

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT
d/b/a NATCHITOCHEs PARISH HOSPITAL
AND
AFFILIATE

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

YEARS ENDED
JUNE 30, 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 2/2/05

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Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis

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 on June 30, 2004. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by approximately \$306,273 or roughly 0.6%. The small increase was primarily due to the pay down of liabilities of \$1,206,421 or 9.6%, requiring the use of cash.
- During the year, the Hospital's total net revenues increased approximately \$711,042 or 2.0% to \$36,067,887 from the prior year while expenses increased \$832,225 or 2.4%. The Hospital had comprehensive income from operations of \$1,512,694, which is approximately 4.1% of total operating revenue. The Hospital lost its major Orthopedic Surgeon in August of 2003. Therefore, gross surgical revenue was down \$1,639,767. A new Orthopedic Surgeon started August of 2004. Offsetting the surgical decline was a continued growth in our core Ancillary services, specifically Radiology, up \$1,575,795 and Lab \$794,608.
- During the year, Centers for Medicare & Medicaid Services ("CMS") initiated new payment edits into their reimbursement system. CMS adjusted the claims paid for a period of 24 months prior to FY 04. The payments were recouped and repaid after adjustments. This net effect attributed to prior year contractals being understated, forcing a \$600,000 adjustment in the current year contractals.
- The Hospital passed a 10 year Ambulance property tax in 2003 and received approximately \$730,445 in taxes this year. These taxes have been able to offset operational losses and provide funds for modernization of Ambulance equipment.
- During the fiscal year, the Hospital made the capital investments shown below for a total of approximately \$8,455,135.

Capital Investments	Vendor	Department	2004 Cost
PACS System (digital x-ray film)	Fuji Medical	Radiology	\$ 850,000
Two Ambulances – Type III	Wheeled Coach	Ambulance	\$ 186,723
Medication Bedside Verification	Meditech	Information Systems	\$ 100,000
Two Defibrillators	Medtronics	Ambulance	\$ 30,344
Nurse Call System enhancement	Hill Rom	Nursing	\$ 35,000
Surgical, Diagnostic, Expansion	S. Converse	Surgery, X-Ray, ICU	\$6,786,369

The source of the funding for these projects was derived from operations and prior year issued bond proceeds.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

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 amount of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It 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 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 statement 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.

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 stated changes. Increase 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.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Net Assets

A summary of the Hospital's balance sheets are presented in Table 1 below:

Table 1
Condensed Balance Sheets

	June 30,		Dollar	Percent
	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>Change</u>
Total Current Assets	\$ 8,176,795	\$ 7,588,425	\$ 588,370	7.8%
Capital Assets - Net	25,027,271	19,299,478	5,727,793	29.7%
Other Assets, Including Board - Designated Investments	<u>15,973,359</u>	<u>21,983,249</u>	<u>(6,009,890)</u>	<u>-27.3%</u>
Total Assets	<u>\$ 49,177,425</u>	<u>\$ 48,871,152</u>	<u>\$ 306,273</u>	<u>0.6%</u>
Current Liabilities	\$ 2,608,332	\$ 3,492,146	\$ (883,814)	-25.3%
Long-term Debt/Liabilities	<u>8,800,000</u>	<u>9,122,607</u>	<u>(322,607)</u>	<u>-3.5%</u>
Total Liabilities	<u>11,408,332</u>	<u>12,614,753</u>	<u>(1,206,421)</u>	<u>-9.6%</u>
Fund Balance	<u>37,769,093</u>	<u>36,256,399</u>	<u>1,512,694</u>	<u>4.2%</u>
Total Liabilities and Fund Balance	<u>\$ 49,177,425</u>	<u>\$ 48,871,152</u>	<u>\$ 306,273</u>	<u>0.6%</u>

Total assets increased by \$306,273 to \$49,177,425 in fiscal year 2004, up from \$48,871,152 in fiscal year 2003, as can be seen in Table 1. The change in total net assets results primarily from earnings and operating income in the current year less cash used to reduce current liabilities by \$883,814.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for cash of the fiscal years ended June 30, 2004 and 2003.

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

	<u>2004</u>	<u>2003</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Revenue:				
Net Patient Service Revenue	\$ 34,906,423	\$ 34,915,525	\$ (9,102)	-0.03%
Other Revenue	1,872,506	1,152,362	720,144	62.5%
Net Revenue	<u>36,778,929</u>	<u>36,067,887</u>	<u>711,042</u>	<u>2.0%</u>
Expenses:				
Salaries & Benefits	14,981,200	14,948,533	32,667	0.2%
Medical Supplies	2,273,533	2,875,232	(601,699)	-20.9%
Purchased Services	5,363,413	4,331,302	1,032,111	23.8%
Other Operating Expenses	7,122,340	6,800,219	322,121	4.7%
Provision for Uncollected Accts.	3,693,507	3,902,073	(208,566)	-5.3%
Depreciation & Amortization	1,994,792	1,704,354	290,438	17.0%
Interest	8,767	43,614	(34,847)	-79.9%
Total Operating Expense	<u>35,437,552</u>	<u>34,605,327</u>	<u>832,225</u>	<u>2.4%</u>
Net Operating Income	<u>1,341,377</u>	<u>1,462,560</u>	<u>(121,183)</u>	<u>-8.3%</u>
Investment Income	506,309	572,310	(66,001)	-11.5%
Non Operating Income	26,595	27,294	(699)	-2.6%
IGT Transfers	<u>1,486</u>	<u>109,957</u>	<u>(108,471)</u>	<u>-98.6%</u>
Excess of Revenue Over Expense	1,875,767	2,172,121	(296,354)	-13.6%
Unrealized Holding Gains (Losses)	<u>(363,073)</u>	<u>(200,585)</u>	<u>(162,488)</u>	<u>81.0%</u>
Comprehensive Income (Loss)	1,512,694	1,971,536	(458,842)	-23.3%
Restricted Net Assets	579,257	5,525,581	(4,946,324)	-89.5%
Net Assets - Beginning of Year	<u>36,256,399</u>	<u>34,284,863</u>	<u>1,971,536</u>	<u>5.8%</u>
Net Assets - End of Year	<u>\$ 37,769,093</u>	<u>\$ 36,256,399</u>	<u>\$ 1,512,694</u>	<u>4.2%</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Source of Revenue

Operating Revenue

During fiscal year 2004, the Hospital derived the majority, or approximately 95%, 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 payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes ambulance property tax, cafeteria sales, contract meals, rental income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2004 and 2003.

Table 3
Payor Mix by Percentage

	Year - end June 30	
	<u>2004</u>	<u>2003</u>
Medicare	46.10%	46.70%
Medicaid	22.11%	21.01%
Commercial Insurance	13.70%	14.35%
Blue Cross	8.87%	8.60%
Self-Pay and Other	<u>9.22%</u>	<u>9.34%</u>
Total Patient Revenue	<u>100.00%</u>	<u>100.00%</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Other Revenue

Other revenue includes Ambulance property tax, cafeteria sales, rental income, and other miscellaneous services

Table 4
Other Revenue

	Year - end June 30	
	<u>2004</u>	<u>2003</u>
Other Revenue:		
Dietary Sales	\$ 304,627	\$ 328,488
Rental Income	750,608	575,300
Ambulance Tax	730,445	15,100
LHA Trust	- 0 -	88,456
Vending	39,408	35,167
Medical Records	7,263	5,959
Other Income	<u>40,155</u>	<u>123,351</u>
Total Other Revenue	<u>\$ 1,872,506</u>	<u>\$ 1,171,821</u>

Investment Income

The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$506,309 during fiscal year 2004

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2004 and 2003.

The Hospital's overall activity as measured by patient admissions, reduced by 1.0% to 3,979 discharges in 2004 from 4,020 discharges in 2003. Patient days increased 2.3% from prior year of 16,176 in 2003 to 16,554 in 2004. The increase was attributed to Geriatric Psych as acute care days were down 3.8%. As a result, the average length of stay for acute care patients (excluding newborns) remained flat at 3.7 days in 2004 from 3.7 days in 2003.

Our Long-Term Care Unit's activity decreased by 4.7% to 37,084 days in 2004 versus 38,929 days in 2003, which represents 91% occupancy on the unit.

The Hospital operates the community ambulance service that traditionally has had operating losses. Effective July 2003, the residents of Natchitoches Parish passed a 6.7 mil property tax to subsidize operations.

