<u>(1,559,622)</u>	<u>(1,132,623)</u>
<b>Net patient service revenues</b>	5,192,874	5,596,935	5,348,816	6,439,030
Other revenue	69,188	67,505	116,031	135,338
Contributions	<u>0</u>	<u>0</u>	<u>195,961</u>	<u>242,714</u>
	<u>5,262,062</u>	<u>5,664,440</u>	<u>5,660,808</u>	<u>6,817,082</u>
Salaries	2,147,980	1,903,098	2,111,655	2,414,219
Employee benefits	68,841	67,615	60,670	79,707
Payroll taxes	146,944	129,562	154,901	183,601
Purchased/contracted services	1,504,658	1,193,890	430,637	506,869
Payments to physicians - ER	41,953	487,131	581,242	607,246
Payments to physicians - other	0	0	0	43,795
Supplies	730,117	777,093	825,569	914,529
Education and training	17,875	19,426	17,643	29,230
Travel	38,271	40,383	65,543	57,035
Telephone and utilities	146,182	109,641	171,282	155,850
Maintenance and repairs	38,598	28,813	50,976	84,070
Rental expense	37,140	48,057	54,631	75,748
Insurance	53,752	15,708	74,338	137,197
Legal and professional	50,255	69,733	55,485	53,667
Interest expense	5,050	3,670	5,739	154
Depreciation	169,497	164,225	192,088	171,671
Bad debts	463,502	691,863	836,565	843,420
Other expenses	<u>102,715</u>	<u>101,833</u>	<u>76,376</u>	<u>121,870</u>
<b>Total operating expenses</b>	<u>5,763,330</u>	<u>5,851,741</u>	<u>5,765,340</u>	<u>6,479,878</u>
<b>Income (loss) from operations</b>	<u>\$(501,268)</u>	<u>\$(187,301)</u>	<u>\$(104,532)</u>	<u>\$337,204</u>

See accountant's compilation report.

**Union General Hospital, Inc.**

**Supplemental Information  
Details of Operating Income  
Percents  
For the Years Ended June 30,**

	1999	2000	2001	2002
Inpatient revenue	69.20%	68.18%	53.04%	48.03%
Outpatient revenue	25.13%	26.97%	38.77%	39.67%
Home health revenue	5.67%	4.85%	8.19%	7.75%
Rural health clinic revenue	0.00%	0.00%	0.00%	4.55%
<b>Total patient service revenues</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Contractual deductions	(30.13)%	(33.07)%	(29.74)%	(21.69)%
Charity care	(1.40)%	(1.20)%	(0.02)%	(0.03)%
Disproportionate share and other credits	1.85%	3.03%	7.18%	6.76%
<b>Total contractual deductions</b>	<b>(29.68)%</b>	<b>(31.24)%</b>	<b>(22.58)%</b>	<b>(14.96)%</b>
<b>Net patient service revenues</b>	<b>70.32%</b>	<b>68.76%</b>	<b>77.42%</b>	<b>85.04%</b>
Other revenue	0.94%	0.83%	1.68%	1.78%
Contributions	0.00%	0.00%	2.84%	3.21%
	<b>71.26%</b>	<b>69.59%</b>	<b>81.94%</b>	<b>90.03%</b>
Salaries	29.08%	23.37%	30.56%	31.88%
Employee benefits	0.93%	0.83%	0.88%	1.05%
Payroll taxes	1.99%	1.59%	2.24%	2.42%
Purchased/contracted services	20.38%	14.67%	6.23%	6.69%
Payments to physicians - ER	0.57%	5.98%	8.41%	8.02%
Payments to physicians - other	0.00%	0.00%	0.00%	0.58%
Supplies	9.89%	9.55%	11.95%	12.08%
Education and training	0.24%	0.24%	0.26%	0.39%
Travel	0.52%	0.50%	0.95%	0.75%
Telephone and utilities	1.98%	1.35%	2.48%	2.06%
Maintenance and repairs	0.52%	0.35%	0.74%	1.11%
Rental expense	0.50%	0.59%	0.79%	1.00%
Insurance	0.73%	0.19%	1.08%	1.81%
Legal and professional	0.68%	0.86%	0.80%	0.71%
Interest expense	0.07%	0.05%	0.08%	0.00%
Depreciation	2.30%	2.02%	2.78%	2.27%
Bad debts	6.28%	8.50%	12.11%	11.14%
Other expenses	1.39%	1.25%	1.11%	1.61%
<b>Total operating expenses</b>	<b>78.05%</b>	<b>71.89%</b>	<b>83.45%</b>	<b>85.57%</b>
<b>Income (loss) from operations</b>	<b>(6.79)%</b>	<b>(2.30)%</b>	<b>(1.51)%</b>	<b>4.46%</b>

See accountant's compilation report.

