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HOSPITAL SERVICE DISTRICT NO. 2
OF THE PARISH OF LASALLE
STATE OF LOUISIANA

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

FOR THE YEARS ENDED
SEPTEMBER 30, 2003, 2002, AND 2001

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

Release Date 3.17.04

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Financial Statements
 And
 Independent Auditors' Report
 Years Ended September 30, 2003, 2002, and 2001

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Hospital Service District No. 2 of LaSalle Parish, State of Louisiana
(dba LaSalle General Hospital and LaSalle Nursing Home)
Management's Discussion and Analysis
Of the Basic Financial Statements
Years ended June 30, 2003 and 2002

This section of the Service District's annual financial report presents background information and management's analysis of the Service District's financial performance during the fiscal year that ended on September 30, 2003. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Service District's total assets increased by \$197,339, or approximately 1.15%.
- During the year, the Service District's total operating revenues increased \$66,995, or approximately 0.39%, to \$17,314,404, from the prior year.
- Total expenses increased \$1,060,865 or approximately 6.54%. Of this increase, \$737,018 is attributable to an 8.17% increase in employee benefits and salaries expenses.
- The Service District had a gain from operations of approximately \$25,190 which compares to a gain of \$1,019,060 the previous year.
- The Nursing Home began FY 2003, under a new payment system called Case Mix Index where payment is based on the necessary services provided to each patient. The payment is no longer a per diem amount.
- The Nursing Home closed D Wing due to the drop in census of 12.8%.
- The Hospital closed Grand Care, the geriatric partial hospitalization program, on 9/30/2003.
- The Hospital began operations of two hospital-owned physician practices in January 2003.

Required Financial Statements

The Basic Financial Statements of the Service District report information about the Service District using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheet includes all of the Service District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Service District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Service District and assessing the liquidity and financial flexibility of the Service District. All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses and Changes in net Assets. This statement measures improvements in the Service District's operations over the past two years and can be used to determine whether the Service District has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Service District's cash from operations, investing and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

Hospital Service District No. 2 of LaSalle Parish, State of Louisiana
 (dba LaSalle General Hospital and LaSalle Nursing Home)
 Management's Discussion and Analysis (Continued)

Financial Analysis of the Service District

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

Net Assets

Table 1 presents a condensed balance sheet for the Service District and compares fiscal years 2003 and 2002.

TABLE 1
Condensed Balance Sheets

	<u>2003</u>	<u>2002</u>	<u>\$ Change</u>	<u>% Change</u>
Total current assets	\$ 10,676,628	\$ 10,578,671	\$ 97,957	0.93%
Capital assets - net	6,635,677	6,551,641	84,036	1.28%
Other assets	<u>22,863</u>	<u>7,517</u>	<u>15,346</u>	<u>204.15%</u>
 Total Assets	 \$ <u>17,335,168</u>	 \$ <u>17,137,829</u>	 \$ <u>197,339</u>	 <u>1.15%</u>
 Current liabilities	 \$ 1,419,926	 \$ 1,374,488	 \$ 45,438	 3.31%
Net assets	<u>15,915,242</u>	<u>15,763,341</u>	<u>151,901</u>	<u>0.96%</u>
 Total Liabilities and Net Assets	 \$ <u>17,335,168</u>	 \$ <u>17,137,829</u>	 \$ <u>197,339</u>	 <u>1.15%</u>

Summary of Revenue, Expenses, and Changes in Net Assets

Table 2 presents a summary of the Service District's historical revenues and expenses for the fiscal years ended September 30, 2003 and 2002.

Hospital Service District No. 2 of LaSalle Parish, State of Louisiana
 (dba LaSalle General Hospital and LaSalle Nursing Home)
 Management's Discussion and Analysis (Continued)

