

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**

Accountants' Report and Financial Statements

May 31, 2008 and 2007

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 2/25/09

**East Carroll Parish Hospital Service District, DBA
 East Carroll Parish Hospital
 (A Component Unit of East Carroll Parish)
 May 31, 2008 and 2007**

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**Independent Accountants' Report on
Financial Statements and Supplementary Information**

Board of Commissioners
East Carroll Parish Hospital Service District, dba
East Carroll Parish Hospital
Lake Providence, Louisiana

We have audited the accompanying balance sheet of East Carroll Parish Hospital Service District, dba East Carroll Parish Hospital (the Hospital) [A Component Unit of East Carroll Parish] as of May 31, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of the Hospital as of and for the year ended May 31, 2007, were audited by other accountants whose report dated November 27, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of East Carroll Parish Hospital Service District, dba East Carroll Parish Hospital as of May 31, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2009, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary data, to such information as of and for the year ended May 31, 2008. However, we did not audit the information as of and for the year ended May 31, 2008, and express no opinion on it. Other accountants have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, to such information as of and for the year ended May 31, 2007. However, as stated in their report referred to above, the other accountants did not audit the information as of and for the year ended May 31, 2007, and expressed no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the year ended May 31, 2008, 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. The supplementary information for the year ended May 31, 2007, was audited by other accountants whose report dated November 27, 2007, expressed an unqualified opinion on such information in relation to the basic financial statements for the year ended May 31, 2007, taken as whole.

BKD, LLP

February 9, 2009

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)
Management's Discussion and Analysis
Years Ended May 31, 2008 and 2007**

This section of the East Carroll Parish Hospital Service District, dba East Carroll Parish Hospital (the Hospital) annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal year that ended on May 31, 2008. Please read it in conjunction with the financial statements in this report.

Financial Highlights

The Hospital's total net assets decreased from the prior year by \$441,136. This decrease results from the recognition of revenues in excess of expenses of that amount. Cash decreased by \$305,666.

At the end of the 2008 fiscal year, the assets of the Hospital exceeded liabilities by \$4,103,102. Of this amount, \$2,908,352 (unrestricted net assets) may be used to meet ongoing obligations to the Hospital's employees, patients and creditors; while \$1,194,750 is invested in capital assets, net of related debt.

Revenue was up 1.7% in 2008, compared to 2007. During the same period, operating expenses increased by \$674,384, or 9.9%, including a 7.8% increase in salary and wages. The increase in personnel costs was primarily due to increased physician compensation and additional nursing overtime pay due to nursing shortages. This increase in personnel costs is the primary reason for the operating deficit for the year ended May 31, 2008.

Overview of the Financial Statements

This annual report consists of four components – Management's Discussion and Analysis, the Independent Accountants' Report, the Audited Financial Statements and Supplementary Information.

The financial statements of the Hospital report the financial position of the Hospital and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year.

They also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net assets. These statements measure the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the statements of cash flows is to provide information about the Hospital's cash flows from operations, investments, and financial activities. The statements of cash flows outline where the cash comes from, what the cash is used for and the changes in the cash balance during the reporting period.

The annual report also includes notes to the financial statements that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

Following the notes to the financial statements is a section containing supplementary information that further explains and supports the information reported in the financial statements. This section includes optional schedules showing revenues and expenses by department, as well as certain statistical information.

Financial Analysis of the Hospital

The balance sheets and the statements of revenues, expenses and changes in net assets report information about the Hospital's activities. Increases or improvements, as well as decreases or declines in net assets, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions, population changes (including uninsured and working poor) and new or changed government legislation.

Balance Sheets

A summary of the Hospital's balance sheets is presented in the following table:

Condensed Balance Sheets

	Fiscal Year <u>2008</u>	Fiscal Year <u>2007</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Current assets	\$ 2,395,511	\$ 2,811,420	\$ (415,909)	(14.7)%
Capital assets, net	1,697,207	1,737,209	(40,002)	(2.3)%
Other assets and assets limited as to use	<u>1,290,882</u>	<u>1,197,280</u>	<u>93,602</u>	7.8%
Total assets	<u>\$ 5,383,600</u>	<u>\$ 5,745,909</u>	<u>\$ (362,309)</u>	(6.3)%

