

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF CALDWELL, STATE OF LOUISIANA
d/b/a CITIZENS MEDICAL CENTER

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

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

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

Release Date 9-29-04

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

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**Hospital Service District No. 1 of Caldwell Parish, State of Louisiana
(d/b/a Citizens Medical Center)
Management's Discussion and Analysis of the Basic Financial Statements
Years ended March 31, 2004 and 2003**

This section of the Hospital's annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended March 31, 2004. Please read it in conjunction with the financial statement summaries presented in this report.

Financial Highlights

- ❖ The Hospital's total assets decreased by \$959,221, or approximately 13.91%.
- ❖ During fiscal year 2004, the Hospital's net patient service revenue decreased \$525,407, or 7.95% from fiscal year 2003 while expenses increased \$307,107 or 3.82%. The Hospital experienced a loss from operations of \$1,089,028 for fiscal year 2004 compared to a loss of \$308,540 for fiscal year 2003. A significant factor relevant to the change is management has changed how it accounts for uncompensated care revenue received.
- ❖ The Hospital's sales tax revenue for fiscal year 2004 increased \$49,474 or 6.56% over fiscal year 2003.
- ❖ Other operating revenue for fiscal year 2004 increased by \$2,552 or roughly 1.89% over fiscal year 2003 mainly due to an increase in employee meal prices.
- ❖ The Hospital recorded \$706,064 in equipment through capital leases for fiscal year 2004. Of that amount, only \$51,791 was acquired during fiscal year 2004. As referenced by Note 14 of the financial statements, a prior period adjustment was made to record leases that had not previously been capitalized.

Required Financial Statements

The Basic Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The Balance Sheet also provides the basis for computing rate of return, 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 Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in 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 final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period

**Hospital Service District No. 1 of Caldwell Parish, State of Louisiana
(d/b/a Citizens Medical Center)
Management's Discussion and Analysis (continued)**

Financial Analysis of the Hospital

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Net Assets

A summary of the Hospital's Balance Sheets are presented in the table below:

	<u>2004</u>	<u>2003</u>
Total Current Assets	\$3,321,931	\$4,264,491
Capital Assets-Net	2,614,366	2,538,236
Assets-Limited Use	-0-	92,791
Total Assets	<u>\$5,936,297</u>	<u>\$6,895,518</u>
Total Current Liabilities	\$1,150,464	\$1,157,761
Long-term Liabilities (capital leases)	<u>140,850</u>	<u>-0-</u>
Total Liabilities	<u>1,291,314</u>	<u>1,157,761</u>
Invested in Capital Assets, Net of Related Debt	2,320,837	2,395,217
Restricted Net Assets	-0-	92,791
Unrestricted Net Assets	<u>2,324,146</u>	<u>3,249,749</u>
Total Liabilities and Net Assets	<u>\$5,936,297</u>	<u>\$6,895,518</u>

The Hospital's total liabilities and net assets for FYE 2004 decreased by \$959,221 or approximately 13.91% from FYE 2003 amounts. The decrease was a result of the net operating loss for FYE 2004. On a positive note, total current liabilities decreased by \$7,297 and total liabilities in general decreased \$133,553 or approximately 11.53%. This is due in part to the timing of the uncompensated care payment and FYE 2002 volume adjustment money received by the Hospital during FYE 2004 which allowed timely payment to creditors.

**Hospital Service District No. 1 of Caldwell Parish, State of Louisiana
(d/b/a Citizens Medical Center)
Management's Discussion and Analysis (continued)**

Summary of Revenue, Expenses, and Changes in Net Assets

The following table represents the Hospital's Revenue, Expenses, and Changes in Net Assets for the fiscal year ends 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Revenue		
Net patient service revenue	\$6,076,594	\$6,602,001
Sales tax revenue	753,474	704,000
Other operating revenue	<u>134,488</u>	<u>131,936</u>
Total Revenue	<u>6,964,556</u>	<u>7,437,937</u>
Expenses		
Salaries	3,258,825	3,157,678
Benefits and payroll taxes	929,115	949,656
Supplies and drugs	777,268	683,030
Professional fees	830,815	809,783
Other expenses	762,045	1,016,578
Insurance	240,554	169,703
Interest expense	31,114	8,817
Depreciation	371,894	236,232
Provision for bad debts	<u>851,954</u>	<u>715,000</u>
Total Expenses	<u>8,053,584</u>	<u>7,746,477</u>
Operating Income (Loss)	<u>(1,089,028)</u>	<u>(308,540)</u>
Nonoperating Income		
Interest Income	<u>21,674</u>	<u>38,637</u>
Excess of Revenue (Expenses)	(1,067,354)	(269,903)
Prior Period Adjustment	(25,420)	-0-
Beginning Net Assets	<u>5,737,757</u>	<u>6,007,660</u>
Ending Net Assets	<u>\$4,644,983</u>	<u>\$5,737,757</u>

**Hospital Service District No. 1 of Caldwell Parish, State of Louisiana
(d/b/a Citizens Medical Center)
Management's Discussion and Analysis (continued)**

Sources of Revenue

Operating Revenue

During fiscal year 2004, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payers, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payers is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes interest income, cafeteria sales, medical records fees, Medicaid application fees, rental income, and other miscellaneous sources.