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

	<u>2003</u>	<u>2002</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Net patient service revenue	\$ 16,856,805	\$ 16,988,449	\$ (131,644)	-0.77%
Gain on disposal of equipment	724	624	100	16.03%
Grant income	10,525	-0-	10,525	100.00%
Other revenue	<u>446,350</u>	<u>258,336</u>	<u>188,014</u>	<u>72.78%</u>
Total Revenue	17,314,404	17,247,409	66,995	0.39%
Expenses:				
Salaries and benefits	9,758,971	9,021,953	737,018	8.17%
Medical supplies and drugs	1,281,486	1,304,891	(23,405)	-1.79%
Insurance	336,903	299,183	37,720	12.61%
Professional fees	1,347,168	1,369,538	(22,370)	-1.63%
Other expenses	2,599,704	2,202,455	397,249	18.04%
Provision for bad debts	1,381,301	1,516,547	(135,246)	-8.92%
Depreciation and amortization	583,681	506,213	77,468	15.30%
Interest	<u>-0-</u>	<u>7,569</u>	<u>(7,569)</u>	<u>-100.00%</u>
Total Expenses	<u>17,289,214</u>	<u>16,228,349</u>	<u>1,060,865</u>	<u>6.54%</u>
Operating Income (Loss)	25,190	1,019,060	(993,870)	-97.53%
Nonoperating Income:				
Interest income	100,894	90,278	10,616	11.76%
IGT transfer - administrative fee	<u>9,548</u>	<u>1,075,353</u>	<u>(1,065,805)</u>	<u>-99.11%</u>
Total Nonoperating Income	<u>110,442</u>	<u>1,165,631</u>	<u>(1,055,189)</u>	<u>-90.53%</u>
Excess of Revenue over Expenses	135,632	2,184,691	(2,049,059)	-93.79%
Net assets at beginning of year	15,763,341	13,274,653	2,488,688	18.75%
Transfer from Debt Service Fund	<u>16,269</u>	<u>303,997</u>	<u>(287,728)</u>	<u>-94.65%</u>
Net assets at end of year	\$ <u>15,915,242</u>	\$ <u>15,763,341</u>	\$ <u>151,901</u>	<u>0.96%</u>

Hospital Service District No. 2 of LaSalle Parish, State of Louisiana
 (dba LaSalle General Hospital and LaSalle Nursing Home)
 Management's Discussion and Analysis (Continued)

Sources of Revenue

Operating Revenue

During fiscal year 2003, the Service District derived the majority of its total revenue from patient services. Patient service revenue includes revenue from the Medicare and Medicaid programs, commercial insurance, other various third-party payors, and patients who receive care in the Service District's facilities. Reimbursement for the Medicare and Medicaid programs, commercial insurance, and other third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance.

Table 3 presents the percentages by payor for the fiscal years ended September 30, 2003 and 2002. The Hospital's is a percentage of gross charges billed for patient services. The Nursing Home's is based on the census.

**TABLE 3
 Payor Mix by Percentage**

	LaSalle General Hospital		LaSalle Nursing Home	
	2003	2002	2003	2002
Medicare	69.18%	71.18%	1.84%	1.74%
Medicaid	15.04%	12.77%	85.72%	88.30%
Commercial Insurance	12.58%	12.63%	0.00%	0.00%
Self Pay	3.20%	3.42%	12.44%	9.97%

Non-operating Income

The Service District has funds invested primarily in Certificates of Deposit held with the Bank of Jena and secured by pledged securities. These investments were approximately \$5.6 million that earned \$100,894 in interest income. Note that the significant change of -90.53%, in total non-operating revenue, is due to the Inter-Governmental Transfer (IGT) that was initiated in 2002.

Operating and Financial Performance

The following summarizes the Service District's Statements of Revenue, Expenses, and Changes in Net Assets between 2003 and 2002:

Overall activity at the Hospital, as measured by acute patient discharges, increased to 1,775 compared to 1,764 in 2002. Patient days were 9,408 in 2003, up from 8,891 in 2002. Average length of stay increased to 5.30, up from 5.04 in 2002.

Swing Bed activity at the Hospital decreased significantly from 2002 to 2003. Discharges dropped from 463 to 293. Length of stay increased from 7.68 to 9.16. Patient days dropped from 3,558 to

Hospital Service District No. 2 of LaSalle Parish, State of Louisiana
(dba LaSalle General Hospital and LaSalle Nursing Home)
Management's Discussion and Analysis (Continued)

Operating and Financial Performance (Continued)

2,683. This along with the new payment system accounts for the \$164,000 drop in Swing Bed revenue.

Overall activity at the Nursing Home, as measured by the census, has dropped by 12.8% since 2002. The current census is 80.