	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current liabilities	\$ 822,041	\$ 701,012	\$ 121,029	17.2%
Long-term liabilities	<u>458,457</u>	<u>500,659</u>	<u>(42,202)</u>	(8.4)%
Total liabilities	<u>\$ 1,280,498</u>	<u>\$ 1,201,671</u>	<u>\$ 78,827</u>	6.5%
Investment in capital assets, net of related debt	\$ 1,194,750	\$ 1,190,450	\$ 4,300	0.3%
Unrestricted	<u>2,908,352</u>	<u>3,353,788</u>	<u>(445,436)</u>	(13.2)%
Total net assets	<u>\$ 4,103,102</u>	<u>\$ 4,544,238</u>	<u>\$ (441,136)</u>	(9.7)%

Current assets decreased due primarily to decreases in cash and due from third-party payors.

Gross capital assets increased \$173,995 (net of retirements) during 2008, while depreciation expense of \$299,992 decreased the capital assets total. This increase relates to the roof addition and significant renovations to the Hospital that were begun during 2006.

Long-term liabilities decreased as a result of normal principal payments in accordance with the Hospital's debt service agreements.

Summary of Revenues, Expenses and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues for each of the fiscal years ended May 31, 2008 and 2007:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Net patient service revenue	\$ 8,377,732	\$ 8,242,499	\$ 135,233	1.6%
Other operating revenue	<u>388,553</u>	<u>375,020</u>	<u>13,533</u>	3.6%
Total operating revenue	8,766,285	8,617,519	148,766	1.7%
Salaries and benefits	5,527,661	5,126,335	401,326	7.8%
Supplies, interest and other	3,443,854	3,197,879	245,975	7.6%
Depreciation and amortization	<u>299,992</u>	<u>272,909</u>	<u>27,083</u>	9.9%
Total operating expenses	<u>9,271,507</u>	<u>8,597,123</u>	<u>674,384</u>	7.8%
Income (loss) from operations	(505,222)	20,396	(525,618)	(2,577.0)%
Nonoperating income	<u>64,086</u>	<u>89,121</u>	<u>(25,035)</u>	(28.0)%
Excess of revenue over (under) expenses	<u>\$ (441,136)</u>	<u>\$ 109,517</u>	<u>\$ (550,653)</u>	(502.8)%

Operating Revenues

During fiscal year 2008, the Hospital derived 95.6% of its total operating revenues from net patient service revenue. Such revenues include revenues from the Medicare and Medicaid programs, patients or their third-party carriers who pay for care in the Hospital's facilities.

Approximately 63% of the Hospital's gross patient service revenue was rendered under contracts with Medicare and Medicaid for 2008, compared to approximately 65% for 2007.

Operating and Financial Performance

During 2008, the Hospital had patient days and admissions of 3,586 and 1,010, respectively. This was a decrease of 229 in patient days, or 6% from 2007 levels. Admissions decreased in 2008 by 33, or 3%.

Net patient service revenue increased and operating expenses increased as stated in the "Financial Highlights."

Economic Factors and Next Year's Budget

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's Board and Management considered many factors when setting the fiscal year 2009 budget. While the financial outlook for the Hospital is improving, of primary importance in setting the 2009 budget was the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes
- Medicaid reimbursement changes, as well as the continuation at the current level of Disproportionate Share and Upper Payment Limit Programs
- Increased number of uninsured and working poor
- Ongoing competition for services
- Workforce shortages, primarily in nursing and other clinically skilled positions and related employee costs
- Cost of supplies, including pharmaceuticals

Contacting the Hospital Financial Manager

This financial report is designed to provide our citizens, patients and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact Ladonna Englerth, Hospital Administrator, at East Carroll Parish Hospital, 226 North Hood Street, Lake Providence, Louisiana 71254-2194 or by phone at 318.559.4023.

Financial Statements

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**

Balance Sheets
May 31, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash and cash equivalents	\$ 86,930	\$ 392,596
Patient accounts, net of estimated uncollectibles of \$2,114,000 and \$1,899,000 in 2008 and 2007, respectively	1,955,120	1,864,043
Due from third-party payors	91,592	308,535
Inventories	169,290	178,130
Prepaid expenses	<u>92,579</u>	<u>68,116</u>
Total current assets	2,395,511	2,811,420
Capital Assets, Net	1,697,207	1,737,209
Other Assets	83,444	117,978
Assets Limited As To Use	<u>1,207,438</u>	<u>1,079,302</u>
Total assets	<u>\$ 5,383,600</u>	<u>\$ 5,745,909</u>

See accompanying Notes to Financial Statements.

Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
Current Liabilities:		
Current portion of long-term liabilities	\$ 44,000	\$ 46,100
Accounts payable	288,283	209,052
Accrued expenses	<u>489,758</u>	<u>445,860</u>
Total current liabilities	822,041	701,012
Long-term Liabilities, Excluding Current Portion	<u>458,457</u>	<u>500,659</u>
Total liabilities	1,280,498	1,201,671
Net Assets:		
Invested in capital assets, net of related debt	1,194,750	1,190,450
Unrestricted	<u>2,908,352</u>	<u>3,353,788</u>
	<u>4,103,102</u>	<u>4,544,238</u>
Total liabilities and net assets	<u>\$ 5,383,600</u>	<u>\$ 5,745,909</u>

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended May 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenue:		
Net patient service revenue, net of provision for bad debts of \$1,675,000 and \$1,719,000 in 2008 and 2007, respectively	\$ 8,377,732	\$ 8,242,499
Other Operating Revenue	<u>388,553</u>	<u>375,020</u>
TOTAL OPERATING REVENUE	8,766,285	8,617,519
Operating Expenses:		
Salaries and wages	4,763,232	4,369,508
Supplies and other	3,418,289	3,162,114
Employee benefits	764,429	756,827
Depreciation and amortization	299,992	272,909
Interest	<u>25,565</u>	<u>35,765</u>
TOTAL OPERATING EXPENSES	<u>9,271,507</u>	<u>8,597,123</u>
Income (Loss) From Operations	(505,222)	20,396
Nonoperating Income:		
Interest income	63,486	89,661
Rental income	600	600
Gain (loss) on sale of assets	-	(1,140)
	<u>64,086</u>	<u>89,121</u>
Excess of Revenue Over (Under) Expenses	(441,136)	109,517
Net Assets, Beginning of Year	<u>4,544,238</u>	<u>4,434,721</u>
Net Assets, End of Year	<u>\$ 4,103,102</u>	<u>\$ 4,544,238</u>

See accompanying Notes to Financial Statements.

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**

Statements of Cash Flows

Years Ended May 31, 2008 and 2007

Increase (Decrease) in Cash and Cash Equivalents

	<u>2008</u>	<u>2007</u>
Cash Flows From (Used For) Operating Activities:		
Receipts from patients and third-party payors	\$ 8,822,151	\$ 8,511,334
Payments to suppliers for goods and services	(3,354,681)	(3,179,228)
Payments to employees for services	<u>(5,413,763)</u>	<u>(5,100,388)</u>
Net Cash From (Used For) Operating Activities	53,707	231,718
Cash Flows From (Used For) Investing Activities:		
Rental income	600	600
(Increase) decrease in assets limited as to use	(128,136)	(50,091)
Interest on investments	<u>63,486</u>	<u>89,661</u>
Net Cash From (Used For) Investing Activities	(64,050)	40,170
Cash Flows From (Used For) Capital and Related Financing Activities:		
Purchases of property and equipment	(222,990)	(274,747)
Interest payments on long-term liabilities	(25,565)	(35,765)
Transfer to bond reserve and contingency funds	(2,466)	(3,895)
Principal payments on long-term liabilities	<u>(44,302)</u>	<u>(40,724)</u>
Net Cash From (Used For) Capital and Related Financing Activities	<u>(295,323)</u>	<u>(355,131)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(305,666)	(83,243)
Cash and Cash Equivalents, Beginning of Year	<u>392,596</u>	<u>475,839</u>
Cash and Cash Equivalents, End of Year	<u>\$ 86,930</u>	<u>\$ 392,596</u>

(Continued)

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>2008</u>	<u>2007</u>
Reconciliation of Operating Income to Net Cash From		
(Used For) Operating Activities:		
Income (loss) from operations	\$ (505,222)	\$ 20,396
Interest expense considered capital financing activity	25,565	35,765
Adjustments to reconcile expenses in excess of revenue and gains to net cash provided by operating activities and gains:		
Depreciation and amortization	299,992	272,909
Provisions for losses on accounts receivable	215,000	54,000
Changes in operating assets and liabilities:		
(Increase) decrease in receivables, net	(89,134)	(60,185)
(Increase) decrease in inventories	8,840	(20,788)
(Increase) decrease in prepaid expenses	(24,463)	(3,897)
Increase (decrease) in accounts payable and accrued expenses	<u>123,129</u>	<u>(66,482)</u>
Net Cash From (Used For) Operating Activities	<u>\$ 53,707</u>	<u>\$ 231,718</u>

See accompanying Notes to Financial Statements.