Non-operating Income

The Hospital earned \$21,674 in interest income during FYE 2004 as compared to \$38,637 earned in FYE 2003. The decrease in interest income was due to the overall decrease of cash and cash equivalents and short-term investments from FYE 2003 to 2004 and the overall decline in interest earnings rates during the time period.

Expenses

Salaries for FYE 2004 increased by \$101,147 over FYE 2003. This is due in part to the Hospital having to increase the salaries of medical personnel to remain competitive with the market and competing hospitals. Supplies and drugs for FYE 2004 increased \$94,238 over FYE 2003 due mainly to the rising cost of pharmaceuticals and other medical supplies needed for patient care. Other expenses decreased from FYE 2003 to FYE 2004 by \$254,533, but depreciation expense increased by \$135,662. While management took many cost cutting measures in order to reduce expenses; a portion of the differences is the result of reclassifying several operating leases to capital leases during FYE 2004. The lease payments that had previously been recorded as an expense were reclassified to reduce the appropriate lease payables and accordingly the assets were capitalized and a corresponding depreciation expense was recorded. Insurance premiums for the Hospital increased \$70,851 over FYE 2003 amounts. This was due to the overall market increase in insurance premiums. Provision for bad debts increased \$136,954 over FYE 2003 amounts.

**Hospital Service District No. 1 of Caldwell Parish, State of Louisiana
(d/b/a Citizens Medical Center)
Management's Discussion and Analysis (continued)**

Operating and Financial Performance

The table below depicts Medicare and Medicaid patient revenue for the fiscal years ended 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Medicare and Medicaid gross patient charges	\$ 8,802,728	\$ 6,993,290
Contractual adjustments	<u>4,363,834</u>	<u>2,301,679</u>
Net Medicare and Medicaid revenue	<u>\$ 4,438,894</u>	<u>\$ 4,691,611</u>
Percent of total patient gross charges	<u>79%</u>	<u>74%</u>
Percent of total patient revenues	<u>73%</u>	<u>71%</u>

The main source of revenue for the Hospital, gross Medicare and Medicaid patient revenue increased \$1,809,438 or approximately 20.55%; however, changes in Medicare and Medicaid payment methodology resulted in increased contractual adjustments for fiscal year 2004 of \$2,062,155 or 47.26% over fiscal year 2003 amounts. So, although gross patient revenues from Medicare and Medicaid services increased for fiscal year 2004, the extreme increase in contractual adjustments caused net program patient revenue to drop \$252,717 for FYE 2004 as compared to FYE 2003.

The following table is a comparison of the Hospital's Medicare and Medicaid admissions and lengths of stay for FYE 2004 and FYE 2003

	<u>2004</u>	<u>2003</u>
Medicare admissions	395	487
(Swing bed)	53	17
Medicaid admissions	<u>106</u>	<u>168</u>
Total Medicare and Medicaid admissions	<u>554</u>	<u>672</u>
Medicare average length of stay	<u>7.03</u>	<u>6.35</u>
Medicaid average length of stay	<u>3.62</u>	<u>3.49</u>

During FYE 2004, the Hospital had two physicians that did not renew contracts. This event is reflected in the 17.56% decrease of both Medicare (acute) and Medicaid admissions for FYE 2004. Swing bed status had increased utilization in FYE 2004 as compared to FYE 2003; however, the change in swing bed payment methodology negatively effected overall swing bed revenues. Both the Medicare and Medicaid average lengths of stay increased for FYE 2004 as compared to FYE 2003. This has a negative impact on revenues due to the payment methodologies of both programs.

**Hospital Service District No. 1 of Caldwell Parish, State of Louisiana
(d/b/a Citizens Medical Center)
Management's Discussion and Analysis (continued)**

Operating and Financial Performance (continued)

The table below summarizes Accounts Receivable for the fiscal years ended 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Patient accounts receivable	\$ 5,510,751	\$ 5,460,787
Other accounts receivable	17,975	-0-
Allowance for uncollectibles	<u>(3,739,000)</u>	<u>(2,882,161)</u>
Net accounts receivable	<u>\$ 1,789,726</u>	<u>\$ 2,578,626</u>

Although patient accounts receivable for FYE 2004 rose only \$49,964 over FYE 2003, the allowance for uncollectibles for FYE 2004 increased \$856,839 due to numerous accounts on which no payment efforts have been made. Toward the end of FYE 2004 management chose a new collection agency to assist in the collection of old and newly created account balances of the hospital's patients. This should alleviate some of the drastic increase for next year.

Contacting the Hospital's Financial Manager

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

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Independent Auditors' Report

Board of Commissioners
Hospital Service District No. 1
Parish of Caldwell, State of Louisiana
Columbia, Louisiana

We have audited the accompanying basic financial statements of Hospital Service District No. 1, Parish of Caldwell (the Hospital), a component unit of the Caldwell Parish Police Jury, as of and for the year ended March 31, 2004, as listed in the foregoing table of contents. These basic 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 basic financial statements of the Hospital as of March 31, 2003 and 2002, were audited by other auditors whose report dated June 18, 2003, 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, Parish of Caldwell, as of March 31, 2004, and the results of its operations and their 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 August 11, 2004, 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us 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.