Salaries increased by \$737,018, over the prior year. The Service District gave a cost of living adjustment of approximately 4.50% in October 2002. This increase is reflected in the \$737,018 increase. Also, the Hospital has added additional personnel in several departments, including Ambulance, Lab, Admitting, Nuclear Medicine and Radiology. The Hospital now employs a full time Occupational Therapist, full time Speech Therapist, and a full time Information Technologist. January of 2003, marked the opening of two physician offices. The Hospital employs the necessary office staff and the two physicians. Additions to personnel automatically increase the employee benefits expended.

Insurance expenses increased by \$37,720 due to expected market trends.

Other expenses increased by \$397,249. Of this increase, approximately 25% is attributable to supplies, both medical and office. Utilities, repairs and maintenance, legal and consulting fees, and the two new physician offices also added to this increase.

Provision for bad debts decreased by approximately \$135,000.

During FYE 2003, the Hospital devoted much work and expenditure toward market expansion. This has positioned the Hospital to recognize revenue expansion during FYE 2004 and beyond. Full impact of the Rural Health Clinic, LaSalle Primary Health Care Center, could increase reimbursement from \$100,000 to \$300,000 over the current reimbursements. Payment increases from the Medicare Prescription Drug Improvement and Modernization Act of 2003, are due to equal \$150,000 to \$250,000. Further profits will come from continued growth of the physicians' practices and from the \$262,000 USDA teleradiology grant.

Hospital Service District No. 2 of LaSalle Parish, State of Louisiana
 (dba LaSalle General Hospital and LaSalle Nursing Home)
 Management's Discussion and Analysis (Continued)

Capital Assets

**TABLE 4
 Capital Assets**

	September 30, <u>2003</u>	September 30, <u>2002</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 198,893	\$ 173,893	\$ 25,000	12.57%
Land improvements	160,095	193,393	(33,298)	-20.80%
Buildings and fixed equipment	10,022,438	10,215,480	(193,042)	-1.93%
Moveable equipment	3,716,476	3,945,736	(229,260)	-6.17%
Construction in progress	<u>21,503</u>	<u>1,186</u>	<u>20,317</u>	<u>94.48%</u>
 Total	 14,119,405	 14,529,688	 (410,283)	 -2.91%
Less: accumulated depreciation	<u>7,483,728</u>	<u>7,978,047</u>	<u>(494,319)</u>	<u>-6.61%</u>
Net property, plant, and equipment	 \$ <u>6,635,677</u>	 \$ <u>6,551,641</u>	 \$ <u>84,036</u>	 <u>1.27%</u>

NOTE: Net property, plant, and equipment have increased only slightly, 1.27%, just comparing the above numbers. However, the Service District actually purchased \$668,897 of PP&E during the year. The Service District deleted assets totaling \$1,079,180. The asset schedule was reviewed and many assets on the schedule were no longer in use. This deletion greatly alters the above comparison.

Long-term Debt

At year-end, the Service District had no long-term debt.

Contacting the Service District's Financial Manager

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

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District No. 2,
Of the Parish of LaSalle, State of Louisiana
Jena, Louisiana

We have audited the accompanying basic financial statements of Hospital Service District No. 2, of the Parish of LaSalle, (the "District"), a component unit of the LaSalle Parish Police Jury, as of and for the years ended September 30, 2003, 2002, and 2001, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Hospital Service District No. 2, of the Parish of LaSalle as of September 30, 2003, 2002, and 2001, 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 of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2004, on our consideration of the District'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.

Board of Commissioners
Hospital Service District No. 2,
Of the Parish of LaSalle, State of Louisiana
Page Two

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 2 to the financial statements, effective 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 "vi" is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lester, Miller & Wells
Certified Public Accountants

January 8, 2004

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Balance Sheets
September 30, 2003, 2002, and 2001