Natchitoches Parish Hospital Service District
 Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Table 5
Patient and Hospital Statistical Data

	Year - end June 30	
	<u>2004</u>	<u>2003</u>
Admissions:		
Adult and Pediatric	3,745	3,883
Newborn	604	624
Long-Term Care Unit	194	146
Geriatric Psych Unit	234	137
Patient Days:		
Adult and Pediatric	13,877	14,418
Medicare (Included in Adult & Pediatric)	7,401	7,245
Medicaid (Included in Adult & Pediatric)	3,538	4,254
Newborn	1,358	1,406
Long-Term Care Unit	37,084	38,929
Geriatric Psych Unit	2,677	1,758
Operating Room Patients	2,488	2,021
Outpatient Registrations	45,135	46,826
Emergency Room Visits	16,413	17,660
Ambulance Runs	3,595	3,324
Average Daily Census:		
Adult and Pediatric	41.74	39.50
Long-Term Care Unit	101.60	106.70
Geriatric Psych Unit	7.33	4.80
Average Length of Stay (Excluding Newborn):		
All Acute Care Patients	3.70	3.71
Medicare Patients	5.25	5.48
Medicaid Patients	2.63	2.79
Long-Term Care Unit Patients	194.16	268.48
Geriatric Psych Unit Patients	9.66	12.74
Percent of Total Patient Days:		
Medicare	53.33%	50.25%
Medicaid	25.50%	29.50%
Full-Time Equivalentents (FTE's)	425	443

Natchitoches Parish Hospital Service District
 Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Total net patient service revenue decreased \$9,102 or 0.03% in 2004

Net patient service revenue was flat primarily due to the revenue loss from Orthopedic Surgery decline being offset by increases in Lab and Radiology revenue. While gross patient revenue increased \$3,057,702 from prior year due to increased outpatient volume, net patient service revenue was flat due to an increase in contractual allowances, as our Medicaid volume is up and managed care contracts move to fee schedule reimbursement versus percentage of charge discounts.

Allowances increased over prior year as described in the table below:

Table 6
Allowance Summary

	Year - end June 30	
	<u>2004</u>	<u>2003</u>
Allowances:		
Medicare Contractual Allowance	\$ 23,088,510	\$ 19,085,512
Medicaid Contractual Allowance	6,616,013	5,272,471
Blue Cross, Louisiana State Employees Group Benefits, and other Contractual Allowances	5,982,464	5,623,431
Other Adjustments	<u>198,825</u>	<u>217,946</u>
Total Allowances	\$ <u>35,885,812</u>	\$ <u>30,199,360</u>

As a result of a continued effort in accounts receivable collection efforts, days in accounts receivable remained low at 51 days. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$198,186 were forgone during 2004, compared to \$208,615 in 2003. The Hospital is working on an automated charity care system to assure consistent application of board policies. Hospital assumed compliance with our charity policy resulted in only patients meeting specific criteria being classified as a charity care.

Total salary expenses decreased to \$13,182,051 in 2004 from \$13,260,248 in 2003, a 0.5% variance. As a percentage of net patient service revenue, salary expense was approximately 37.7% and 38.0% for the fiscal years ended June 2004 and 2003, respectively. The Hospital has fully implemented a labor productivity monitoring system this year, resulting in a decrease in hospital wide staffing and increased efficiency.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Employee benefit expense increased \$49,538 or 3.1% from prior year. Employee benefit expense represented 12.4% and 12.0% of salary expense in the current and prior fiscal years, respectively. This increase is primarily due to increases in health insurance costs.

Supplies expense decreased \$601,699 or 20.9% from prior year. As a percentage of net patient service revenue, supplies expense decreased to approximately 6.5% from 8.2% for the fiscal years ended June 2004 and 2003, respectively. The decrease was attributed to the reduction in Prostheses used in orthopedic cases.

Purchased services had an increase of \$1,032,111 or 23.8% from prior year. The increase is due to moving our Geriatric Psych program to management services versus in-house. The management agreement has increased volume and quality but has failed to reduce cost. Management is reviewing options given PPS implementation in July of 2004.

Other operating expenses increased approximately \$475,022 from prior year due primarily to the increase in our non-medical supplies of \$60,699, utilities of \$58,969, insurance of \$57,844, and licenses of \$107,790.

Provision for bad debts decreased \$208,438 and represents 10.6% of net patient revenue versus prior year's 11.2%. The decrease comes primarily due to the increased efforts in up front collections and improved accuracy in accounting for bad debt estimates.

Depreciation and interest expense increased by \$290,438 from prior year, as phase 1 of the construction project is now being depreciated.

Total operating expense increased by \$832,225 for the year ended June 30, 2004 for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by several investments under bond resolution. The net unrealized gain (loss) on market adjustments is excluded from this amount.

Capital Assets

During fiscal year 2004, the Hospital invested \$8,455,135 in a broad range of capital assets included in Table 7 below.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Table 7
Capital Assets

	June 30,		Dollar	Percent
	<u>2004</u>	<u>2003</u>	Change	Change
Land	\$ 1,080,864	\$ 1,071,937	\$ 8,927	0.8%
Building & Equipment	<u>36,900,180</u>	<u>35,240,341</u>	<u>1,659,839</u>	<u>4.7%</u>
Subtotal	37,981,044	36,312,278	1,668,766	4.6%
Less Accumulated Depreciation	22,740,469	20,785,396	1,955,073	9.4%
Construction in Progress	<u>9,786,696</u>	<u>3,772,597</u>	<u>6,014,099</u>	<u>159.4%</u>
Net Property, Plant & Equipment	<u>\$ 25,027,271</u>	<u>\$ 19,299,479</u>	<u>\$ 5,727,792</u>	<u>29.7%</u>

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities, equipment, and is in the process of building expansion to modernize surgery, emergency room, x-ray, ICU and admitting.

In Table 8, the Hospital's fiscal year 2005 capital budget projects spending up to \$6,295,689 for capital projects. These projects will be financed from operations and board reserves. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

Table 8
Fiscal Year 2005 Capital Budget

Equipment Purchases	\$ 2,253,690
Construction MRI Building	350,000
Prior Year Approved Items	<u>3,691,999</u>
Total	<u>\$ 6,295,689</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Long-Term Debt

At year-end, the Hospital had \$9,125,000 in short-term and long-term debt. This has decreased by \$770,000 from fiscal year 2003, which was the amount of principal payments on outstanding debt for the fiscal year. The Hospital has paid off the 1994 series debt this year. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. No new long-term debt was incurred in the current year. Total debt outstanding represents approximately 18.6% of the Hospital's total assets at June 30, 2004.

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 questions about this report or need additional financial information, contact Hospital Administration.

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Independent Auditors' Report

Board of Commissioners
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the accompanying basic financial statements of the Natchitoches Parish Hospital Service District and its Affiliate (the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2004, 2003 and 2002, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2004, 2003 and 2002, and the results of its operations and cash flows of such funds for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 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 audits were made for the purpose of forming an opinion on the Hospital's 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 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
Natchitoches Parish Hospital Service District
Page Two

As discussed in Note 1 to the financial statements, effective July 1, 2002, 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 "xi" 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
September 16, 2004

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED BALANCE SHEETS
JUNE 30, 2004, 2003 AND 2002

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current:			
Cash and cash equivalents	\$ 1,157,331	\$ 1,358,143	\$ 1,655,589
Limited use assets (Note 4)	579,014	915,336	865,660
Patient accounts receivable, net (Note 3)	4,527,424	3,442,545	4,399,553
Other receivables	106,444	71,580	71,830
Inventory	1,162,393	1,129,624	1,067,792
Prepaid expenses	411,597	367,585	324,454
Notes receivable - current (Note 16)	<u>232,592</u>	<u>303,612</u>	<u>283,136</u>
Total current assets	<u>8,176,795</u>	<u>7,588,425</u>	<u>8,668,014</u>
Other:			
Limited use assets (Note 4)	14,624,596	20,861,224	21,636,218
Property, plant and equipment, net (Note 5)	25,027,271	19,299,478	15,736,703
Unamortized bond issue cost (Note 6)	46,609	48,253	54,593
Unamortized capitalized construction interest (Note 6)	1,148,991	740,631	549,843
Notes receivable (Note 16)	<u>153,163</u>	<u>333,141</u>	<u>538,086</u>
Total assets	<u>\$ 49,177,425</u>	<u>\$ 48,871,152</u>	<u>\$ 47,183,457</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current:			
Accounts payable	\$ 1,112,783	\$ 1,648,116	\$ 970,169
Payroll withholdings and taxes	49,640	51,851	159,858
Accrued expenses (Note 7)	1,113,038	1,011,181	1,060,522
Unearned revenue	7,871	10,998	4,961
Current portion of long-term debt (Note 8)	<u>325,000</u>	<u>770,000</u>	<u>819,781</u>
Total current liabilities	<u>2,608,332</u>	<u>3,492,146</u>	<u>3,015,291</u>
Long-term liabilities:			
Long-term debt (Note 8)	8,800,000	9,125,000	9,895,000
Less deferred loss on bonds	-0-	(2,393)	(11,697)
Total liabilities	<u>11,408,332</u>	<u>12,614,753</u>	<u>12,898,594</u>
Net assets:			
Invested in capital assets, net of related debt	15,902,271	9,404,478	5,021,922
Restricted net assets	579,257	5,525,581	8,516,531
Unrestricted net assets	<u>21,287,565</u>	<u>21,326,340</u>	<u>20,746,410</u>
Total net assets	<u>37,769,093</u>	<u>36,256,399</u>	<u>34,284,863</u>
Total liabilities and net assets	<u>\$ 49,177,425</u>	<u>\$ 48,871,152</u>	<u>\$ 47,183,457</u>

See accompanying notes to financial statements.