Board of Commissioners
Hospital Service District No. 1
Parish of Caldwell, State of Louisiana
Columbia, Louisiana
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As discussed in Note 2 to the financial statements, effective April 1, 2003, the Hospital changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board

Management's discussion and analysis on pages "i" through "vi" is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it

Lester, Miller & Wells

Certified Public Accountants

August 11, 2004

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 BALANCE SHEETS
 MARCH 31, 2004, 2003, AND 2002

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current			
Cash and cash equivalents (Notes 2 & 3)	\$ 735,146	\$ 900,272	\$ 1,043,419
Short-term investments	406,156	396,963	661,674
Accounts receivable, net of allowances for uncollectibles (Note 4)	1,789,726	2,578,626	2,697,765
Estimated third-party payor settlements	75,786	182,266	186,635
Other current assets	<u>315,117</u>	<u>206,364</u>	<u>167,924</u>
Total Current Assets	<u>3,321,931</u>	<u>4,264,491</u>	<u>4,757,417</u>
Property, plant and equipment, net (Note 5)			
	2,614,366	2,538,236	2,637,378
Assets whose use is limited (Note 6)	<u>-0-</u>	<u>92,791</u>	<u>90,249</u>
Total Assets	<u>\$ 5,936,297</u>	<u>\$ 6,895,518</u>	<u>\$ 7,485,044</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current			
Accounts payable	\$ 276,428	\$ 439,336	\$ 451,058
Accrued expenses	230,409	313,771	250,512
Deferred revenue	62,885	261,635	293,029
Estimated third-party payor settlements	428,063	-0-	210,605
Current portion of lease obligations and long-term debt	<u>152,679</u>	<u>143,019</u>	<u>129,161</u>
Total Current Liabilities	<u>1,150,464</u>	<u>1,157,761</u>	<u>1,334,365</u>
Long-term			
Capital lease obligations and notes payable (Note 8)	<u>140,850</u>	<u>-0-</u>	<u>143,019</u>
Total Liabilities	<u>1,291,314</u>	<u>1,157,761</u>	<u>1,477,384</u>
Net Assets			
Invested in capital assets, net of related debt	2,320,837	2,395,217	2,365,198
Restricted net assets	-0-	92,791	90,249
Unrestricted net assets	<u>2,324,146</u>	<u>3,249,749</u>	<u>3,552,213</u>
Total Net Assets	<u>4,644,983</u>	<u>5,737,757</u>	<u>6,007,660</u>
Total Liabilities and Net Assets	<u>\$ 5,936,297</u>	<u>\$ 6,895,518</u>	<u>\$ 7,485,044</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue			
Net patient service revenue	\$ 6,076,594	\$ 6,602,001	\$ 6,359,215
Sales tax revenue	753,474	704,000	724,000
Other operating revenue	<u>134,488</u>	<u>131,936</u>	<u>111,346</u>
 Total Revenue	 <u>6,964,556</u>	 <u>7,437,937</u>	 <u>7,194,561</u>
Expenses			
Salaries	3,258,825	3,157,678	3,107,868
Benefits and payroll taxes	929,115	949,656	639,543
Supplies and drugs	777,268	683,030	857,520
Professional fees	830,815	809,783	815,158
Other expenses	762,045	1,016,578	1,045,101
Insurance	240,554	169,703	130,625
Interest expense	31,114	8,817	21,843
Depreciation	371,894	236,232	261,247
Provision for bad debts	<u>851,954</u>	<u>715,000</u>	<u>809,762</u>
 Total Expenses	 <u>8,053,584</u>	 <u>7,746,477</u>	 <u>7,688,667</u>
 Operating Income (Loss)	 <u>(1,089,028)</u>	 <u>(308,540)</u>	 <u>(494,106)</u>
Nonoperating Income (Loss)			
Interest income	<u>21,674</u>	<u>38,637</u>	<u>82,879</u>
 Excess of Revenue (Expenses)	 (1,067,354)	 (269,903)	 (411,227)
 Prior Period Adjustment (Note 14)	 (25,420)	 -0-	 -0-
 Beginning Net Assets	 <u>5,737,757</u>	 <u>6,007,660</u>	 <u>6,418,887</u>
 Ending Net Assets	 \$ <u>4,644,983</u>	 \$ <u>5,737,757</u>	 \$ <u>6,007,660</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 STATEMENTS OF CASH FLOWS
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 6,120,020	\$ 6,010,509	\$ 5,546,124
Other receipts from operations	551,941	804,542	956,862
Cash payments for other operating expenses	(2,454,280)	(2,939,861)	(2,617,193)
Cash payments to employees and for employee-related costs	<u>(4,271,302)</u>	<u>(4,044,075)</u>	<u>(3,738,605)</u>
Net cash provided (used) by operating activities	<u>(53,621)</u>	<u>(168,885)</u>	<u>147,188</u>
Cash flows from investing activities:			
Interest income	21,674	38,637	82,879
Cash invested in assets whose use is limited	92,791	(2,542)	(4,449)
Cash invested in certificates of deposit	<u>(9,193)</u>	<u>264,711</u>	<u>272,526</u>
Net cash provided (used) by investing activities	<u>105,272</u>	<u>300,806</u>	<u>350,956</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(143,019)	(129,161)	(119,522)
Interest expense	(31,114)	(8,817)	(21,843)
Proceeds from sale of capital assets	38,408	-0-	-0-
Acquisition of capital assets	<u>(81,052)</u>	<u>(137,090)</u>	<u>(40,331)</u>
Net cash provided (used) by capital and related financing activities	<u>(216,777)</u>	<u>(275,068)</u>	<u>(181,696)</u>
Net increase (decrease) in cash and cash equivalents	(165,126)	(143,147)	316,448
Beginning cash and cash equivalents	<u>900,272</u>	<u>1,043,419</u>	<u>726,971</u>
Ending cash and cash equivalents	\$ <u>735,146</u>	\$ <u>900,272</u>	\$ <u>1,043,419</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 STATEMENTS OF CASH FLOWS (Continued)
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>31,114</u>	\$ <u>8,817</u>	\$ <u>21,843</u>
Equipment acquired through capital lease agreement	\$ <u>706,064</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Reconciliation of income from operations to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (1,089,028)	\$ (308,540)	\$ (494,106)
Interest expense considered capital financing activity	31,114	8,817	21,843
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Depreciation and amortization	371,894	236,232	261,247
Provision for bad debts	851,954	715,000	809,762
(Gain) loss on sale of asset	(38,408)	-0-	-0-
Net effect of noncash prior period adjustment	(98,863)	-0-	-0-
Change in current assets (increase) decrease			
Patient accounts receivable, net	(63,054)	(595,861)	(673,997)
Estimated third-party payor settlements	106,480	4,369	(139,094)
Inventory	(57,395)	(38,534)	39,731
Prepaid expenses	(51,358)	94	8,763
Change in current liabilities (increase) decrease			
Accounts payable	(162,908)	(11,722)	(27,888)
Accrued expenses	(83,362)	63,259	8,806
Deferred revenue	(198,750)	(31,394)	121,516
Third-party payor settlements	<u>428,063</u>	<u>(210,605)</u>	<u>210,605</u>
Net cash provided (used) by operating activities	\$ <u>(53,621)</u>	\$ <u>(168,885)</u>	\$ <u>147,188</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
PARISH OF CALDWELL, STATE OF LOUISIANA
d/b/a CITIZENS MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2004, 2003, AND 2002