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current Assets:			
Cash and cash equivalents (Note 3)	\$ 1,755,291	\$ 1,558,805	\$ 1,093,703
Assets whose use is limited - required for current liabilities (Note 5)	17,850	30,199	25,133
Investments (Note 4)	5,653,439	5,551,736	3,054,447
Estimated third-party payor settlements	111,927	303,645	262,584
Accounts receivable, net of estimated uncollectibles (Note 6)	2,795,539	2,818,344	3,426,270
Inventory	248,070	255,440	266,324
Prepaid expenses	<u>94,512</u>	<u>60,502</u>	<u>50,785</u>
 Total Current Assets	 <u>10,676,628</u>	 <u>10,578,671</u>	 <u>8,179,246</u>
 Assets whose use is limited under bond covenant agreement (Note 5)	 -0-	 -0-	 737,388
Property, plant, and equipment, net (Note 7)	6,635,677	6,551,641	5,975,522
Other assets (Note 8)	<u>22,863</u>	<u>7,517</u>	<u>7,851</u>
 Total Assets	 <u>\$ 17,335,168</u>	 <u>\$ 17,137,829</u>	 <u>\$ 14,900,007</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts payable	\$ 354,246	\$ 409,985	\$ 280,192
Accrued expenses and withholdings payable (Note 9)	808,530	718,460	626,204
Resident deposits	17,850	30,199	25,133
Retirement plan payable	239,300	215,844	193,825
Current maturities of debt	<u>-0-</u>	<u>-0-</u>	<u>245,000</u>
 Total Current Liabilities	 <u>1,419,926</u>	 <u>1,374,488</u>	 <u>1,370,354</u>
 Debt, net of current maturities (Note 12)	 <u>-0-</u>	 <u>-0-</u>	 <u>255,000</u>
 Total Liabilities	 <u>\$ 1,419,926</u>	 <u>\$ 1,374,488</u>	 <u>\$ 1,625,354</u>

See accompanying notes to financial statements.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Balance Sheets (Continued)
September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 6,635,677	\$ 6,551,641	\$ 5,975,522
Restricted net assets	-0-	-0-	500,000
Unrestricted net assets	<u>9,279,565</u>	<u>9,211,700</u>	<u>6,799,131</u>
Total Net Assets	<u>15,915,242</u>	<u>15,763,341</u>	<u>13,274,653</u>
Total Liabilities and Net Assets	\$ <u>17,335,168</u>	\$ <u>17,137,829</u>	\$ <u>14,900,007</u>

See accompanying notes to financial statements.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenue:			
Net patient service revenue	\$ 16,856,805	\$ 16,988,449	\$ 13,582,764
Gain (loss) on disposal of equipment	724	624	2,594
Grant income	10,525	-0-	-0-
Ad valorem taxes	131,726	-0-	-0-
Other revenue	<u>314,624</u>	<u>258,336</u>	<u>564,187</u>
Total Revenue	<u>17,314,404</u>	<u>17,247,409</u>	<u>14,149,545</u>
Expenses:			
Salaries and benefits	9,758,971	9,021,953	7,164,106
Medical supplies and drugs	1,281,486	1,304,891	1,187,672
Insurance	336,903	299,183	227,732
Professional fees	1,347,168	1,369,538	1,169,164
Other expenses	2,599,704	2,202,455	1,948,656
Provision for bad debts	1,381,301	1,516,547	1,170,919
Depreciation and amortization	583,681	506,213	421,046
Interest	<u>-0-</u>	<u>7,569</u>	<u>29,097</u>
Total Expenses	<u>17,289,214</u>	<u>16,228,349</u>	<u>13,318,392</u>
Operating Income (Loss)	<u>25,190</u>	<u>1,019,060</u>	<u>831,153</u>
Nonoperating Income:			
Interest income	100,894	90,278	219,543
IGT transfer - administrative fee	<u>9,548</u>	<u>1,075,353</u>	<u>932,260</u>
Total Nonoperating Income	<u>110,442</u>	<u>1,165,631</u>	<u>1,151,803</u>
Excess of Revenue over Expenses	135,632	2,184,691	1,982,956
Net assets at beginning of year	15,763,341	13,274,653	11,291,697
Transfer from Debt Service Fund	<u>16,269</u>	<u>303,997</u>	<u>-0-</u>
Net assets at end of year	<u>\$ 15,915,242</u>	<u>\$ 15,763,341</u>	<u>\$ 13,274,653</u>