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**

**Notes to Financial Statements
May 31, 2008 and 2007**

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

East Carroll Parish Hospital Service District, DBA East Carroll Parish Hospital (the Hospital) primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in East Carroll Parish, Louisiana. The Hospital is a governmental acute care hospital located in Lake Providence, Louisiana. It was created by the East Carroll Parish Police Jury. The Policy Jury appoints the Board of Commissioners of the Hospital. The Hospital is considered a political subdivision of the State of Louisiana and a component unit of East Carroll Parish.

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 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.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Buildings and Equipment

Property, buildings and equipment are stated at cost. Donated property, buildings and equipment are recorded at fair market value at the date of donation, which then is treated as cost. The cost of additions and improvements, which substantially extend the useful life of a particular asset, is capitalized. Expenditures for maintenance and repairs are charged to expenses.

Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line method. Equipment under capital leases 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 in the accompanying financial statements.

The following estimated useful lives are used in computing depreciation:

Buildings and improvements	20-40 years
Furniture and equipment	5-20 years
Transportation equipment	4-8 years

Proprietary Fund Accounting

The Hospital uses the proprietary fund method of accounting, whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual.

Federal and State Income Taxes

As a political subdivision of the State of Louisiana, the Hospital is exempt from federal and state income taxes.

Donor Restricted Funds

The Hospital reports gifts of cash and other assets as 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 a purpose restriction is accomplished), temporarily restricted fund balance is reclassified as unrestricted fund balance. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions.

The Hospital reports gifts of property and equipment (or other long-lived assets) as unrestricted support, 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, the Hospital reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. There were no donor restricted fund balances at May 31, 2008 or 2007.

Use of Estimates

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

Accounting Standards

Pursuant to Governmental Accounting Standards, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Deposits and Investments

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in (1) direct obligations of the United States Government pledged by its full faith and credit, (2) certificates of deposit at savings and loan associations and federally insured banks when secured by acceptable collateral and (3) savings accounts at savings and loan associations and banks to the extent fully insured.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid investment instruments purchased with an original maturity of three months or less.

Net Assets

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Credit Risk

Management records an allowance for bad debts for estimated uncollectible accounts based on historical bad debt experience and other factors. Accounts are written off when collection is determined to be unlikely.

Note 2: Cash and Other Deposits

Cash and other deposits consist of demand accounts, savings accounts, and certificates of deposit. At May 31, 2008 and 2007, the Hospital had bank balances as follows:

	<u>2008</u>	<u>2007</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Collateralized by securities held by the pledging financial institution's Trust Department in the Hospital's name	<u>1,099,312</u>	<u>1,374,201</u>
Total depository balance	<u>\$ 1,299,312</u>	<u>\$ 1,574,201</u>
Carrying value	<u>\$ 1,300,759</u>	<u>\$ 1,475,793</u>

Risk Policies

Interest Rate Risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. However, management generally requires deposits in excess of federally insured limits to be collateralized. Collateral for uninsured deposits consists of pledged securities held by financial institutions in the name of the Hospital.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. As of May 31, 2008, \$1,099,312 of the Hospital's bank balance was exposed to custodial credit risk.

Note 3: Net Patient Service Revenue

The Hospital grants credit to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital has agreements with certain third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors.

A summary of the basis of reimbursement 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. Inpatient non-acute services, certain outpatient services, and defined capital costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.
- **Medicaid** - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined per diem rate. Outpatient services are reimbursed at a percentage of cost, with final settlement determined after the submission of annual cost reports by the Hospital and audits by the Medicaid fiscal intermediary.