## *Section C*

**UNION GENERAL HOSPITAL, INC.**

**COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

In April 1988, the AICPA Auditing Standards Board issued a group of Statements on Auditing Standards commonly referred to as the "Expectation Gap" Auditing Statements. The following section provides required communications with the Board under these statements:

<b><u>Statement on Auditing Standards</u></b>	<b><u>Response for the 2002 Audit</u></b>
SAS No. 53, " <i>The Auditor's Responsibility to Detect and Report Errors and Irregularities</i> "	<ul style="list-style-type: none"><li>• We are not aware of any errors or irregularities that have not been communicated to the Board.</li></ul>
SAS No. 54, " <i>Illegal Acts by Clients</i> "	<ul style="list-style-type: none"><li>• We are not aware of any illegal acts that have not been communicated to the Board.</li></ul>
SAS No. 60, " <i>Communication of Internal Control Structure Related Matters Noted in an Audit</i> "	<ul style="list-style-type: none"><li>• We are not aware of any material internal control matters, which would require communication to the Board other than as included with this report.</li></ul>
SAS No. 61, " <i>Communication with Audit Committees</i> "	
The auditor's responsibility	<ul style="list-style-type: none"><li>• Our audit is designed to enable us to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.</li></ul>
Significant accounting policies	<ul style="list-style-type: none"><li>• The Board has been informed of significant accounting policies included in the notes to the financial statements.</li></ul>
Management judgments and accounting estimates	<ul style="list-style-type: none"><li>• Management judgment is required in estimating the allowances for contractual adjustments and estimated uncollectible accounts.</li></ul>

*(continued)*

**UNION GENERAL HOSPITAL, INC.**

**COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

**Statement on Auditing Standards**

**Response for the 2002 Audit**

SAS No. 61, "Communication with Audit Committees" (Continued)

Significant audit adjustments:

- (1) Entry necessary to estimate 2002 cost report settlement (decrease net assets \$108,988).
- (2) Entry necessary to adjust prepaid expenses (decrease net assets \$97,606).
- (3) Entry necessary to adjust allowances (increase net assets \$100,000).

Other information in documents containing audited financial statements.

- None

Disagreements with management.

- None

Consultations with other accountants.

- None

Major issues discussed with management prior to retention or reappointment.