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Caldwell Parish Hospital Service District No. 1 (the Hospital or the District) was created by an ordinance of the Caldwell Parish Police Jury. The District is comprised of and embraces the territory contained within Parish of Caldwell, State of Louisiana, as constituted as of the date of the ordinance.

The Hospital is a political subdivision of the Caldwell Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Caldwell Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Caldwell Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Caldwell Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), emergency, inpatient acute hospital, and rural health clinic services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

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

Method of Accounting

The Hospital uses the accrual method of accounting. 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 third-party reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related settlements are determined. Expenses are recorded when incurred. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

HOSPITAL SERVICE DISTRICT NO 1
PARISH OF CALDWELL, STATE OF LOUISIANA
d/b/a CITIZENS MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2004, 2003, AND 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting (Continued)

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

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

The adoption of Statement 34 resulted in the previously reported unrestricted fund balance amount being classified to conform to the above net asset classifications. Additionally, the Hospital restated the 2003 and 2002 statements of cash flows to conform to the direct method of reporting cash receipts and disbursements. The Hospital also restated the 2003 and 2002 balance sheets and statements of revenue and expenses to conform with the classifications used for 2004.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption “cash and cash equivalents” does not include amounts whose use is limited or temporary cash investments.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

The District provides medical care primarily to Caldwell Parish residents and grants credit to patients substantially all of whom are local residents.

The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 9. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Third-Party Payor Revenues

Contractual agreements with governmental agencies provide for reimbursement based on a fixed price per patient stay based upon the patient's primary diagnosis for Medicare inpatient services and on a fixed price per patient day for Medicaid inpatient services. Medicare outpatient reimbursement changed to prospective payment system effective October 1, 2000. Medicaid outpatient services are reimbursed based upon the lesser of reasonable cost (subject to certain limits) or charges to patients. These reimbursements are subject to audit and retroactive adjustments by each payor.

Inventory

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

Income Taxes

The entity is a political subdivision and exempt from taxation.

Property, Plant, and Equipment

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

Buildings and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment (Continued)

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

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires 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.

NOTE 3 - CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents and assets whose use is limited are cash on hand and deposits with the depository banks for checking accounts and certificates of deposits. At March 31, 2003 and 2002, all of the District's deposits were secured by FDIC and pledged securities. At March 31, 2004, the Hospital's deposits were under secured by \$255,000. For all deposits, the market value and carrying value are the same.