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue:			
Net patient service revenue	\$ 34,906,423	\$ 34,915,525	\$ 33,671,560
Gain (loss) on sale of assets	-	(19,459)	9,712
Other revenue	<u>1,872,506</u>	<u>1,171,821</u>	<u>1,441,176</u>
 Total revenue	 <u>36,778,929</u>	 <u>36,067,887</u>	 <u>35,122,448</u>
 Expenses:			
Salaries and benefits	14,828,299	14,856,958	13,963,484
Medical supplies and drugs	2,273,533	2,875,232	2,352,581
Medical, professional and consulting	5,363,413	4,331,302	4,375,425
Other expenses	6,352,812	6,082,916	6,912,841
Retirement	152,901	91,575	171,480
Insurance	758,788	700,944	702,733
Leases	10,740	16,359	20,750
Depreciation and amortization	1,994,792	1,704,354	1,671,127
Interest	8,767	43,614	71,958
Provision for bad debts	<u>3,693,507</u>	<u>3,902,073</u>	<u>3,589,539</u>
 Total expenses	 <u>35,437,552</u>	 <u>34,605,327</u>	 <u>33,831,918</u>
 Operating income (loss)	 <u>1,341,377</u>	 <u>1,462,560</u>	 <u>1,290,530</u>
 Nonoperating income:			
Interest income	16,046	23,471	36,746
Interest income from limited use assets	490,263	548,839	407,190
Net contributions (Note 14)	26,595	27,294	3,479,679
IGT transfer - administrative fee (Note 18)	<u>1,486</u>	<u>109,957</u>	<u>437,788</u>
 Total nonoperating income	 <u>534,390</u>	 <u>709,561</u>	 <u>4,361,403</u>
 Excess of revenue over expenses	 1,875,767	 2,172,121	 5,651,933
 Other comprehensive income			
Unrealized holding gains (losses)	<u>(363,073)</u>	<u>(200,585)</u>	<u>159,701</u>
 Comprehensive income (loss)	 1,512,694	 1,971,536	 5,811,634
 Net assets at beginning of year	 <u>36,256,399</u>	 <u>34,284,863</u>	 <u>28,473,229</u>
 Net assets at end of year	 \$ <u>37,769,093</u>	 \$ <u>36,256,399</u>	 \$ <u>34,284,863</u>

See accompanying notes to financial statements

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
 COMBINED STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 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	\$ 30,128,037	\$ 31,970,460	\$ 31,837,278
Other receipts from operations	1,834,515	1,089,652	1,523,575
Investment income received - nonrestricted	16,046	23,471	36,746
IGT transfer fee received	1,486	109,957	437,788
Cash payments to employees and for employee-related cost	(14,848,887)	(14,292,312)	(13,820,150)
Cash payments for other operating expenses	<u>(15,118,025)</u>	<u>(13,929,585)</u>	<u>(13,931,999)</u>
Net cash provided (used) by operating activities	<u>2,013,172</u>	<u>4,971,643</u>	<u>6,083,238</u>
Cash flows from investing activities:			
Collections on physician loans	14,645	15,026	-0-
Cash invested in assets limited as to use - investment	(490,263)	(548,839)	(654,357)
Redemption of investments/principal return	6,700,140	1,162,028	71,561
Loans to physicians	(45,651)	(132,666)	(310,615)
Investment earnings	<u>490,263</u>	<u>548,839</u>	<u>407,190</u>
Net cash provided (used) by investing activities	<u>6,669,134</u>	<u>1,044,388</u>	<u>(486,221)</u>
Cash flows from capital and related financing activities:			
Interest expense	(8,767)	(43,614)	(71,958)
Capitalized construction interest	(448,080)	(230,508)	(374,215)
Principal payments on long-term debt	(770,000)	(819,781)	(804,650)
Acquisition of property, plant and equipment	(7,682,866)	(5,246,868)	(4,619,342)
Contributions	<u>26,595</u>	<u>27,294</u>	<u>29,679</u>
Net cash provided (used) by capital and related financing activities:	\$ <u>(8,883,118)</u>	\$ <u>(6,313,477)</u>	\$ <u>(5,840,486)</u>

See accompanying notes to financial statements.

**NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net increase (decrease) in cash and cash equivalents	\$ (200,812)	\$ (297,446)	\$ (243,469)
Beginning cash and cash equivalents	<u>1,358,143</u>	<u>1,655,589</u>	<u>1,899,058</u>
Ending cash and cash equivalents	\$ <u>1,157,331</u>	\$ <u>1,358,143</u>	\$ <u>1,655,589</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>563,182</u>	\$ <u>614,182</u>	\$ <u>660,006</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 1,341,377	\$ 1,462,560	\$ 1,290,530
Interest expense considered capital financing activity	8,767	43,614	71,958
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
(Gain) loss on disposal of assets	-0-	19,459	9,712
Provision for bad debts	3,693,507	3,902,073	3,589,539
Depreciation and amortization	1,994,793	1,704,354	1,671,127
Amortization of loss on refinancing of 1979 Bonds	2,393	9,304	9,304
Amortization of bond issue cost	1,644	6,340	6,340
LHA trust allocation of income	-0-	(88,456)	(87,704)
Physician loan amortization	282,004	302,109	371,335
Interest income	16,046	23,471	36,746
IGT transfer - administrative fee	1,486	109,957	437,788
(Increase) decrease in:			
Patient accounts receivable, net	(4,778,386)	(2,945,065)	(1,834,282)
Other receivables	(34,864)	250	150,003
Inventory	(32,769)	(61,832)	(29,942)
Prepaid expenses	(44,012)	(43,131)	87,104
Increase (decrease) in:			
Accounts payable	(535,333)	677,947	(11,811)
Payroll withholdings and taxes	(2,211)	(108,007)	133,326
Accrued expenses	101,857	(49,341)	181,488
Unearned revenue	<u>(3,127)</u>	<u>6,037</u>	<u>677</u>
Net cash provided by operating activities	\$ <u>2,013,172</u>	\$ <u>4,971,643</u>	\$ <u>6,083,238</u>

See accompanying notes to financial statements

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legal Organizations

The Natchitoches Parish Hospital Service District (referred to as "the District" or "the Hospital") was created by an ordinance of the Natchitoches Parish Police Jury (the "Jury") on October 19, 1955. The governing board of the District consists of seven members appointed by the Jury. Because the Jury appoints all commissioners of the Natchitoches Parish Hospital Service District, the District is a component unit of the Natchitoches Parish Police Jury, which is the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Jury, or the other governmental units that comprise the financial reporting entity.

An affiliate, Natchitoches Hospital Foundation (referred to as "the Foundation"), was incorporated June 23, 1987, as a Louisiana nonprofit corporation. The Foundation has one class of members, consisting of one member, the District.

Nature of Business

The District provides outpatient, ambulance, emergency and acute services through its hospital unit. The District also provides inpatient intermediate and skilled nursing services through its long-term care unit and hospital "Swing-Beds". In June 1995, the District opened a unit to provide geriatric psychiatric services and was recognized as a "distinct part" unit effective July 1, 1995.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income therefrom, to or for the benefit of the District.

Basis of Accounting

The combined financial statements of the District and Foundation are prepared using the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. 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, and the AICPA Audits of Providers of Health Care Services, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Accounting (Continued)

On July 1, 2002, 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 2002 statements of cash flows to conform to the direct method of reporting cash receipts and disbursements.

Combination Policy

The accompanying financial statements include the accounts of the District combined with its affiliate, Natchitoches Hospital Foundation. The District has control of the Foundation. All intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

Cash represents coin, currency, bank demand deposits and other negotiable instruments that are readily acceptable in lieu of currency. Cash equivalents are time deposits, certificates of deposit, treasury bills and mortgage backed securities purchased with a maturity of three months or less.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Inventory

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

Investments

The Hospital classifies their investments as available-for-sale in response to changes in interest rates, liquidity needs and for other purposes. Available-for-sale securities are reported at fair value. Unrealized holdings gains and losses are reported as other comprehensive income.

Property, Plant and Equipment

Purchased fixed assets are recorded at cost and donated fixed assets, if received, at fair market value on the date of any donation. Depreciation is calculated over estimated useful lives, using the straight-line method. Land was initially donated for hospital use, and it is recorded at the fair market value at the time of donation. Additional land was purchased, and it is recorded at cost.

Revenue and Expenses

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

Income Taxes

The District is a political subdivision of the State of Louisiana and exempt from taxation.