A summary of gross and net patient service revenue follows:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue	\$ 11,622,835	\$ 11,500,860
Plus (less) provisions for: Contractual adjustments under third-party reimbursement programs, net of disproportionate share payments of \$1,710,852 and \$1,344,761 for 2008 and 2007, respectively	(1,569,880)	(1,538,904)
Bad debts	<u>(1,675,223)</u>	<u>(1,719,457)</u>
Net patient service revenue	<u>\$ 8,377,732</u>	<u>\$ 8,242,499</u>
Percentage of gross	<u>72%</u>	<u>72%</u>

A summary of gross revenue from patient services rendered under contract with major third-party payors follows:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent of Gross Patient Revenue</u>	<u>Amount</u>	<u>Percent of Gross Patient Revenue</u>
Medicare	\$ 4,441,444	38.2%	\$ 4,704,743	40.9%
Medicaid	<u>2,873,474</u>	<u>24.7</u>	<u>2,720,927</u>	<u>23.6</u>
	<u>\$ 7,314,918</u>	<u>62.9%</u>	<u>\$ 7,425,670</u>	<u>64.5%</u>

Note 4: Due from Third-Party Payors

A summary of amounts due from third-party payors follows:

	<u>2008</u>	<u>2007</u>
Due from Medicare Program, net	\$ 68,943	\$ 103,800
Due from Louisiana Medicaid Program, net	<u>22,649</u>	<u>204,735</u>
	<u>\$ 91,592</u>	<u>\$ 308,535</u>
Provision for estimated future third-party retroactive adjustments (included in accrued expenses)	<u>\$ (240,000)</u>	<u>\$ (310,000)</u>

Revenue from the Medicare and Medicaid programs accounted for a significant portion of the Hospital's net patient revenue for the years ended May 31, 2008 and 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The provision for estimated future retroactive adjustments is based on Management's estimates. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The 2008 net patient service revenue decreased approximately \$129,000 due to retroactive adjustments by Medicare and Medicaid in excess of amounts previously estimated and increased by \$70,000 due to the decrease of the provision for estimated future third-party retroactive adjustments for the open cost report years of 2001 through 2008.

Note 5: Capital Assets

A summary of capital assets and related activity for the years ended May 31, 2008 and 2007 follows:

	<u>5/31/07</u>	<u>Additions</u>	<u>Retirements (Transfers)</u>	<u>5/31/08</u>
Capital assets not being depreciated:				
Land	\$ 22,000	\$ -	\$ -	\$ 22,000
Construction in progress	<u>99,858</u>	<u>104,752</u>	<u>(204,610)</u>	<u>-</u>
	121,858	104,752	(204,610)	22,000
Capital assets being depreciated:				
Hospital buildings and improvements	1,536,612	204,610	(48,995)	1,692,227
Equipment	1,139,933	49,569	-	1,189,502
Transportation equipment	313,366	68,669	-	382,035
Clinic	<u>491,596</u>	<u>-</u>	<u>-</u>	<u>491,596</u>
	3,481,507	322,848	(48,995)	3,755,360
Less accumulated depreciation for:				
Buildings and improvements	(828,659)	(41,755)	48,995	(821,419)
Equipment	(720,429)	(133,357)	-	(853,786)
Transportation equipment	(175,432)	(52,686)	-	(228,118)
Clinic	<u>(141,636)</u>	<u>(35,194)</u>	<u>-</u>	<u>(176,830)</u>
	<u>(1,866,156)</u>	<u>(262,992)</u>	<u>48,995</u>	<u>(2,080,153)</u>
Capital assets, net	<u>\$ 1,737,209</u>	<u>\$ 164,608</u>	<u>\$ (204,610)</u>	<u>\$ 1,697,207</u>

	<u>5/31/06</u>	<u>Additions</u>	<u>Retirements (Transfers)</u>	<u>5/31/07</u>
Capital assets not being depreciated:				
Land	\$ 22,000	\$ -	\$ -	\$ 22,000
Construction in progress	<u>375,552</u>	<u>132,005</u>	<u>(407,699)</u>	<u>99,858</u>
	397,552	132,005	(407,699)	121,858
Capital assets being depreciated:				
Hospital buildings and improvements	1,163,918	403,465	(30,771)	1,536,612
Equipment	1,110,235	61,019	(31,321)	1,139,933
Transportation equipment	269,994	60,895	(17,523)	313,366
Clinic	<u>457,997</u>	<u>33,599</u>	<u>-</u>	<u>491,596</u>
	3,002,144	558,978	(79,615)	3,481,507
Less accumulated depreciation for:				
Buildings and improvements	(824,311)	(35,119)	30,771	(828,659)
Equipment	(626,005)	(133,591)	39,167	(720,429)
Transportation equipment	(141,752)	(33,680)	-	(175,432)
Clinic	<u>(108,117)</u>	<u>(33,519)</u>	<u>-</u>	<u>(141,636)</u>
	<u>(1,700,185)</u>	<u>(235,909)</u>	<u>69,938</u>	<u>(1,866,156)</u>
Capital assets net	<u>\$ 1,699,511</u>	<u>\$ 455,074</u>	<u>\$ (417,376)</u>	<u>\$ 1,737,209</u>