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below at March 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net patient accounts receivable	\$ 5,510,751	\$ 5,460,787	\$ 4,898,892
Other accounts receivable	<u>17,975</u>	<u>-0-</u>	<u>-0-</u>
	5,528,726	5,460,787	4,898,892
Estimated uncollectibles	<u>(3,739,000)</u>	<u>(2,882,161)</u>	<u>(2,201,127)</u>
Total	\$ <u>1,789,726</u>	\$ <u>2,578,626</u>	\$ <u>2,697,765</u>

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NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment and related accumulated depreciation at March 31:

	<u>2003</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2004</u>
Land	\$ -0-	\$ 26,903	\$ -0-	\$ 26,903
Land Improvements	28,496	-0-	4,429	24,067
Buildings	3,687,633	-0-	25,328	3,662,305
Furniture and equipment	2,261,206	45,500	-0-	2,306,706
Property held under capital leases	<u>-0-</u>	<u>706,064</u>	<u>-0-</u>	<u>706,064</u>
Total	5,977,335	778,467	29,757	6,726,045
Accumulated depreciation	<u>3,439,099</u>	<u>672,580</u>	<u>-0-</u>	<u>4,111,679</u>
Net	\$ <u>2,538,236</u>	\$ <u>105,887</u>	\$ <u>29,757</u>	\$ <u>2,614,366</u>

	<u>2002</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2003</u>
Land improvements	\$ 28,496	\$ -0-	\$ -0-	\$ 28,496
Buildings	3,663,847	23,786	-0-	3,687,633
Furniture and equipment	<u>2,152,859</u>	<u>108,347</u>	<u>-0-</u>	<u>2,261,206</u>
Total	5,845,202	132,133	-0-	5,977,335
Accumulated depreciation	<u>3,207,824</u>	<u>231,275</u>	<u>-0-</u>	<u>3,439,099</u>
Net	\$ <u>2,637,378</u>	\$ <u>(99,142)</u>	\$ <u>-0-</u>	\$ <u>2,538,236</u>

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NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (Continued)

	<u>2001</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2002</u>
Land improvements	\$ 28,496	\$ -0-	\$ -0-	\$ 28,496
Buildings	3,663,847	-0-	-0-	3,663,847
Furniture and equipment	<u>2,112,528</u>	<u>40,331</u>	<u>-0-</u>	<u>2,152,859</u>
 Total	 5,804,871	 40,331	 -0-	 5,845,202
Accumulated depreciation	<u>2,946,577</u>	<u>261,247</u>	<u>-0-</u>	<u>3,207,824</u>
 Net	 <u>\$ 2,858,294</u>	 <u>\$ (220,916)</u>	 <u>\$ -0-</u>	 <u>\$ 2,637,378</u>

NOTE 6 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include certificates of deposit set aside by the Board of Commissioners for the following purposes:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
1995 Certificate of Indebtedness - Sinking fund	\$ <u>-0-</u>	\$ <u>92,791</u>	\$ <u>90,249</u>

NOTE 7 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$120,850, \$112,655, and \$98,063 of vacation pay at March 31, 2004, 2003, and 2002. It is impractical to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

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NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at March 31, follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital lease in the amount of \$404,017 made on August 14, 2000, to lease a CAT scanner. Monthly payments in the amount of \$8,092 are for 60 months with a purchase option at fair market value (FMV) at the end of the term, at an incremental borrowing rate of 8%. Net book value (NBV) of the equipment is \$114,473.	\$ 131,250	\$ -0-	\$ -0-
Capital lease in the amount of \$50,638 made on August 14, 2000, to lease a laser camera. Monthly payments in the amount of \$824 are for 60 months with a purchase option at FMV at the end of the term, at an incremental borrowing rate of 8%. NBV of the equipment is \$14,346.	13,203	-0-	-0-
Capital lease in the amount of \$87,540 made on January 16, 2001, to lease an ultrasound machine. Monthly payments in the amount of \$1,775 are for 60 months with a purchase option at FMV at the end of the term, at an incremental borrowing rate of 8%. NBV of the equipment is \$32,098.	36,210	-0-	-0-
Capital lease in the amount of \$83,545 made on October 3, 2001, to lease a blood analyzer. Monthly payments in the amount of \$1,694 are for 60 months. No purchase option at the end of the term, at an incremental borrowing rate of 8%. NBV of the equipment is \$43,165.	\$ 47,301	\$ -0-	\$ -0-

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NOTE 8 - LONG-TERM DEBT (Continued)

	<u>2004</u>		<u>2003</u>		<u>2002</u>
Capital lease in the amount of \$12,231 made on December 20, 2001, to lease a copier. Monthly payments in the amount of \$248 are for 60 months with a purchase option at FMV at the end of the term, at an incremental borrowing rate of 8%. NBV of the equipment is \$6,727.	\$ 7,324	\$	-0-	\$	-0-
Capital lease in the amount of \$5,524 made on October 22, 2002, to lease two copiers. Monthly payments in the amount of \$112 are for 60 months with a purchase option at FMV at the end of the term, at an incremental borrowing rate of 8%. NBV of the equipment is \$3,959.	4,174		-0-		-0-
Capital lease in the amount of \$7,891 made on October 22, 2002, to lease a copier. Monthly payments in the amount of \$160 are for 60 months with a purchase option at FMV at the end of the term, at an incremental borrowing rate of 8%. NBV of the equipment is \$5,655.	5,964		-0-		-0-
Capital lease in the amount of \$14,753 made on November 24, 2003, to lease a ventilator. Monthly payments in the amount of \$490 are for 36 months with a purchase option of \$1 at the end of the term, at an interest rate of 12%. NBV of the equipment is \$14,165.	\$ 15,194	\$	-0-	\$	-0-