The Foundation is exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Credit Risk

The Hospital provides medical care primarily to Natchitoches 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 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.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (Continued)

Third-Party Government-Based Revenues

Contractual agreements with governmental agencies (Medicare, Medicaid, etc.) provide for reimbursement based on combinations of the lesser of reasonable cost (subject to certain limits) or charges and prospective rates initially set based upon costs of services to patients. These reimbursements are subject to audit and retroactive adjustments by each payor.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

The Hospital's cash and investments are categorized below to give an indication of the level of risk assumed at June 30, 2004, 2003 and 2002. Category (1) includes investments that are insured, or registered in the Hospital's name, or for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. Balances at June 30 were as follows:

	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
2004				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ 4,907,844	\$ -0-	\$ 4,907,844
Cash and cash equivalents, certificates of deposit	<u>2,790,249</u>	<u>7,877,229</u>	<u>-0-</u>	<u>10,667,478</u>
Totals	<u>\$ 2,790,249</u>	<u>\$ 12,785,073</u>	<u>\$ -0-</u>	<u>\$ 15,575,322</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
2003				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ 16,591,195	\$ -0-	\$ 16,591,195
Cash and cash equivalents, certificates of deposit	<u>3,114,153</u>	<u>2,616,700</u>	<u>-0-</u>	<u>5,730,853</u>
Totals	\$ <u>3,114,153</u>	\$ <u>19,207,895</u>	\$ <u>-0-</u>	\$ <u>22,322,048</u>

	<u>Credit Risk Category</u>			<u>Carrying Amount</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	
2002				
Investment type:				
Direct obligations of or securities backed by the full faith and credit of the U.S. Government	\$ -0-	\$ 18,133,024	\$ -0-	\$ 18,133,024
Cash and cash equivalents, certificates of deposit	<u>3,602,939</u>	<u>1,632,123</u>	<u>-0-</u>	<u>5,235,062</u>
Totals	\$ <u>3,602,939</u>	\$ <u>19,765,147</u>	\$ <u>-0-</u>	\$ <u>23,368,086</u>

NOTE 3 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patient accounts receivable	\$ 6,248,015	\$ 6,603,216	\$ 6,427,963
Third-party year end settlements	<u>212,409</u>	<u>(806,671)</u>	<u>(410)</u>
	6,460,424	5,796,545	6,427,553
Less provision for uncollectibles	<u>(1,933,000)</u>	<u>(2,354,000)</u>	<u>(2,028,000)</u>
Net accounts receivable	\$ <u>4,527,424</u>	\$ <u>3,442,545</u>	\$ <u>4,399,553</u>

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 4 - LIMITED USE ASSETS

A summary of limited use assets is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>By Third Parties</u>			
Cash with paying agent - interest and principal, due 10/01 (Series 1994 and 2000 Bonds)	\$ 385,269	\$ 735,881	\$ 703,537
Donor contributions	186,935	171,208	152,457
Patient trust funds	6,810	8,247	9,666
Series 2000 proceeds to be disbursed	243	4,610,245	7,650,871
<u>By Board</u>			
Repair and replacement - cash and cash equivalents	1,900,058	3,877,120	4,846,604
Repair and replacement - investments	11,938,676	11,561,204	8,349,365
LHA trust deposits	785,619	812,655	789,378
Less limited use assets required for current liabilities	<u>(579,014)</u>	<u>(915,336)</u>	<u>(865,660)</u>
Non-current limited use assets	\$ <u>14,624,596</u>	\$ <u>20,861,224</u>	\$ <u>21,636,218</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2004.

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>
Land and improvements	\$ 1,071,937	\$ 8,927	\$ -0-	\$ 1,080,864
Buildings	22,025,275	966,591	-0-	22,991,866
Leasehold improvements	100,326	-0-	-0-	100,326
Furniture, fixtures & equipment	13,114,740	693,248	-0-	13,807,988
Construction in progress	<u>3,772,596</u>	<u>6,786,369</u>	<u>772,269</u>	<u>9,786,696</u>
Total	40,084,874	8,455,135	772,269	47,767,740
Accumulated depreciation	<u>20,785,396</u>	<u>1,955,073</u>	<u>-0-</u>	<u>22,740,469</u>
Net	\$ <u>19,299,478</u>	\$ <u>6,500,062</u>	\$ <u>772,269</u>	\$ <u>25,027,271</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2003.

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2003</u>
Land and improvements	\$ 958,124	\$ 124,638	\$ 10,825	\$ 1,071,937
Buildings	18,339,343	3,689,041	3,109	22,025,275
Leasehold improvements	100,326	-0-	-0-	100,326
Furniture, fixtures & equipment	9,971,773	3,604,665	461,698	13,114,740
Leased assets	540,237	-0-	540,237	-0-
Construction in progress	<u>5,629,172</u>	<u>2,582,306</u>	<u>4,438,882</u>	<u>3,772,596</u>
Total	35,538,975	10,000,650	5,454,751	40,084,874
Accumulated depreciation	<u>19,802,272</u>	<u>1,665,383</u>	<u>682,259</u>	<u>20,785,396</u>
Net	<u>\$ 15,736,703</u>	<u>\$ 8,335,267</u>	<u>\$ 4,772,492</u>	<u>\$ 19,299,478</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2002.

	<u>June 30, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2002</u>
Land and improvements	\$ 714,882	\$ 245,530	\$ 2,288	\$ 958,124
Buildings	18,869,104	15,971	545,732	18,339,343
Leasehold improvements	-0-	100,326	-0-	100,326
Furniture, fixtures & equipment	9,578,810	909,973	517,010	9,971,773
Leased assets	540,237	-0-	-0-	540,237
Construction in progress	<u>2,281,630</u>	<u>4,906,587</u>	<u>1,559,045</u>	<u>5,629,172</u>
Total	31,984,663	6,178,387	2,624,075	35,538,975
Accumulated depreciation	<u>19,226,183</u>	<u>1,631,407</u>	<u>1,055,318</u>	<u>19,802,272</u>
Net	<u>\$ 12,758,480</u>	<u>\$ 4,546,980</u>	<u>\$ 1,568,757</u>	<u>\$ 15,736,703</u>

Depreciation was calculated using the straight-line method. Useful lives for the purpose of calculating depreciation by class are:

Buildings	10 - 40 years
Furniture, fixtures and equipment	3 - 15 years

These assets were obtained in part with funds from a Hill-Burton program grant of \$307,000.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 6 - OTHER ASSETS

Construction interest of \$913,560 is being amortized using the straight-line method over the estimated useful life of the new hospital plant and equipment (23 years) beginning August 1981, when put into service.

Bond issue costs of \$46,609 were incurred for the 2000 Revenue Bonds and will be amortized using the straight-line method over the remaining life of the bonds (20 years) beginning in the fiscal year 2005.

Capitalized interest of \$1,148,991 was accumulated as of June 30, 2004 for the 2000 Revenue Bonds and will be amortized using the straight-line method over the remaining life of the bonds (20 years) beginning in the fiscal year 2005.

NOTE 7 - ACCRUED EXPENSES

A summary of accrued expenses is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Accrued interest	\$ 136,876	\$ 147,908	\$ 156,586
Accrued salaries	400,404	321,413	286,036
Accrued vacation pay	561,758	541,860	533,900
Accrued retirement	<u>14,000</u>	<u>-0-</u>	<u>84,000</u>
Total	\$ <u>1,113,038</u>	\$ <u>1,011,181</u>	\$ <u>1,060,522</u>

Management elected not to accrue non-vested compensated absence cost of sick pay which was deemed undeterminable.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30, 2004, follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Series 1994 Hospital Revenue Bonds at rates varying from 4.9% to 5.55%, collateralized by a pledge and dedication of hospital revenue	\$ -0-	\$ 460,000	\$ 900,000
Series 2000 Hospital Revenue Bonds at a rate of 6.00%, collateralized by a pledge and dedication of hospital revenue	9,125,000	9,435,000	9,725,000
Capital lease obligation, 4.95%, collateralized by leased nuclear medicine and ultrasound machine with cost of \$540,237	<u>-0-</u>	<u>-0-</u>	<u>89,781</u>
	9,125,000	9,895,000	10,714,781
Less current maturities of long-term debt	<u>(325,000)</u>	<u>(770,000)</u>	<u>(819,781)</u>
Long-term debt, net of current maturities	\$ <u>8,800,000</u>	\$ <u>9,125,000</u>	\$ <u>9,895,000</u>

On May 9, 1994, the Series 1994 Hospital Revenue Bonds were issued. On June 14, 2000, the Series 2000 Hospital Revenue Bonds were issued. The bonds are secured by the full faith and credit of the Hospital as well as a lien and privilege on its revenues.

The Hospital has covenanted to set rates so that revenues are sufficient to pay all reasonable and necessary expenses of operating and maintaining the Hospital, certain multiples of the largest amount of principal and interest maturing on the Bonds in any future fiscal year and on any pari passu additional bonds hereafter issued. Those multiples range from 120% to 200%.

Other requirements under the terms of indebtedness are as follows:

- * Sale or disposition of Hospital property, plant and equipment is limited. Future debt agreements may not take priority over this series of debt.
- * Make monthly deposits equal to the pro-rata portion of the next principal and/or interest payment, which are to be maintained in fully backed or government securities investments, with market values greater than invested dollars.
- * Collect payment on all services rendered, except for an undisclosed, reasonable amount of charity care.
- * Maintain all assets in good working order.
- * Carry full insurance coverage with a responsible licensed Louisiana company.
- * Maintain complete and accurate records and have an annual audit.
- * Maintain cash on hand of not less than 45 days of operating expenses net of depreciation and amortization. This requirement changed to 60 days effective June 14, 2000.
- * Provide quarterly statements to the purchaser.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 8 - LONG-TERM DEBT (Continued)

*Protect tax exempt status and refrain from activities that would require payment of arbitrage to the IRS.