See accompanying notes to financial statements.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Statements of Cash Flows
Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 15,692,934	\$ 16,037,886	\$ 11,393,403
Other receipts from operations	454,257	259,165	592,588
IGT transfer fee received	9,548	1,075,353	932,260
Cash payments to employees and for employee-related cost	(9,660,290)	(8,907,678)	(7,046,660)
Cash payments for other operating expenses	<u>(5,648,430)</u>	<u>(5,045,107)</u>	<u>(4,538,920)</u>
Net cash provided (used) by operating activities	<u>848,019</u>	<u>3,419,619</u>	<u>1,332,671</u>
Cash flows from investing activities:			
Purchase of investments	(5,653,439)	(5,551,736)	(3,054,447)
Proceeds from investing activities	5,551,736	3,054,447	2,199,860
Investment income	<u>100,894</u>	<u>90,278</u>	<u>191,862</u>
Net cash provided (used) by investing activities	<u>(809)</u>	<u>(2,407,011)</u>	<u>(662,725)</u>
Cash flows from capital and related financing activities:			
Purchase of property and equipment	(667,717)	(1,082,600)	(376,376)
Proceeds from sales of capital assets	724	1,236	2,594
Net bond reserve fund activity	-0-	737,388	(32,707)
Principal paid on long-term debt	-0-	(500,000)	(230,000)
Interest paid on long-term debt	-0-	(7,569)	(29,097)
Investment income	<u>-0-</u>	<u>-0-</u>	<u>27,680</u>
Net cash provided (used) by capital and related financing activities	<u>\$ (666,993)</u>	<u>\$ (851,545)</u>	<u>\$ (637,906)</u>

See accompanying notes to financial statements.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Statements of Cash Flows (Continued)
Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net increase (decrease) in cash and cash equivalents	\$ 180,217	\$ 161,063	\$ 32,040
Cash transferred from Nursing Home	-0-	-0-	821,126
Cash transferred from bond fund	16,269	304,039	-0-
Beginning cash and cash equivalents	<u>1,558,805</u>	<u>1,093,703</u>	<u>240,537</u>
Ending cash and cash equivalents	\$ <u>1,755,291</u>	\$ <u>1,558,805</u>	\$ <u>1,093,703</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>-0-</u>	\$ <u>7,569</u>	\$ <u>29,097</u>

See accompanying notes to financial statements.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Statements of Cash Flows (Continued)
Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Reconciliation of income from operations			
to net cash provided by operating activities:			
Operating income (loss)	\$ 25,190	\$ 1,019,060	\$ 831,153
Interest expense considered capital financing activity	-0-	7,569	29,097
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	583,681	506,213	421,046
Provision for bad debts	1,381,301	1,516,547	1,170,919
(Gain) loss on disposal of assets	(724)	(624)	(2,594)
IGT transfer - administrative fee	9,548	1,075,353	932,260
(Increase) decrease in:			
Net patient accounts receivable	(1,358,496)	(908,621)	(2,098,425)
Estimated third-party payor settlements	191,718	(41,061)	(90,935)
Inventory	7,370	10,884	(21,895)
Prepaid expenses	(34,010)	(9,717)	(14,192)
Other assets	(15,346)	(52)	27,703
Increase (decrease) in:			
Accounts payable	(55,739)	129,793	31,088
Accrued expenses and withholdings payable	90,070	92,256	163,756
Retirement plan payable	23,456	22,019	(46,310)
Net cash provided (used) by operating activities	\$ <u>848,019</u>	\$ <u>3,419,619</u>	\$ <u>1,332,671</u>

See accompanying notes to financial statements.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

LaSalle Parish Hospital Service District No. 2, State of Louisiana (referred to as "the District") was created in 1968 by the LaSalle Parish Police Jury.

The District is a political subdivision of the LaSalle Parish Police Jury whose jurors are elected officials. The District's five Commissioners are appointed by the LaSalle Parish Police Jury. As the governing authority of the Parish for reporting purposes, the LaSalle Parish Police Jury is the financial reporting entity for the District. Accordingly, the District was determined to be a component unit of the LaSalle Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the police jury, the general governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

On April 18, 2001, the District resumed control of LaSalle Nursing Home. LaSalle General Hospital and LaSalle Nursing Home are both enterprise funds within the District. This change in control has allowed the District to take advantage of an opportunity to participate in an Intergovernmental Transfer Program as envisioned by Act No. 143 of the First Extraordinary Session of 2000. Participation in this program will enhance the District's ability to provide quality care to the elderly and infirm nursing home patients of LaSalle Parish.