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NOTE 8 - LONG-TERM DEBT (Continued)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital lease in the amount of \$37,038 made on July 3, 2003, to lease bone densitometry machine. Monthly payments in the amount of \$751 are for 60 months with a purchase option at FMV at the end of the term, at an incremental borrowing rate of 8%. NBV of the equipment is \$32,100.	\$ 32,909	\$ -0-	\$ -0-
8.15% note payable to IBM, due in 60 monthly installments of \$1,103 including principal and interest. NBV of data processing system is \$0.	-0-	14,019	26,461
Taxable certificates of indebtedness Series 95, dated November 6, 1995, payable in 20 semi-annual installments beginning on May 1, 1999 with interest at an indexed prime rate less 25 basic points (.25%) not to exceed 12% per annum incurred to construct and equip a physicians office building, payable from a pledge and dedication of the excess of annual revenue of the District above statutory, necessary and usual charges.	-0-	129,000	245,719
Total long-term debt	293,529	143,019	272,180
Less current maturities of long-term debt	152,679	143,019	129,161
Long-term debt	\$ 140,850	\$ -0-	\$ 143,019

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NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal repayments on long-term debt and payments on capital obligations for the next five years are as follows:

Years Ending March 31,	Long-term Debt	Capital Lease Obligations
2005	\$ -0-	\$ 173,274
2006	-0-	104,290
2007	-0-	29,796
2008	-0-	10,916
2009 and thereafter	-0-	<u>3,004</u>
Totals	\$ <u>-0-</u>	321,280
		<u>27,751</u>
Total		\$ <u>293,529</u>

Less amount representing interest on capital lease obligations

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases in the amount of \$136,419 is included in depreciation expense.

NOTE 9 - PATIENT SERVICE REVENUE

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis, with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2006. Swing bed services are reimbursed based on a prospectively determined rate per patient day.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

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NOTE 9 - PATIENT SERVICE REVENUE (Continued)

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended March 31.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medicare and Medicaid gross patient charges	\$ 8,802,728	\$ 6,993,290	\$ 6,810,195
Contractual adjustments	<u>4,363,834</u>	<u>2,301,679</u>	<u>3,378,701</u>
 Program patient service revenue	 \$ <u>4,438,894</u>	 \$ <u>4,691,611</u>	 \$ <u>3,431,494</u>
 Percent of total patient gross charges	 <u>79%</u>	 <u>74%</u>	 <u>66%</u>
Percent of total patient revenues	<u>73%</u>	<u>71%</u>	<u>54%</u>

The Hospital received interim amounts of \$398,839, \$1,050,801, and \$975,037, for Medicaid and self-pay uncompensated care services for the years ended March 31, 2004, 2003, and 2002, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has made provisions for \$361,000 recoupment for 2003 and 2002. Management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Additionally, the Hospital has significant reliance on Medicare volume adjustments, which occur when acute discharges drop by more than five percent from the previous year. Included in income is \$672,443, \$599,379, and \$-0- for the years ended March 31, 2004, 2003, and 2002, respectively.

NOTE 10 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

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NOTE 11 - CONTINGENCIES

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

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 9) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

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

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 10) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Hospital's insurance carrier.

The Hospital also participates in the Louisiana Hospital Association Self-Insurance Employee Benefits Trust Fund. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit.

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NOTE 12 - COMMISSIONERS

The following commissioners served Citizens Medical Center without compensation during the year ended March 31, 2004:

Ms. Barbara Davis
 Mr. Tom D. Gay
 Ms. Mary Norris
 Mr. E. L. Richard
 Mr. Bob Wallace

NOTE 13 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2004, that have initial or remaining lease terms in excess of one year.

<u>Years Ending March 31,</u>	<u>Amount</u>
2005	\$ 22,410
2006	21,720
2007	<u>9,050</u>
Total minimum lease payments	<u>\$ 53,180</u>

NOTE 14 - PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for 2004, 2003, and 2002 have been restated to correct an accounting error in recording capital leases during the prior years. The effect of the restatement was to decrease net income for prior periods by \$25,420. Fund balance has been adjusted for the effects of the restatement on prior years.

SUPPLEMENTARY INFORMATION

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
Routine Services:			
Adult and pediatric	\$ 1,026,380	\$ 634,212	\$ 847,060
Swing bed	<u>187,200</u>	<u>54,300</u>	<u>72,300</u>
Total Routine Services	<u>1,213,580</u>	<u>688,512</u>	<u>919,360</u>
Other Professional Services:			
Operating room			
Inpatient	98,070	67,365	74,723
Outpatient	<u>209,225</u>	<u>138,250</u>	<u>79,210</u>
Total	<u>307,295</u>	<u>205,615</u>	<u>153,933</u>
Anesthesia			
Inpatient	61,890	42,513	63,752
Outpatient	<u>127,310</u>	<u>103,808</u>	<u>94,118</u>
Total	<u>189,200</u>	<u>146,321</u>	<u>157,870</u>
Radiology			
Inpatient	440,642	350,134	435,097
Outpatient	<u>993,829</u>	<u>553,390</u>	<u>615,788</u>
Total	<u>1,434,471</u>	<u>903,524</u>	<u>1,050,885</u>
Laboratory			
Inpatient	750,839	789,588	904,760
Outpatient	<u>908,431</u>	<u>801,548</u>	<u>635,196</u>
Total	<u>1,659,270</u>	<u>1,591,136</u>	<u>1,539,956</u>
IV solutions			
Inpatient	288,958	226,459	374,169
Outpatient	<u>26,278</u>	<u>32,001</u>	<u>32,086</u>
Total	\$ <u>315,236</u>	\$ <u>258,460</u>	\$ <u>406,255</u>