Scheduled principal repayments on revenue bonds and payments on capital lease obligations over the next five years are as follows:

Year Ending <u>June 30</u>	2000 Revenue <u>Bonds</u>
2005	\$ 325,000
2006	345,000
2007	365,000
2008	390,000
2009	410,000
<i>Thereafter</i>	<u>7,290,000</u>
	<u>\$ 9,125,000</u>

NOTE 9 - NET PATIENT SERVICE REVENUE

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for cost reimbursement until January 1, 2006. Swing bed and skilled nursing facility routine services are reimbursed based on a prospectively determined rate per patient day. Geriatric psychiatry services are reimbursed based upon a cost reimbursement methodology, subject to a target amount per discharge.

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. Geriatric psychiatry services are reimbursed on a prospectively determined per diem rate.

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.

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 9 - NET PATIENT SERVICE REVENUE (Continued)

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 September 30.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medicare and Medicaid gross patient charges	\$ 46,583,619	\$ 43,193,680	\$ 39,018,391
Contractual adjustments without uncompensated care reimbursement	<u>(27,084,875)</u>	<u>(24,357,983)</u>	<u>(20,745,702)</u>
Net patient service revenue	\$ <u>19,498,744</u>	\$ <u>18,835,697</u>	\$ <u>18,272,689</u>
Percent of gross patient charges	68%	66%	66%
Percent of total net patient revenue	56%	54%	54%

The Hospital received interim amounts of \$2,619,648, \$2,223,598 and \$2,110,261 for Medicaid and self-pay uncompensated care services for the years ended June 30, 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 not made any provisions for such recoupments. 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.

NOTE 10 - RETIREMENT PROGRAM

Employees may participate in a qualified defined contribution retirement plan. Each employee is eligible to join the plan immediately upon employment. Employees become vested in the employer's contribution 25% per year until 100% vested at 4 years of employment. Under terms of the plan, each participating employee must make contributions of 4% and may make additional voluntary contributions. The District must make contributions equal to 25% of the employee's required contribution and can elect to contribute up to 100% of the employee's required contribution.

Total payroll	\$ 13,182,051
Total covered payroll	\$ 10,285,814
Employee contributions	\$ 411,429
Employer contributions	\$ 163,769
Less forfeitures	<u>(10,868)</u>
Net employer contributions	\$ <u>152,901</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 11 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence. Legal action in an attempt to overturn this legislation on constitutional grounds is in process.

The District's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability. The trust fund bills members in advance, based upon an estimate of their exposure. At policy year-end, premiums are redetermined utilizing actual losses of the District. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity amounts assigned to the District by the Trust Fund in its financial statements.

NOTE 12 - WORKMEN'S COMPENSATION RISK

The District participates in the Louisiana Hospital Association Self Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity amounts assigned to the District by the Trust Fund in its financial statements.

NOTE 13 - CHARITY CARE

The Hospital has a policy of providing charity care to indigent patients in emergency situations. Amounts identified as charity care charges are \$198,186, \$208,615 and \$160,147 for the years ended June 30, 2004, 2003 and 2002, respectively. The related cost of care was approximately 53%, 57% and 60%, for the fiscal years ended in 2004, 2003 and 2002, respectively.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 14 - NET CONTRIBUTIONS

Contributions and related fund raising expenses are reflected in the following table. Included in 2002 net contributions is \$3,450,000, which has been earned from a total deposit of \$5,000,000 from Christus Health.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Contributions	\$ 34,715	\$ 34,985	\$ 3,485,150
Interest earned on contributions	812	1,541	2,522
Less fund raising expenses	<u>(8,932)</u>	<u>(9,232)</u>	<u>(7,993)</u>
Net contributions	\$ <u>26,595</u>	\$ <u>27,294</u>	\$ <u>3,479,679</u>

NOTE 15 - SELF-FUNDED BENEFITS PLAN

The District maintains a self-funded medical/dental benefits plan. The District entered into an agreement as of July 1991, with Employee Benefit Services, Inc., for supervision of the plan. The Hospital purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of \$50,000 per year up to specific individual maximums of \$1,000,000.

NOTE 16 - NOTES RECEIVABLE

The following is a summary of notes receivable at June 30:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Physician notes	\$ 13,393	\$ 28,038	\$ 2,147
Physician contract guarantees	<u>372,362</u>	<u>608,715</u>	<u>819,075</u>
	385,755	636,753	821,222
Less current maturities	<u>(232,592)</u>	<u>(303,612)</u>	<u>(283,136)</u>
Long-term notes receivable	\$ <u>153,163</u>	\$ <u>333,141</u>	\$ <u>538,086</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 17 - 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:

Third-Party Government-Based Revenues (Note 1) - Cost reimbursements are subject to examination by agencies administering the programs. Effective October 1, 1983, the Medicare program discontinued its cost-based reimbursement system for inpatient services. Under the program, the District receives a fixed fee for each patient, which is determined by the government. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined.

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with 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 11) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

Workmen's Compensation Risk (Note 12) - The District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

Hill-Burton Uncompensated Service and Community Service Obligations - As a result of the District receiving a Federal Hill-Burton program grant, the District is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. The District's obligation for uncompensated services was fulfilled on July 17, 1998. Additionally, the District is obligated to provide community service.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

NOTE 18 - IGT TRANSFER - ADMINISTRATIVE FEE

The Hospital entered into a cooperative endeavor agreement with the State of Louisiana under Act No. 143 of the First Extraordinary Session of the 2000 Louisiana Legislature ("Act 143"). Act 143 provides for an Intergovernmental Transfer (IGT) to the Hospital whereby payments were made to the Hospital and 99.5% of the funds were transferred to the Natchitoches Parish Police Jury (Police Jury) for transfer to the State of Louisiana. The Hospital was authorized to retain an amount equal to one-half of one percent (0.5%) of the Medicaid Enhancement Pool payment as an administrative fee. By cooperative endeavor, the administrative fee was equally divided between the Hospital and the Natchitoches Parish Police Jury. The Natchitoches District Attorney's office requested an opinion from the Louisiana Attorney General's (AG) office regarding the legality of equally dividing the administrative fee between the Hospital and the Police Jury under Louisiana and Medicaid laws. On August 23, 2001, the AG opined finding no prohibition prohibiting the Hospital from sharing with the Police Jury under Louisiana law, and acknowledged receiving similar assurance from experts in Medicaid law. The \$1,486, \$109,957 and \$437,788 fees retained by the Hospital (0.25%) for 2004, 2003 and 2002, respectively, are reported as non-operating income. To avoid distortion of the Hospital's cash flow statement, the \$594,697, \$43,982,650 and \$174,677,305 transferred to the Hospital from the State of Louisiana and the \$593,211, \$43,872,693 and \$174,239,517 transferred by the Hospital to the Police Jury were not reported on the Hospital's cash flow statement. The transfer to the Police Jury includes the Police Jury's share of the administrative fee.

NOTE 19 - COMMITMENTS

The Hospital entered into three construction contracts during the year ended June 30, 2004, which totaled \$10,442,748, including change orders as of June 30, 2004. The Hospital paid \$6,742,449 towards this commitment as of June 30, 2004.

SUPPLEMENTARY INFORMATION

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Daily patient services:			
Routine services	\$ 3,661,483	\$ 3,820,789	\$ 3,863,250
Intensive care	1,412,360	1,502,810	1,492,011
Nursery	262,250	271,602	251,704
Long-term care	3,418,706	3,453,668	3,268,666
Swing bed	1,470	10,486	9,489
Geriatric psych	<u>2,747,010</u>	<u>1,808,680</u>	<u>2,017,814</u>
Total daily patient services	<u>11,503,279</u>	<u>10,868,035</u>	<u>10,902,934</u>
Other professional services:			
Operating and recovery room			
Inpatient	2,213,275	3,116,254	3,232,046
Outpatient	<u>3,559,838</u>	<u>4,296,626</u>	<u>3,747,966</u>
Total	<u>5,773,113</u>	<u>7,412,880</u>	<u>6,980,012</u>
Labor and delivery			
Inpatient	718,653	697,356	655,933
Outpatient	<u>106,020</u>	<u>115,230</u>	<u>112,714</u>
Total	<u>824,673</u>	<u>812,586</u>	<u>768,647</u>
Anesthesia			
Inpatient	13,653	24,353	34,027
Outpatient	<u>21,471</u>	<u>25,850</u>	<u>30,759</u>
Total	<u>35,124</u>	<u>50,203</u>	<u>64,786</u>
Radiology, ultrasound & CT scan			
Inpatient	3,304,586	2,894,828	2,674,242
Outpatient	<u>7,855,163</u>	<u>6,689,126</u>	<u>5,557,765</u>
Total	<u>11,159,749</u>	<u>9,583,954</u>	<u>8,232,007</u>
Laboratory			
Inpatient	4,801,167	4,573,116	4,150,416
Outpatient	<u>4,272,468</u>	<u>3,705,911</u>	<u>3,112,673</u>
Total	<u>9,073,635</u>	<u>8,279,027</u>	<u>7,263,089</u>
Blood			
Inpatient	384,859	215,376	192,802
Outpatient	<u>122,204</u>	<u>49,290</u>	<u>51,963</u>
Total	<u>\$ 507,063</u>	<u>\$ 264,666</u>	<u>\$ 244,765</u>