Note 6: Assets Limited as to Use

Assets limited as to use included investments in insured savings accounts and certificates of deposit which are held by the Hospital or its agent in the Hospital's name. The use of these funds was internally restricted by the Board. The Board has passed a resolution to reserve up to \$1.8 million for replacement of fixed assets.

Note 7: Purchase of Family Practice Clinic

During the year ended May 31, 2006, the Hospital acquired the Family Practice Clinic in Lake Providence, Louisiana for \$275,000. The cost was allocated as follows:

Land	\$ 5,000
Building	80,000
Equipment	5,000
Patient list (intangible asset)	185,000

The patient list is being amortized over five years. Amortization expense of \$37,000 was recorded during both 2008 and 2007.

Note 8: Long-term Liabilities

Long-term liabilities consist of the following:

	<u>2008</u>	<u>2007</u>
Hospital Revenue Bond to the United States of America, at 4.125%, payable in monthly installments of \$1,902, including principal and interest, final payment due August 2025, secured by pledge of Hospital revenues.	\$ 281,046	\$ 292,030
Note payable to individual, at 6%, payable in monthly installments of \$3,053, including principal and interest, final payment due July 2015, collateralized by real estate.	214,889	236,069
Other	<u>6,522</u>	<u>18,660</u>
	502,457	546,759
Less current portion	<u>(44,000)</u>	<u>(46,100)</u>
	<u>\$ 458,457</u>	<u>\$ 500,659</u>

In connection with the bond payable, the Hospital is required to establish and contribute funds to a reserve and a contingency fund. Contributions to these funds began after May 31, 2006, and amount to approximately \$2,500 annually. Included in other assets in the accompanying balance sheets was \$6,361 in the reserve and contingency fund at May 31, 2008.

Annual maturities of long-term liabilities follow:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 44,000	\$ 23,491	\$ 67,491
2010	39,571	19,890	59,461
2011	40,072	19,389	59,461
2012	42,300	17,162	59,462
2013	44,654	14,807	59,461
2014-2018	149,533	42,759	192,292
2019-2023	93,962	20,158	114,120
2024-2028	<u>48,365</u>	<u>2,329</u>	<u>50,694</u>
	<u>\$ 502,457</u>	<u>\$ 159,985</u>	<u>\$ 662,442</u>

A schedule of activity in the Hospital's long-term liabilities balance is as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 546,759	\$ 587,483
Repayments	<u>(44,302)</u>	<u>(40,724)</u>
Balance at end of year	<u>\$ 502,457</u>	<u>\$ 546,759</u>

Interest expense paid (cash basis) was \$25,565 and \$35,765 for the years ended May 31, 2008 and 2007, respectively.

Note 9: Risk Management

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

The Hospital's malpractice insurance coverage is a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. Claims may be asserted against the Hospital arising from services provided to patients through May 31, 2008, in excess of insurance policy limits. No amounts have been accrued for potential claims in excess of insurance coverage.

Note 10: Retirement Plan

The Hospital has a qualified retirement plan (the Plan) which covers substantially all employees with more than one year of service. The participants may contribute to the Plan, and the Hospital matches up to 2%. Contributions to the Plan were \$26,987 and \$21,215 for 2008 and 2007, respectively.

Note 11: Other Operating Revenue

Other operating revenue consists of:

	<u>2008</u>	<u>2007</u>
Parish subsidy	\$ 285,239	\$ 257,474
Ambulance memberships	6,760	4,090
Other revenue	<u>96,554</u>	<u>113,456</u>
	<u>\$ 388,553</u>	<u>\$ 375,020</u>

The parish subsidy represents property taxes collected for the benefit of the Hospital. Use of the subsidy is unrestricted.