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
Respiratory therapy			
Inpatient	\$ 1,008,484	\$ 1,127,096	\$ 1,368,097
Outpatient	<u>93,888</u>	<u>108,396</u>	<u>90,428</u>
Total	<u>1,102,372</u>	<u>1,235,492</u>	<u>1,458,525</u>
Physical therapy			
Inpatient	-0-	303	2,077
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>243</u>
Total	<u>-0-</u>	<u>303</u>	<u>2,320</u>
EKG			
Inpatient	107,678	121,961	170,096
Outpatient	<u>117,945</u>	<u>150,039</u>	<u>129,037</u>
Total	<u>225,623</u>	<u>272,000</u>	<u>299,133</u>
Central supply			
Inpatient	723,626	689,519	846,343
Outpatient	<u>364,436</u>	<u>347,837</u>	<u>334,803</u>
Total	<u>1,088,062</u>	<u>1,037,356</u>	<u>1,181,146</u>
Pharmacy			
Inpatient	1,570,687	1,401,879	1,777,740
Outpatient	<u>316,845</u>	<u>288,440</u>	<u>241,646</u>
Total	<u>1,887,532</u>	<u>1,690,319</u>	<u>2,019,386</u>
Oncology			
Inpatient	-0-	280	310
Outpatient	<u>30</u>	<u>646</u>	<u>585</u>
Total	\$ <u>30</u>	\$ <u>926</u>	\$ <u>895</u>

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 SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Emergency room			
Inpatient	\$ 85,597	\$ 156,733	\$ 134,503
Outpatient	<u>829,369</u>	<u>799,842</u>	<u>769,932</u>
 Total	 <u>914,966</u>	 <u>956,575</u>	 <u>904,435</u>
 Observation room			
Inpatient	1,537	2,497	2,680
Outpatient	<u>15,370</u>	<u>7,642</u>	<u>7,035</u>
 Total	 <u>16,907</u>	 <u>10,139</u>	 <u>9,715</u>
 Physicians office			
Outpatient	<u>830,782</u>	<u>452,756</u>	<u>186,923</u>
 Total Other Professional Services	 <u>9,971,746</u>	 <u>8,760,922</u>	 <u>9,371,377</u>
 Gross Patient Service Charges	 <u>11,185,326</u>	 <u>9,449,434</u>	 <u>10,290,737</u>
 Contractual allowances	5,152,658	3,609,351	4,567,630
Uncompensated cost reimbursement	(398,839)	(1,050,801)	(975,037)
Policy discounts and charity care	<u>354,913</u>	<u>288,883</u>	<u>338,929</u>
 Total Allowances and Uncollectibles	 <u>5,108,732</u>	 <u>2,847,433</u>	 <u>3,931,522</u>
 Net Patient Service Revenue	 \$ <u>6,076,594</u>	 \$ <u>6,602,001</u>	 \$ <u>6,359,215</u>

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF OTHER OPERATING REVENUE
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cafeteria sales	\$ 37,893	\$ 30,565	\$ 28,853
Physician office rentals	39,614	35,074	23,609
Grant income	11,183	-0-	-0-
Medical records abstract fees	4,309	3,977	4,801
(Gain) loss on sale of asset	38,408	-0-	-0-
Miscellaneous	<u>3,081</u>	<u>62,320</u>	<u>54,083</u>
 Total Other Operating Revenue	 \$ <u>134,488</u>	 \$ <u>131,936</u>	 \$ <u>111,346</u>

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF OPERATING EXPENSES -- SALARIES AND BENEFITS
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Administrative and general	\$ 377,741	\$ 285,552	\$ 269,555
Plant operations and maintenance	50,595	50,843	49,596
Housekeeping	100,152	69,823	83,290
Dietary and cafeteria	120,251	135,575	139,230
Central supply	44,396	43,957	47,210
Pharmacy	135,766	149,129	161,332
Medical records	88,603	80,324	85,151
Nursing services	1,009,838	1,021,100	1,135,515
Operating room	77,281	82,954	81,530
Anesthesiology	136,120	117,250	124,650
Radiology	186,377	168,988	148,794
Laboratory	183,234	180,838	169,068
Respiratory care	182,789	185,075	185,040
Physical therapy	300	-0-	2,438
Oncology	-0-	-0-	(327)
Emergency room	191,306	156,484	135,349
Rural health clinic	374,076	-0-	-0-
Transportation	-0-	-0-	4,670
Private physician office	-0-	429,786	285,777
	<u>3,258,825</u>	<u>3,157,678</u>	<u>3,107,868</u>
Total Salaries			
Payroll taxes	233,487	217,524	217,476
Health insurance	692,454	728,969	416,995
Other	3,174	3,163	5,072
	<u>929,115</u>	<u>949,656</u>	<u>639,543</u>
Total Benefits			
Total Salaries and Benefits	\$ <u>4,187,940</u>	\$ <u>4,107,334</u>	\$ <u>3,747,411</u>