Nature of Business

The District provides outpatient, emergency, skilled nursing (through "Swing Beds"), acute inpatient hospital, home health, and long-term intermediate care.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Enterprise Fund

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

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting

The District uses the accrual method of accounting. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Hospital accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

On July 1, 2002, the District adopted the provisions of Statement No. 34 (Statement 34) of GASB, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue, expenses, and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted and unrestricted. These classifications are defined as follows:

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

The adoption of Statement 34 resulted in the previously reported unrestricted fund balance amount being classified to conform to the above net asset classifications. Additionally, the District restated the 2002 and 2001 statements of cash flows to conform to the direct method of reporting cash receipts and disbursements.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

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

The District's estimate of collectibility is based on an evaluation of historical collections compared to gross revenues to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians who admit over 90% of the District's patients. The District also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 13. Accordingly, changes in federal or state legislation or interpretations of rules have a significant impact on the District.

Inventory

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

Property, Plant, and Equipment

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

Buildings and Improvements	25 to 40 years
Machinery and Equipment	5 to 20 years
Furniture and Fixtures	5 to 15 years

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

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

Estimates

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

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Enterprise Funds
 Combined Notes to Financial Statements
 Years Ended September 30, 2003, 2002, and 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resident Deposits

The Nursing Home manages residents' personal funds that are shown on the financial statements as "Assets whose use is limited" with a related liability, "Resident deposits".

NOTE 3 - CASH AND CASH EQUIVALENTS

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Petty Cash	\$ 1,635	\$ 1,235	\$ 1,235
Checking and Savings	<u>1,753,656</u>	<u>1,557,570</u>	<u>1,092,468</u>
 Total	 <u>\$ 1,755,291</u>	 <u>\$ 1,558,805</u>	 <u>\$ 1,093,703</u>

Three hundred and eleven thousand dollars of the above amount is covered by federal depository insurance. The remaining balance, with the exception of petty cash, is covered by collateral held by the pledging financial institution's trust departments in the District's name. Cash and cash equivalents are stated at cost which approximated market value.

NOTE 4 - INVESTMENTS

The District's investments consist of certificates of deposit. The District considers certificates of deposit with original maturities in excess of 90 days to be temporary cash investments. At September 30, 2003, 2002, and 2001, all investments were secured. Market value and carrying value are the same for all investments.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 5 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consists of the following items at September 30:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Residents Deposits	\$ 17,850	\$ 30,199	\$ 25,133
Revenue Bond Sinking Fund	-0-	-0-	164,182
Revenue Bond Reserve Fund	-0-	-0-	573,206
Total	<u>17,850</u>	<u>30,199</u>	<u>762,521</u>
Required for current liabilities	<u>(17,850)</u>	<u>(30,199)</u>	<u>(25,133)</u>
Assets whose use is limited	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 737,388</u>

The Revenue Bond Sinking Fund and Revenue Bond Reserve Fund were required by the General Electric Credit Corporation revenue bond contract. Revenue bonds were paid off during fiscal year 2002 and cash was transferred to investments.

NOTE 6 - ACCOUNTS RECEIVABLE

A summary of accounts receivable as of September 30, is presented below:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Patients	\$ 3,512,976	\$ 3,592,915	\$ 4,010,155
Other receivables	7,182	4,275	5,156
	<u>3,520,158</u>	<u>3,597,190</u>	<u>4,015,311</u>
Estimated uncollectibles	<u>(724,619)</u>	<u>(778,846)</u>	<u>(589,041)</u>
Total	<u>\$ 2,795,539</u>	<u>\$ 2,818,344</u>	<u>\$ 3,426,270</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT

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

	September 30, <u>2002</u>	<u>Additions</u>	<u>Deductions</u>	September 30, <u>2003</u>
Land	\$ 173,893	\$ 25,000	\$ -0-	\$ 198,893
Land improvements	193,393	4,500	37,798	160,095
Buildings and fixed equipment	10,215,480	141,124	334,166	10,022,438
Moveable equipment	3,945,736	476,770	706,030	3,716,476
Construction in progress	<u>1,186</u>	<u>21,503</u>	<u>1,186</u>	<u>21,503</u>
 Total	 14,529,688	 668,897	 1,079,180	 14,119,405
Accumulated depreciation	<u>7,978,047</u>	<u>583,681</u>	<u>1,078,000</u>	<u>7,483,728</u>
Net property, plant, and equipment	 \$ <u>6,551,641</u>	 \$ <u>85,216</u>	 \$ <u>1,180</u>	 \$ <u>6,635,677</u>