Supplementary Information

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**

Gross Patient Service Revenue by Department
Years Ended May 31, 2008 and 2007

	<u>Year Ended May 31, 2008</u>		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Routine Services:			
Hospital	\$ 1,065,987	\$ -	\$ 1,065,987
Ancillary Services:			
Radiology	197,814	471,177	668,991
Laboratory	797,337	810,803	1,608,140
Respiratory therapy	688,870	85,736	774,606
Electrocardiology	74,327	22,425	96,752
Central supply	985,320	202,901	1,188,221
Pharmacy	1,690,010	255,435	1,945,445
Emergency Room	-	932,670	932,670
Ambulance	-	1,232,094	1,232,094
Clinics	-	2,109,929	2,109,929
	<u>4,433,678</u>	<u>6,123,170</u>	<u>10,556,848</u>
	<u>\$ 5,499,665</u>	<u>\$ 6,123,170</u>	<u>\$ 11,622,835</u>
Percentage of total	<u>47%</u>	<u>53%</u>	<u>100%</u>

Schedule 1

<u>Year Ended May 31, 2007</u>		
<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
\$ 1,125,651	\$ -	\$ 1,125,651
178,851	403,990	582,841
782,162	681,116	1,463,278
825,680	79,592	905,272
66,480	25,385	91,865
1,032,583	187,375	1,219,958
1,726,934	214,842	1,941,776
-	922,980	922,980
-	1,137,740	1,137,740
-	2,109,499	2,109,499
<u>4,612,690</u>	<u>5,762,519</u>	<u>10,375,209</u>
<u>\$ 5,738,341</u>	<u>\$ 5,762,519</u>	<u>\$ 11,500,860</u>
<u>50%</u>	<u>50%</u>	<u>100%</u>

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**

Departmental Expenses
Years Ended May 31, 2008 and 2007

	<u>Year Ended May 31, 2008</u>		
	<u>Salaries and Wages</u>	<u>Supplies and Other Expenses</u>	<u>Total</u>
Routine Services:			
Hospital	\$ 1,558,562	\$ 72,712	\$ 1,631,274
Ancillary Services:			
Radiology	163,083	105,366	268,449
Laboratory	311,091	581,402	892,493
Respiratory therapy	14,469	11,575	26,044
Electrocardiology	-	1,134	1,134
Central supply	-	160,090	160,090
Pharmacy	86,278	319,552	405,830
Emergency Room	-	1,205,308	1,205,308
Ambulance	398,744	96,530	495,274
Clinics	<u>1,635,782</u>	<u>290,100</u>	<u>1,925,882</u>
	2,609,447	2,771,057	5,380,504
Other Departments:			
General and administrative	324,373	309,713	634,086
Dietary	75,276	52,810	128,086
Environmental services and plant operations	132,682	206,032	338,714
Medical records	<u>62,892</u>	<u>5,965</u>	<u>68,857</u>
	<u>595,223</u>	<u>574,520</u>	<u>1,169,743</u>
	<u>\$ 4,763,232</u>	<u>\$ 3,418,289</u>	<u>\$ 8,181,521</u>

Schedule 2

<u>Year Ended May 31, 2007</u>		
<u>Salaries and Wages</u>	<u>Supplies and Other Expenses</u>	<u>Total</u>
\$ 1,385,226	\$ 129,176	\$ 1,514,402
140,776	83,351	224,127
235,200	486,723	721,923
14,973	14,912	29,885
-	1,500	1,500
-	144,859	144,859
33,961	342,342	376,303
92,189	1,009,249	1,101,438
387,125	77,632	464,757
<u>1,544,367</u>	<u>318,659</u>	<u>1,863,026</u>
2,448,591	2,479,227	4,927,818
304,337	310,650	614,987
72,194	49,724	121,918
103,370	191,880	295,250
<u>55,790</u>	<u>1,457</u>	<u>57,247</u>
<u>535,691</u>	<u>553,711</u>	<u>1,089,402</u>
<u>\$ 4,369,508</u>	<u>\$ 3,162,114</u>	<u>\$ 7,531,622</u>