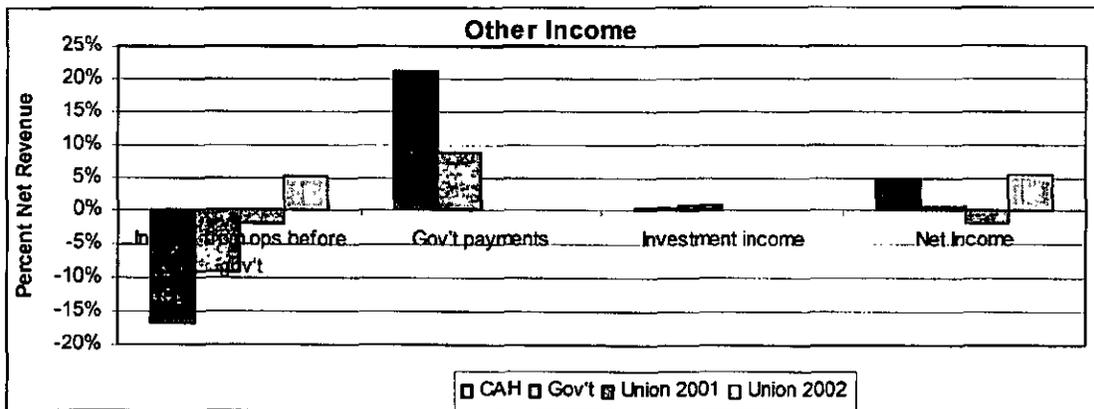
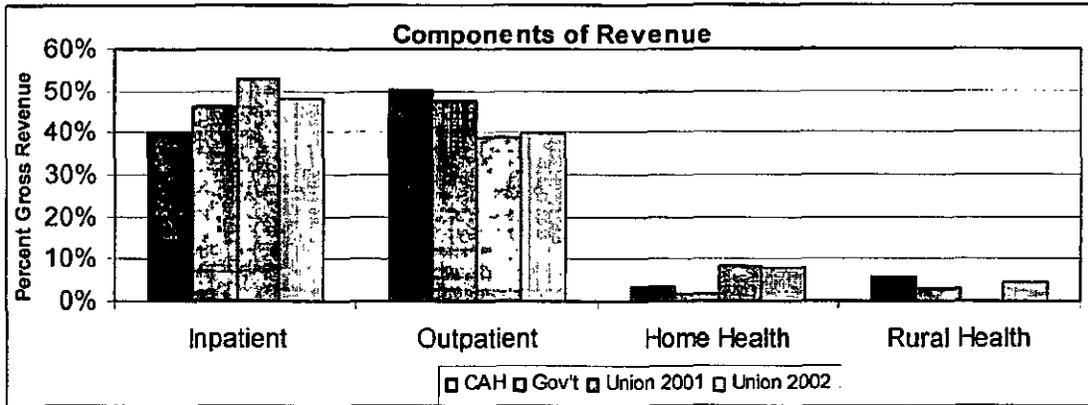
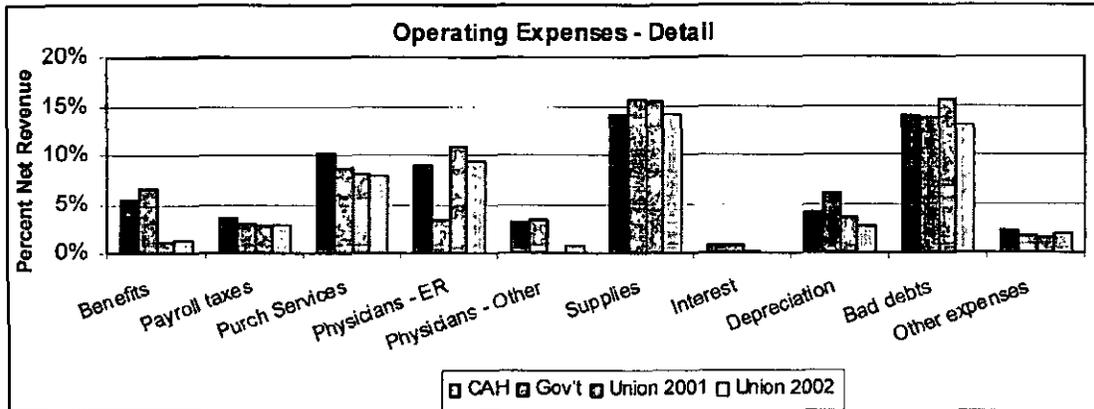
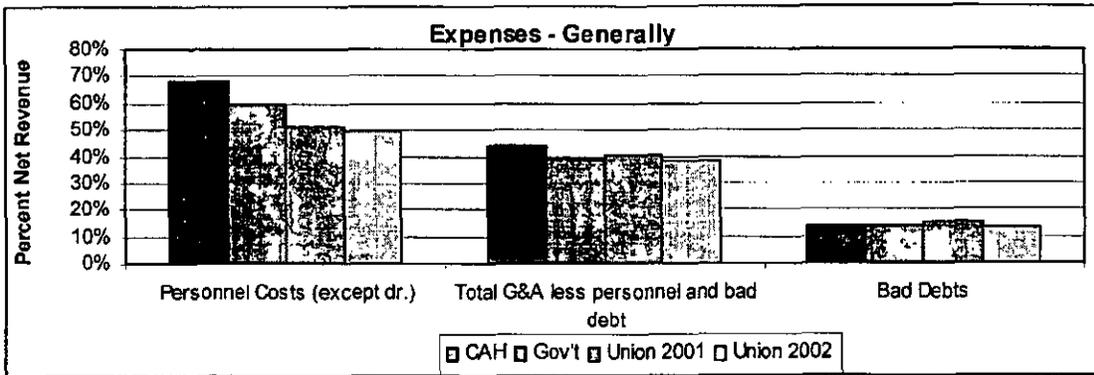
- None