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Inhalation therapy			
Inpatient	\$ 3,684,513	\$ 3,442,411	\$ 2,327,566
Outpatient	<u>302,480</u>	<u>216,201</u>	<u>130,337</u>
Total	<u>3,986,993</u>	<u>3,658,612</u>	<u>2,457,903</u>
Physical therapy			
Inpatient	249,340	385,954	325,657
Outpatient	<u>809,667</u>	<u>958,807</u>	<u>978,091</u>
Total	<u>1,059,007</u>	<u>1,344,761</u>	<u>1,303,748</u>
Occupational therapy			
Inpatient	138,045	180,885	104,116
Outpatient	<u>194,431</u>	<u>206,003</u>	<u>239,659</u>
Total	<u>332,476</u>	<u>386,888</u>	<u>343,775</u>
Speech therapy			
Inpatient	38,953	38,155	34,452
Outpatient	<u>158,573</u>	<u>158,602</u>	<u>122,735</u>
Total	<u>197,526</u>	<u>196,757</u>	<u>157,187</u>
Electrocardiology			
Inpatient	1,535,423	1,343,549	943,222
Outpatient	<u>2,467,116</u>	<u>2,169,612</u>	<u>1,507,390</u>
Total	<u>4,002,539</u>	<u>3,513,161</u>	<u>2,450,612</u>
Central services			
Inpatient	1,185,727	1,210,711	1,173,051
Outpatient	<u>411,947</u>	<u>306,515</u>	<u>236,395</u>
Total	<u>1,597,674</u>	<u>1,517,226</u>	<u>1,409,446</u>
Pharmacy			
Inpatient	7,438,577	7,618,689	8,010,177
Outpatient	<u>1,561,665</u>	<u>1,642,974</u>	<u>1,393,503</u>
Total	<u>\$ 9,000,242</u>	<u>\$ 9,261,663</u>	<u>\$ 9,403,680</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cardiac rehab			
Inpatient	\$ -0-	\$ 493	\$ 251
Outpatient	<u>106,476</u>	<u>121,388</u>	<u>196,435</u>
Total	<u>106,476</u>	<u>121,881</u>	<u>196,686</u>
Emergency room			
Inpatient	1,099,859	852,941	805,371
Outpatient	<u>5,066,636</u>	<u>4,484,520</u>	<u>4,145,185</u>
Total	<u>6,166,495</u>	<u>5,337,461</u>	<u>4,950,556</u>
Observation			
Outpatient	<u>155,154</u>	<u>104,496</u>	<u>45,658</u>
Ambulance			
Outpatient	<u>2,491,332</u>	<u>2,163,449</u>	<u>1,852,611</u>
Diabetic initiative			
Outpatient	<u>-0-</u>	<u>(360)</u>	<u>2,899</u>
Physician clinic			
Outpatient	<u>106,290</u>	<u>101,964</u>	<u>106,725</u>
School-based clinic			
Outpatient	<u>40,548</u>	<u>44,690</u>	<u>44,927</u>
Wellness center			
Outpatient	<u>35,000</u>	<u>47,586</u>	<u>-0-</u>
Montgomery clinic			
Outpatient	<u>18,199</u>	<u>43,299</u>	<u>-0-</u>
Total other professional services	<u>56,669,308</u>	<u>54,246,850</u>	<u>48,279,719</u>
Total patient service revenue	\$ <u>68,172,587</u>	\$ <u>65,114,885</u>	\$ <u>59,182,653</u>

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Contractual adjustments - Medicare and Medicaid	\$ 29,704,523	\$ 26,581,581	\$ 22,855,963
Contractual adjustments - other	5,982,464	5,623,431	4,590,863
Free care	198,186	208,615	160,147
Other deductions	639	9,331	14,381
Uncompensated care reimbursement	<u>(2,619,648)</u>	<u>(2,223,598)</u>	<u>(2,110,261)</u>
 Total allowances	 <u>33,266,164</u>	 <u>30,199,360</u>	 <u>25,511,093</u>
 Net patient service revenue	 \$ <u>34,906,423</u>	 \$ <u>34,915,525</u>	 \$ <u>33,671,560</u>

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF OTHER REVENUE
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>		<u>2003</u>		<u>2002</u>
Other revenue:					
Rental income	\$ 750,608	\$	575,300	\$	588,091
Medical records	7,263		5,959		6,958
Dietary sales	304,627		328,488		343,380
Vending revenue	39,408		35,167		36,566
LHA trust	-0-		88,456		87,704
Ambulance tax	730,445		15,100		323,405
Other	40,155		123,351		35,072
Janitorial revenue	<u>-0-</u>		<u>-0-</u>		<u>20,000</u>
 Total other operating revenue	 \$ <u>1,872,506</u>	\$	 <u>1,171,821</u>	\$	 <u>1,441,176</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Salaries:			
Human resources	\$ 95,867	\$ 94,563	\$ 122,017
Administration	490,832	454,817	497,957
Information systems	158,135	139,446	147,796
Accounting	126,108	125,575	119,676
Admitting	332,325	329,503	240,623
Business office	295,971	323,645	383,667
Housekeeping	308,859	360,675	300,818
Dietary and cafeteria	378,401	369,623	356,758
Laundry	14,100	12,891	26,414
Plant operations and maintenance	207,008	203,398	185,443
Nursing administration	654,125	618,978	641,658
Medical records	265,815	291,190	320,837
Nursing services	1,803,588	1,830,230	1,580,432
ICU	662,840	709,127	615,723
Geriatric psych	155,696	448,394	428,973
Nursery	200,965	194,992	165,753
Long-term care	1,697,048	1,716,877	1,750,980
Operating room	715,521	743,233	656,166
Labor and delivery	316,091	309,993	356,964
Radiology	576,550	579,676	532,572
Laboratory	409,667	385,328	360,679
Respiratory therapy	366,297	333,328	303,162
Physical therapy	374,751	389,907	326,808
Occupational therapy	214,947	201,118	193,869
Speech therapy	56,104	57,729	43,647
Cardiovascular	131,639	127,934	107,504
Purchasing	65,543	59,272	58,563
Pharmacy	220,769	211,509	165,267
Cardiac rehab	49,930	59,349	130,369
Diabetic initiative	-0-	1,591	19,286
Emergency room	919,985	810,809	709,216
Ambulance	772,902	637,230	612,297
Physician clinic	55,948	50,253	44,975
School-based clinic	33,787	33,092	33,903
Montgomery clinic	7,180	3,523	-0-
Wellness center	46,757	41,450	-0-
	<u>13,182,051</u>	<u>13,260,248</u>	<u>12,540,772</u>
Total salaries	\$ <u>13,182,051</u>	\$ <u>13,260,248</u>	\$ <u>12,540,772</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
 SCHEDULES OF EXPENSES – SALARIES AND BENEFITS (Continued)
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Benefits:			
FICA and Medicare tax	\$ 954,200	\$ 968,621	\$ 921,647
Hospital insurance	635,298	604,552	474,975
Other	<u>56,750</u>	<u>23,537</u>	<u>26,090</u>
 Total benefits (excluding retirement)	 <u>1,646,248</u>	 <u>1,596,710</u>	 <u>1,422,712</u>
 Total salaries and benefits	 \$ <u>14,828,299</u>	 \$ <u>14,856,958</u>	 \$ <u>13,963,484</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF EXPENSES – MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Nursing service	\$ 69,399	\$ 74,539	\$ 85,708
ICU	29,538	31,844	35,652
Geriatric psych	7,062	3,349	3,723
Nursery	17,687	20,730	21,428
Long-term care	178,180	170,508	78,212
Operating room	624,724	1,229,824	1,145,686
Labor and delivery	73,059	72,311	56,347
Anesthesiology	24,816	29,672	37,889
Radiology, nuclear medicine, CAT scan	200,611	213,571	216,644
Laboratory and blood	589,322	530,166	200,049
Respiratory therapy	95,454	110,906	87,303
Physical therapy	3,417	649	2,916
EKG	15,132	15,732	15,052
Central supply	178,130	211,097	221,037
Pharmacy	26,927	35,338	30,804
Cardiac rehab	1,594	1,286	834
Emergency room	108,120	95,253	87,348
Ambulance	30,313	27,934	25,949
Montgomery clinic	31	344	-0-
School-based clinic	17	179	-0-
	<hr/>	<hr/>	<hr/>
Total medical supplies and drugs	\$ <u>2,273,533</u>	\$ <u>2,875,232</u>	\$ <u>2,352,581</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF EXPENSES – MEDICAL, PROFESSIONAL AND
CONSULTING SERVICES
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Routine nursing	\$ 278,231	\$ 409,679	\$ 322,200
ICU	216,933	214,986	211,838
Geriatric psych	991,484	140,889	155,986
Nursery	-0-	3,778	-0-
LTCU	100,339	48,124	66,201
Operating room	-0-	253	-0-
Labor and delivery	-0-	-0-	3,500
Radiology, ultrasound, CAT scan	439,676	302,016	276,601
Laboratory	120,871	87,620	106,552
Respiratory therapy	7,917	71,896	63,777
Physical therapy	50,465	93,654	98,932
Occupational therapy	-0-	-0-	53
Pharmacy	1,870,124	1,748,391	1,879,670
Emergency room	1,051,619	1,007,396	997,831
Other	397	-0-	1,304
Sleep study	202,875	182,700	190,980
Montgomery clinic	24,364	15,650	-0-
School-based clinic	8,118	4,270	-0-
	<u>5,363,413</u>	<u>4,331,302</u>	<u>4,375,425</u>
Total professional fees	\$ <u>5,363,413</u>	\$ <u>4,331,302</u>	\$ <u>4,375,425</u>