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)**

Departmental Revenue and Expenses

Years Ended May 31, 2008 and 2007

	<u>Year Ended May 31, 2008</u>			
	<u>Gross Revenue</u>		<u>Expenses</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Routine Services:				
Hospital	\$ 1,065,987	9.2	\$ 1,631,274	17.6
Ancillary Services:				
Radiology	668,991	5.8	268,449	2.9
Laboratory	1,608,140	13.8	892,493	9.6
Respiratory therapy	774,606	6.7	26,044	0.3
Electrocardiology	96,752	0.8	1,134	-
Central supply	1,188,221	10.2	160,090	1.7
Pharmacy	1,945,445	16.7	405,830	4.4
Emergency Room	932,670	8.0	1,205,308	13.0
Ambulance	1,232,094	10.6	495,274	5.3
Clinics	<u>2,109,929</u>	<u>18.2</u>	<u>1,925,882</u>	<u>20.8</u>
	10,556,848	90.8	5,380,504	58.0
Other Departments	-	-	1,169,743	12.6
Employee Benefits	-	-	764,429	8.2
Deprecation and Amortization	-	-	299,992	3.2
Interest	<u>-</u>	<u>-</u>	<u>25,565</u>	<u>0.3</u>
	<u>\$ 11,622,835</u>	<u>100.0</u>	<u>\$ 9,271,507</u>	<u>100.0</u>

Schedule 3

<u>Year Ended May 31, 2007</u>			
<u>Gross Revenue</u>		<u>Expenses</u>	
<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
\$ 1,125,651	9.8	\$ 1,514,402	17.6
582,841	5.1	224,127	2.6
1,463,278	12.7	721,923	8.4
905,272	7.9	29,885	0.3
91,865	0.8	1,500	-
1,219,958	10.6	144,859	1.7
1,941,776	16.9	376,303	4.4
922,980	8.0	1,101,438	12.8
1,137,740	9.9	464,757	5.4
<u>2,109,499</u>	<u>18.3</u>	<u>1,863,026</u>	<u>21.7</u>
10,375,209	90.2	4,927,818	57.3
-	-	1,089,402	12.7
-	-	756,827	8.8
-	-	272,909	3.2
-	-	35,765	0.4
<u>\$ 11,500,860</u>	<u>100.0</u>	<u>\$ 8,597,123</u>	<u>100.0</u>



**Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Commissioners
East Carroll Parish Hospital Service District, dba
East Carroll Parish Hospital
Lake Providence, Louisiana

We have audited the financial statements of East Carroll Parish Hospital Service District, dba East Carroll Parish Hospital (the Hospital) [A Component Unit of East Carroll Parish] as of and for the year ended May 31, 2008, and have issued our report thereon dated February 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or

detected by the Hospital's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 08-2.

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated February 9, 2009.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Hospital's Board of Commissioners, management and the Office of the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

BKD, CCP

February 9, 2009

**East Carroll Parish Hospital Service District, DBA
East Carroll Parish Hospital
(A Component Unit of East Carroll Parish)
Schedule of Findings and Responses
Year Ended May 31, 2008**

Reference Number	Finding
08-1	<p>Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition - The Hospital relies on its outside accountants in assisting in the preparation of external financial statements and related footnote disclosures.</p> <p>Context - Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the entity's internal control structure and, because of limitations of the Hospital's small accounting staff, the design of the Hospital's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.</p> <p>Effect - Potentially material misstatements in the financial statements and related footnotes disclosures could occur and not be prevented or detected by the Hospital's internal control structure.</p> <p>Cause - Due to limitations of the Hospital's small accounting staff, the Hospital has not designed internal control procedures for preparing external financial statements.</p> <p>Recommendation - Management should continue to assess the cost benefits of improving internal controls over financial reporting.</p> <p>Views of Responsible Officials and Planned Corrective Action - Management will continue to consider the costs and benefits of improving controls over financial statement preparation.</p>
08-2	<p>Criteria or Specific Requirement - Management is responsible for completing the audit within six months of year end in accordance with LSA-RS 23:513.</p> <p>Condition - The Hospital did not comply with state code.</p> <p>Context - Political subdivisions of the State of Louisiana should comply with relevant state code.</p>

Effect – Noncompliance with state code.

Cause - The Hospital did not timely retain an audit firm to complete the May 31, 2008 audit.

Recommendation - Management should retain an independent audit firm prior to its fiscal year end.

Views of Responsible Officials and Planned Corrective Actions - Management concurs with finding and will work with the Board to retain an independent auditor in a timely manner.