## *Section D*

**Union General Hospital, Inc.**  
**Supplemental Information**  
**Peer Comparison**  
**For the Years Ended June 30,**

	<u>Critical Access</u>	<u>Governmental</u>	<u>2001</u>	<u>2002</u>
<b>% of Gross Patient Service Revenue</b>				
Inpatient revenue	40.03%	46.54%	53.04%	48.03%
Outpatient revenue	50.34%	47.75%	38.77%	39.67%
Home health revenue	3.36%	1.85%	8.19%	7.75%
Rural health clinic revenue	5.81%	2.91%	0.00%	4.55%
Long-term care revenue	0.46%	0.53%	0.00%	0.00%
Premium revenue	0.00%	0.42%	0.00%	0.00%
<b>Total patient service revenues</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Contractual deductions</b>				
Contractual deductions	(17.80)%	(31.14)%	(29.74)%	(21.69)%
Charity care	(0.84)%	(3.90)%	(0.02)%	(0.03)%
Other deductions	(4.21)%	(7.42)%	0.00%	0.00%
Disproportionate share and other credits	1.83%	2.27%	7.18%	6.76%
<b>Total contractual deductions</b>	<b>(21.02)%</b>	<b>(40.19)%</b>	<b>(22.58)%</b>	<b>(14.96)%</b>
<b>Net patient service revenues</b>	<b>78.98%</b>	<b>59.81%</b>	<b>77.42%</b>	<b>85.04%</b>
<b>% of Net Patient Service Revenues</b>				
Net patient service revenue	100.00%	100.00%	100.00%	100.00%
Other revenue	8.97%	3.24%	5.83%	5.87%
	<b>108.97%</b>	<b>103.24%</b>	<b>105.83%</b>	<b>105.87%</b>
Salaries	48.74%	41.63%	39.47%	37.49%
Employee benefits	5.53%	6.54%	1.13%	1.24%
Payroll taxes	3.51%	2.98%	2.90%	2.85%
Purchased/contracted services	10.28%	8.61%	8.05%	7.87%
Payments to physicians - ER	9.07%	3.31%	10.87%	9.43%
Payments to physicians - other	3.27%	3.47%	0.00%	0.68%
Supplies	14.22%	15.75%	15.43%	14.20%
Education and training	0.32%	0.32%	0.33%	0.45%
Travel	0.55%	0.32%	1.23%	0.89%
Telephone and utilities	2.89%	2.41%	3.20%	2.42%
Maintenance and repairs	1.39%	1.88%	0.95%	1.31%
Rental expense	1.34%	0.89%	1.02%	1.18%
Insurance	1.89%	1.04%	1.39%	2.13%
Legal and professional	1.54%	0.90%	1.04%	0.83%
Interest expense	0.73%	0.72%	0.11%	0.00%
Depreciation	4.15%	6.04%	3.59%	2.67%
Bad debts	13.89%	13.71%	15.64%	13.10%
Other expenses	2.33%	1.79%	1.43%	1.89%
<b>Total general &amp; administrative</b>	<b>125.64%</b>	<b>112.31%</b>	<b>107.78%</b>	<b>100.63%</b>
<b>Income (loss) from operations other than property taxes and local governmental subsidies</b>	<b>(16.67)%</b>	<b>(9.07)%</b>	<b>(1.95)%</b>	<b>5.24%</b>
Property taxes and local governmental subsidies	21.13%	8.73%	0.00%	0.00%
<b>Income (loss) from operations</b>	<b>4.46%</b>	<b>(0.34)%</b>	<b>(1.95)%</b>	<b>5.24%</b>
Investment income	0.49%	1.03%	0.25%	0.15%
<b>Excess (deficit) of revenues over expenses</b>	<b>4.95%</b>	<b>0.69%</b>	<b>(1.70)%</b>	<b>5.39%</b>

**Union General Hospital, Inc.  
For the Years Ended June 30,**



# *Section E*

**Union General Hospital, Inc.  
For the Years Ended June 30,**