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

	September 30, <u>2001</u>	<u>Additions</u>	<u>Deductions</u>	September 30, <u>2002</u>
Land	\$ 153,893	\$ 20,000	\$ -0-	\$ 173,893
Land improvements	193,393	-0-	-0-	193,393
Buildings and fixed equipment	9,764,731	450,749	-0-	10,215,480
Moveable equipment	3,325,191	626,062	5,517	3,945,736
Construction in progress	<u>15,394</u>	<u>1,186</u>	<u>15,394</u>	<u>1,186</u>
 Total	 13,452,602	 1,097,997	 20,911	 14,529,688
Accumulated depreciation	<u>7,477,080</u>	<u>505,829</u>	<u>4,862</u>	<u>7,978,047</u>
Net property, plant, and equipment	 \$ <u>5,975,522</u>	 \$ <u>592,168</u>	 \$ <u>16,049</u>	 \$ <u>6,551,641</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Enterprise Funds
 Combined Notes to Financial Statements
 Years Ended September 30, 2003, 2002, and 2001

NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT (Continued)

The following is a summary of property, plant, and equipment and related accumulated depreciation for the year ended September 30, 2001:

	September 30, <u>2000</u>	<u>Additions</u>	<u>Deductions</u>	September 30, <u>2001</u>
Land	\$ 125,328	\$ 28,565	\$ -0-	\$ 153,893
Land improvements	183,543	9,850	-0-	193,393
Buildings and fixed equipment	8,659,524	1,105,452	245	9,764,731
Moveable equipment	2,686,884	748,534	110,227	3,325,191
Construction in progress	<u>-0-</u>	<u>15,394</u>	<u>-0-</u>	<u>15,394</u>
Total	11,655,279	1,907,795	110,472	13,452,602
Accumulated depreciation	<u>6,546,361</u>	<u>1,041,191</u>	<u>110,472</u>	<u>7,477,080</u>
Net property, plant, and equipment	\$ <u>5,108,918</u>	\$ <u>866,604</u>	\$ <u>-0-</u>	\$ <u>5,975,522</u>

NOTE 8 - OTHER ASSETS

Other assets at September 30, consists of the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Silver recovered from x-ray films	\$ 7,153	\$ 7,153	\$ 7,153
Startup costs, net	15,635	289	673
Deposits	<u>75</u>	<u>75</u>	<u>25</u>
Total	\$ <u>22,863</u>	\$ <u>7,517</u>	\$ <u>7,851</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 9 - ACCRUED EXPENSES AND WITHHOLDINGS PAYABLE

Accrued expenses and withholdings payable at September 30 consist of the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Accrued employee insurance payable	\$ 100,000	\$ 125,128	\$ 113,210
State unemployment taxes payable	331	147	172
Accrued interest payable	-0-	-0-	13,889
Accrued salaries and fees payable	307,715	219,548	178,801
Accrued compensated absences	350,738	323,424	265,693
Payroll withholdings	33,532	30,306	34,846
Provider tax payable	<u>16,214</u>	<u>19,907</u>	<u>19,593</u>
 Total	 \$ <u>808,530</u>	 \$ <u>718,460</u>	 \$ <u>626,204</u>

NOTE 10 - COMPENSATED ABSENCES

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

NOTE 11 - PENSION PLAN

The Hospital has a qualified contributory defined contribution plan providing retirement benefits for substantially all of its employees. Annually, the District contributes 5.1 percent of the salary of eligible employees to the plan. Employee and employer contributions were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Employee	\$ <u>342,435</u>	\$ <u>327,315</u>	\$ <u>287,293</u>
Employer	\$ <u>319,067</u>	\$ <u>287,315</u>	\$ <u>258,435</u>

The Nursing Home sponsors a tax-deferred annuity arrangement (exempt under Section 403(b) of the Internal Revenue Code) that covers all employees who have completed at least 1,000 hours of service per year. Employees may elect to make contributions of up to \$10,000 to the annuity

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 11 - PENSION PLAN (Continued)

through a salary reduction agreement. The Nursing Home pays participating employees 50% of their contributions currently. This percentage is at the Board's discretion and is reviewed each year. For the years ended September 30, 2003, 2002, and 2001, the amount of pension expense was \$7,941, \$7,504, and \$4,603, respectively.