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF EXPENSES – OTHER
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Service fees	\$ 1,835,665	\$ 1,643,032	\$ 1,950,537
Legal and accounting	131,547	194,885	137,481
Non-medical supplies	1,557,239	1,496,540	1,953,093
Repairs and maintenance	392,403	436,707	476,721
Utilities	903,901	844,932	928,429
Telephone	78,874	85,769	82,889
Travel and fuel - ambulance	33,316	25,932	21,168
Travel and fuel - other	66,303	73,367	57,115
Rental expense	199,551	158,154	123,065
Education expense	34,797	44,598	39,009
Scholarships	10,868	8,543	10,790
Licenses, dues and subscriptions	290,669	182,879	252,776
Patient days tax	236,403	248,853	234,984
Advertising	127,713	216,671	195,001
Recruitment	403,568	385,344	394,438
Other	<u>49,995</u>	<u>36,710</u>	<u>55,345</u>
 Total other expenses	 \$ <u>6,352,812</u>	 \$ <u>6,082,916</u>	 \$ <u>6,912,841</u>

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE

HISTORY

The Natchitoches Parish Hospital was built by the people of the Parish of Natchitoches, Louisiana, in cooperation with the United States Government, and is operated by the Natchitoches Parish Hospital Service District as created by the Police Jury of Natchitoches Parish, Louisiana.

In consideration of an agreement between the Police Jury of Natchitoches Parish, Louisiana, and the Natchitoches Parish Hospital Service District whereby the Police Jury agreed to construct, complete and equip a hospital in Natchitoches Parish, the Hospital Service District agrees to do and perform the following:

1. To operate the District for the duration of this twenty-year agreement as a non-profit institution in accordance with an agreement entered into by and between the Parish and the United States.
2. To maintain and operate the District and assume and pay the expenses of operations and maintenance to the extent of the income and revenues derived therefrom.
3. To have full and complete charge of the management and operation of the District and conduct and operate said District at all times in accordance with acceptable standards of hospital practice.

The Parish covenants to do and perform, as consideration for this agreement, the following:

- 1 To equip the hospital building for hospital purposes with modern equipment sufficient to meet the needs of present day hospital practice. If, however, the District desires to replace said equipment with new equipment, it may do so, and said new equipment shall be and remains the property of the Parish if paid for out of the income resulting from the operation of the District. It is understood and agreed, however, that the Parish shall not be responsible for the securing of additional equipment other than that already purchased or installed when the District takes possession of the premises.
2. To levy the special tax of one mill on the dollar of all property subject to state taxation in the Parish for a period of three years beginning with the year 1956, as authorized by the special election held in the Parish on November 15, 1955, and the Parish shall pay to the District the net proceeds of said tax, as when collected. Said net proceeds shall be used by the District solely to defray the costs of operating and maintaining the District described herein, and proceeds at such intervals as the Parish may require.

During the year ended September 30, 1965, the Natchitoches Parish Hospital was enlarged by the addition of a nursing home, an autopsy room, new patient rooms and additional administrative and storage space. The new construction was financed by: (1) a grant from the United States Government under the Hill-Burton Act in the amount of \$307,000; (2) proceeds of a \$400,000 bond issue; and, (3) revenues of the Natchitoches Parish Hospital. The \$400,000 of Natchitoches Parish, Louisiana, Hospital Improvement Revenue Bonds, 3 1/2%, Series 1963, were purchased by the United States of America, Housing and Home Finance Agency. These bonds were retired in 1979.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE

HISTORY (Continued)

On June 14, 1977, a seven million dollar (\$7,000,000) bond issue was passed by the people of Natchitoches Parish. The seven million dollars (\$7,000,000) consisted of four million five hundred thousand dollars (\$4,500,000) of Public Improvement Bonds to be paid by ad valorem taxes. Two million five hundred thousand dollars (\$2,500,000) were to be Revenue Bonds and were to be paid off out of the general operating revenue of the District. Pursuant to a public hearing held on March 6, 1979, the District was authorized to issue \$4,500,000 of Hospital Revenue Bonds in lieu of the \$2,500,000 of Hospital Revenue Bonds

On May 22, 1978, the Public Improvement Bonds were sold. The Public Improvement Hospital Bonds are dated April 1, 1978, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding six and one-half percent (6 1/2%) per annum on any bond in any interest payment period. Said interest to be payable April 1, 1979, and semi-annually thereafter on April 1st and October 1st of each year. Bonds numbered 204 to 900, inclusive, are callable for redemption by the District in the inverse order of their maturities, and if less than a full maturity, then by lot within such maturity, on any interest payment date on or after April 1, 1988, at the principal amount thereof and accrued interest to the date fixed for redemption, provided that official notice of such call of any of the bonds for redemption date by means of publication of an appropriate notice one time in a financial newspaper or journal published in the City of New York, or in the City of New Orleans, Louisiana, and sent by registered mail to the place of payment of the bonds. Bonds of this issue numbered 1 to 203, inclusive, are not callable for redemption prior to their stated dates of maturity. The bonds are secured by a special tax to be imposed and collected annually in excess of all other taxes on all the property subject to taxation within the territorial limits of the District. On October 1, 1985, funds were deposited in an irrevocable trust and zero coupon United States of America Trust securities were purchased. The securities began maturing in February 1995, and will be used to pay payments on the bonds until payment in full. No collections of taxes were required after that time.

In May, 1979, the Hospital Revenue Bonds were sold. These bonds are dated April 1, 1979, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding seven and seven-eighths percent (7 7/8%) per annum on any bond in any interest period. Said interest to be payable October 1, 1979, and semi-annually thereafter on April 1st and October 1st of each year.

The Series 1979 Revenue Bonds are also subject to redemption in whole, at any time, or in part, at any interest payment date, at the option of the District upon the occurrence of any of the following conditions or event: (1) if title to, or the permanent use of, or use for a limited period of, substantially all of the District is condemned; or (2) if the title to substantially all of the District is found to be deficient to the extent that the Hospital is untenable or the efficient utilization of the District by the District is substantially impaired; or (3) if substantially all of the District is damaged or destroyed by fire or other casualty; or (4) if as a result of any changes in the Constitution of the United States of America or of the State of Louisiana or of legislative or administrative action, or failure of administrative action, by the United States or the State of Louisiana, or any agency or political subdivision thereof, or by reason of any judicial decision, (i) the Resolution becomes void or unenforceable or impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities are imposed on the District, including without limitation Federal, state or other ad valorem property, income or other taxes being imposed on the property of the District. In the event of such redemption, the Bonds shall be subject to redemption at the principal amount thereof plus accrued interest to the date of redemption, but without premium.

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE

HISTORY (Continued)

The Series 1979 Bonds are issued pursuant to a Resolution, under which payment of the principal of, redemption premium, if any, and interest on the Series 1979 Bonds is secured by a pledge of the income, revenues, receipts and accounts receivable derived by, payable or accruing to the District by reason of its operation of the District, subject to payment of the operating expenses of the District.

The Series 1979 Bonds are limited obligations of the District which are payable solely from revenues derived by the District from its operation of the Hospital. The Series 1979 Bonds are not an indebtedness or pledge of the general credit of the State of Louisiana, the Parish or City of Natchitoches or the District. Neither the District nor any of the assets of the District are pledged or mortgaged as security for the Series 1979 Revenue Bonds.

On February 26, 1980, the Louisiana State Bond Commission approved a notice of intention to issue not exceeding \$750,000 of Hospital Revenue Bonds to bear interest at rates not exceeding 9 1/4% per annum, the proceeds of which will be used for the purpose of constructing improvements to the existing facilities or to provide additional facilities, said bonds are to be secured by and payable solely from the District from operations, to mature at such time not exceeding 30 years from date of issuance, and subject further to the approval of the Natchitoches Parish Police Jury. In lieu of issuing these bonds the District made an application for the approval to the State Bond Commission to issue \$500,000 of Certificates of Indebtedness at an interest rate not to exceed eleven and one-half percent per annum. This application was approved on September 1, 1981. The \$500,000 in Certificates of Indebtedness were issued on April 6, 1982. Certificates totaling \$150,000 were issued to each of three banks in Natchitoches. These Certificates of Indebtedness were paid in full on September 28, 1984.