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Nursing service	\$ 6,095	\$ 2,447	\$ 1,984
Radiology	31,936	31,091	46,100
Laboratory	76,211	79,489	110,418
Physical therapy	-0-	-0-	4,126
EKG	13,290	18,321	18,939
Oncology	-0-	-0-	(8,100)
Emergency room	<u>703,283</u>	<u>678,435</u>	<u>641,691</u>
 Total Professional Fees	 \$ <u>830,815</u>	 \$ <u>809,783</u>	 \$ <u>815,158</u>

HOSPITAL SERVICE DISTRICT NO. 1
 PARISH OF CALDWELL, STATE OF LOUISIANA
 d/b/a CITIZENS MEDICAL CENTER
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
 YEARS ENDED MARCH 31, 2004, 2003, AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Miscellaneous service fees	\$ 126,338	\$ 217,838	\$ 280,971
Legal and accounting	47,813	33,757	40,087
Supplies	183,055	213,249	211,033
Repairs and maintenance	56,298	62,342	57,123
Utilities	134,367	121,671	117,531
Telephone	32,995	49,025	53,948
Travel	18,109	18,167	17,036
Rentals	71,989	250,076	236,687
Education	13,725	14,623	5,742
Dues and subscriptions	55,741	28,506	19,940
Recruitment and advertising	15,631	7,294	4,948
Miscellaneous	<u>5,984</u>	<u>30</u>	<u>55</u>
 Total Other Expenses	 \$ <u>762,045</u>	 \$ <u>1,016,578</u>	 \$ <u>1,045,101</u>

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

Board of Commissioners
Hospital Service District No. 1
Parish of Caldwell, State of Louisiana
Columbia, Louisiana

We have audited the basic financial statements of Hospital Service District No. 1, Parish of Caldwell, a component unit of the Caldwell Parish Police Jury, ("Citizens Medical Center") as of and for the year ended March 31, 2004, and have issued our report thereon dated August 11, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Citizens Medical Center's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed three 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 Citizens Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted one matter involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Board of Commissioners
Hospital Service District No. 1
Parish of Caldwell, State of Louisiana
Columbia, Louisiana
Page Two

This report is intended for the information of the Board of Commissioners, management and the office of the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record

Lester, Miller & Wells

August 11, 2004

CITIZENS MEDICAL CENTER
MANAGEMENT COMMENTS
YEAR ENDED MARCH 31, 2004

Compliance:

Finding: Cash balances at Homeland Federal Savings Bank were under secured at March 31, 2004 by \$255,000

Recommendation: We suggest monthly review of balances to insure all cash balances are secured to prevent future compliance violations.

Management's Response: Management has corrected the under securing of cash balances and will review on a regular basis to prevent recurrence.

Finding: Service contracts "with a value or cost of \$10,000 or more over a twelve month period" are required to have a clause pertaining to the retention of records. This requirement is from the Social Security Act of 1861 (v) (1) (I).

Recommendation: We suggest a thorough review of all service contracts to determine if the required clause is included. If the clause is not in place, contact vendor and request addendum to the service contract

Management's Response: Management will review contracts and request addendums to those that lack the required clause.

Finding: We noted that capital leases were not approved by the Louisiana State Bond Commission or did not contain a nonappropriation clause.

Recommendation: We suggest obtaining nonappropriation clauses for all capital leases or getting Louisiana State Bond Commission approval.

Management's Response: Management will request nonappropriation clauses be added to any capital leases that were entered into without this clause being present

Finding: The District was unable to receive reimbursement for Medicare bad debts through the Medicare cost report for the year ended March 31, 2004, since the eligible bad debt accounts were not written off the system during the fiscal year

Recommendation: We suggest Medicare bad debts are researched and written off on a monthly or quarterly basis.

Management's Response: Management affirmed the bad debts were written off during fiscal year 2005 and they will review quarterly to insure write offs occur during 2005.

CITIZENS MEDICAL CENTER
MANAGEMENT COMMENTS
YEAR ENDED MARCH 31, 2004

Internal Controls:

Finding: Some expense reports we examined did not include evidence of review by staff to indicate the reports were complete, accurate, and in accordance with Hospital policy. Three did not include all supporting documentation. Management verbally asserts the reports and documentation were reviewed before checks were signed for payment.

Recommendation: Staff should initial or stamp each expense report for approval after review to insure adequate documentation accompanies each expense report and Hospital policies were followed. Travel advances were and should be subtracted before payment of the net amounts due employees. After staff review, management should review and initial expense reports before signing expense checks. Documentation should always include the business purpose of the claimed expenses, as well as supporting receipts, conference agenda's, etc. Written policies regarding Hospital related travel, and advances when applicable, should be provided to personnel before travel is incurred or at least once per year.

Management's Response: Management asserts the proper level of management approved and was aware of all expenses, and the proper authorizations will be in writing in the future.