On November 20, 1985, the District's Commissioners resolved to donate a portion of land to the Natchitoches Parish Police Jury so they may construct a parish health clinic. The act of donation was made by resolution of the Board of Commissioners on October 23, 1987. The District's basis in the donated land was \$8,200.

An ambulance service tax is collected by the Natchitoches Parish Police Jury. The tax money is forwarded to the District upon submitting ambulance cost for the year. A ten-year renewal was passed in 1986. The voters of Natchitoches Parish voted not to renew this tax in July 1996.

Effective January 30, 1987, the Long-Term Care Unit qualified as a Medicare participating skilled nursing facility. As of September 25, 1987, a home health program was begun.

On December 1, 1988, the District began renting office space for four physicians in a newly constructed physician office building.

During the year ended June 30, 1990, the District purchased approximately ten acres of land on Keyser Avenue. The State of Louisiana expropriated one quarter acre for road right-of-way.

During the year ended June 30, 1991, the District began an \$845,000 renovation of the fourth and fifth floors of the Hospital which include two additional elevators and a rehabilitation fitness center. The Hospital began redecorating and refurnishing 84 patient rooms. These renovations were completed in fiscal year 1992.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE

HISTORY (Continued)

During the year ended June 30, 1992, the District began replacing the chillers and completed replacement of the chillers in fiscal year 1993. The Hospital began and nearly completed a building to be rented as a dialysis center

During the year ended June 30, 1994, the District completed construction of the dialysis center and began construction of rental facilities for a mental health unit and an obstetrics/gynecology doctors' office. The District also refinanced \$3,600,000 of Revenue bonds. As with the 1979 series, the \$3,560,000 of Series 1994 Bonds, dated May 19, 1994, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital. The interest rates vary from 3.95% to 5.5%

The District completed construction of the mental health unit, the obstetrics/gynecology doctors' office, senior care center and remodeling of the labor and delivery rooms during the fiscal year ended June 30, 1995. A cooperative endeavor with Northwest Psychiatry, Inc. resulted in the establishment of an adolescent psychiatric program in Natchitoches Parish. Additionally, the Hospital began its own geriatric psychiatric program on the hospital campus just prior to year end.

Effective July 1, 1995, the Hospital's geriatric psychiatric unit received "Distinct Part" status which provides for reasonable cost reimbursement of necessary services to Medicare patients. In February 1996 the cooperative endeavor with Northwest Psychiatry, Inc. ended as Medicaid, the primary payor source for the adolescent facility, tightened its admission and length of stay criteria. The result was an inadequate census and the unit was closed.

The District began leasing twenty-one beds and selling ancillary services to Satellite Rehab, Inc., a separately licensed hospital and unrelated party, on December 1, 1997. Satellite Rehab, Inc. offers inpatient rehabilitative services.

Also, on December 1, 1997, the District entered into a management agreement with Christus Health (the "Manager"). The Manager is responsible for providing an administrator for routine administrative services, making recommendations for the overall rate structure, preparing monthly reports to the Board, managing cash and investments, preparing annual budgets and reviewing the insurance program. The Board of Commissioners retained all authority and control over the District.

During the year ended June 30, 2000, the District financed \$10,000,000 of 6% Series 2000 Revenue Bonds. The \$10,000,000 of Series 2000 bonds, dated June 14, 2000, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital and must be used for expansion of hospital facilities.

The District received escrow funds in the amount of \$5,000,000 from Christus Health on March 3, 2000 as a part of an agreement with the District to be used for expansion of outpatient facilities. As certain conditions were met, the \$5,000,000 was earned during 1999, 2000, 2001 and 2002

The District ceased operations of the home health and partial day psychiatric services in June 2000.

NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE

HISTORY (Continued)

During the year ended June 30, 2002, the Hospital renovated the second and third floor of the tower as part of the beginning of a three-phase construction project, which will include a new outpatient service center. This project is being financed by the issuance of the Series 2000 Revenue Bonds of \$10,000,000 and from the \$5,000,000 contribution received by Christus Health.

The Hospital continued its three-phase construction project during 2004 with the completion of the renovation of the second and third floors and expected completion of the new outpatient service center by February of 2005. The final phase of the project, renovation of the first floor, will start after the completion of the outpatient service center.

NATCHITOCHEs PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULE OF PER DIEM
OR OTHER AMOUNTS PAID TO OR ON BEHALF OF COMMISSIONERS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2004

<u>Board Member</u>	<u>Per Diem Amounts Paid on Behalf of Commissioners</u>
Coley Gahagan	\$ 538
Ronald Corkern	578
Dr. Chris Ingram	360
Dr. Wilhelmena Wise	320
Frankie Ray Jackson	360
William Hymes	200
George Celles, IV	<u>538</u>
	\$ <u>2,894</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED SCHEDULE OF BONDS PAYABLE
YEARS ENDED JUNE 30, 2004, 2003 AND 2002**

NATCHITOCHE PARISH HOSPITAL	RATES	PAYMENT DATES	ISSUE DATES	FINAL MATURITY DATE	ANNUAL SERIAL PAYMENTS	BONDS			
						AUTHORIZED	ISSUED	RETIRED	OUTSTANDING
Revenue bonds	5 5-3 95%	4/1; 10/1	5/9/94	10/1/2003		<u>\$ 3,560,000</u>	<u>\$ 3,560,000</u>	<u>\$ 3,560,000</u>	<u>\$ -0-</u>
Revenue bonds	6 0%	4/1; 10/1	8/14/00	10/1/2020	325 000 (2004) 345 000 (2005) 365 000 (2006) 390 000 (2007) 410 000 (2008) 435 000 (2009) 460 000 (2010) 490 000 (2011) 515 000 (2012) 545 000 (2013) 580 000 (2014) 615 000 (2015) 650 000 (2016) 685 000 (2017) 730 000 (2018) 770 000 (2019) 815 000 (2020)	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$ 875,000</u>	<u>\$ 9,125,000</u>

**NATCHITOCHE PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
SCHEDULES OF AMBULANCE DEPARTMENT OPERATING PERFORMANCE
YEARS ENDED JUNE 30, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patient service revenue			
Inpatient charges ¹	\$ 164,744	\$ 3,548	\$ 5,201
Outpatient charges ¹	<u>2,326,588</u>	<u>2,159,901</u>	<u>1,847,410</u>
Gross patient charges	2,491,332	2,163,449	1,852,611
Deductions from revenue ³	<u>955,921</u>	<u>834,565</u>	<u>675,824</u>
Net patient service revenue	<u>1,535,411</u>	<u>1,328,884</u>	<u>1,176,787</u>
Expenses			
Salaries ¹	772,902	637,230	612,297
Benefits ²	116,167	87,109	89,824
Medical supplies ¹	30,313	27,934	25,949
Supplies ¹	24,593	13,330	17,919
Repairs and maintenance ¹	34,580	18,263	18,091
Utilities ¹	7,169	6,525	6,354
Fuel ¹	32,066	25,806	20,603
Rentals ¹	14,159	1,525	-0-
Miscellaneous ¹	33,109	703	3,099
Depreciation ⁴	115,057	61,099	64,101
Billing, accounting and other support services ⁵	222,238	188,816	204,405
Provision for bad debts ^{1, 6}	<u>355,306</u>	<u>313,215</u>	<u>302,023</u>
Total expenses	<u>1,757,659</u>	<u>1,381,555</u>	<u>1,364,665</u>
Ambulance department excess revenue (expense)	\$ <u>(222,248)</u>	\$ <u>(52,671)</u>	\$ <u>(187,878)</u>
Capital expenditures	\$ <u>228,314</u>	\$ <u>76,000</u>	\$ <u>97,414</u>

¹ - Charge or expense directly assigned to the ambulance department

² - Benefits are determined using the ratio of total benefits, including payroll taxes, divided by total salaries times ambulance salaries

³ - Deductions from revenue are determined using amounts calculated from the Medicare and Medicaid cost reports plus the average percentage for commercial contractual adjustments times ambulance commercial insurance charges

⁴ - Depreciation is the expense for the equipment and facilities used by the ambulance department

⁵ - Billing, accounting and other support services amounts are obtained from the Hospital's Medicare and Medicaid cost report using Medicare's principles of reimbursement.

⁶ - Provision for bad debts are determined using the ratio of amounts written-off, net of recoveries, during the year ended June 30, 2003 and 2002, divided by total commercial and self-pay charges times ambulance charges for commercial and self-pay

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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
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the basic financial statements of the Natchitoches Parish Hospital Service District and its Affiliate (the "District" or the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2004, 2003, and 2002 and have issued our report thereon dated September 16, 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 the District's 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 audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Commissioners
Natchitoches Parish Hospital Service District
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This report is intended solely for the information and use of management and the office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited

Lester, Miller & Wells

Certified Public Accountants
September 16, 2004