NOTE 12 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations at September 30, 2003, 2002, and 2001 follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
5.0 percent revenue bonds due March 10, 2003, collateralized by a pledge of the District's revenues	\$ -0-	\$ -0-	\$ 500,000
Less current maturities of debt	<u>-0-</u>	<u>-0-</u>	<u>245,000</u>
Debt, net of current maturities	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>255,000</u>

NOTE 13 - 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 cost reimbursement methodology.

The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. Home health is reimbursed based upon a prospective payment per episode. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2000.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 13 - PATIENT SERVICE REVENUE (Continued)

Medicaid – Medicaid inpatient services are reimbursed based on a prospectively determined rates methodology. The District is reimbursed at a tentative rate for cost based services with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 1999.

Commercial - The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The District receives a substantial portion of its charges from the Medicare and Medicaid programs at discounted rates. A summary of gross Medicare and Medicaid charges for the years ended September 30, 2003, 2002, and 2001 follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Medicare and Medicaid gross patient charges	\$ 26,409,066	\$ 23,705,463	\$ 21,136,178
Contractual adjustments	<u>(15,072,909)</u>	<u>(12,347,993)</u>	<u>(11,912,781)</u>
Total patient revenues	\$ <u>11,336,157</u>	\$ <u>11,357,470</u>	\$ <u>9,223,397</u>
Percent of total patient gross charges	<u>80%</u>	<u>79%</u>	<u>82%</u>
Percent of net patient revenues	<u>67%</u>	<u>67%</u>	<u>67%</u>

NOTE 14 - PROFESSIONAL LIABILITY RISK

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

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,

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 14 - PROFESSIONAL LIABILITY RISK (Continued)

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 only included these allocations or equity amounts assigned to the District by the trust fund in its financial statements.

NOTE 15 - CONTINGENCIES

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

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 13) - The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined.

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

Medicaid Uncompensated Cost - The District received interim amounts of \$407,400, \$484,221 and \$573,083 for Medicaid and self-pay uncompensated care services for the years ended September 30, 2003, 2002, and 2001, 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. Management estimates that the Hospital has been overpaid by \$89,000 for fiscal year 2001 and this amount has been recorded as a liability. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Management changed the method for recognizing uncompensated care (UCC) income in year ending 2003. This change from reflecting UCC income when actually received to recording UCC income based on the State of Louisiana's fiscal year, increased UCC income by \$180,396 for year ending 2003.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Enterprise Funds
Combined Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 15 - CONTINGENCIES (Continued)

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

Professional Liability Risk (Note 14) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

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. Accordingly, the District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

Self Funded Health Insurance Risk - The District has a self funded health insurance plan through Employee Benefits Services. No provision has been made for incurred but non-reported claims. Accordingly, the District is contingently liable for claims that may be reported subsequent to the balance sheet date.

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the District. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

NOTE 16 - CHARITY CARE

The District has a policy of providing charity care to indigent patients who meet certain criteria under its charity care policy. The cost of the charity care was \$56,392, \$26,257, and \$8,836 for the fiscal years ended in 2003, 2002, and 2001, respectively.

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Enterprise Funds
 Combined Notes to Financial Statements
 Years Ended September 30, 2003, 2002, and 2001

NOTE 17 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2003, that have initial or remaining lease terms in excess of one year.

Year Ending September 30	<u>Amount</u>
2004	\$ 187,994
2005	201,194
2006	201,194
2007	201,194
2008	<u>50,299</u>
Total minimum future lease payments	\$ <u>841,875</u>

NOTE 18 - IGT TRANSFER – ADMINISTRATIVE FEE

The District 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 District whereby payments were made to the District and 99.5% of the funds were transferred to the State of Louisiana. The District 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. The District's administrative fees were \$9,548, \$1,075,353 and \$ 932,260 for 2003, 2002, and 2001, respectively. To avoid distortion of the cash flow statement, the \$ 9,578, \$215,070,600, and \$186,452,000 transferred to the District from the State of Louisiana and the \$0, \$213,995,247 and \$185,519,740 transferred from the District to the State of Louisiana were not reported in the cash flow statement.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Debt Service Fund
Balance Sheets
September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Assets:			
Cash	\$ 7	\$ 13,518	\$ 7,943
Certificates of deposit	<u>-0-</u>	<u>-0-</u>	<u>393,951</u>
Total Assets	\$ <u>7</u>	\$ <u>13,518</u>	\$ <u>401,894</u>
Net Assets:			
Unrestricted Net Assets	\$ <u>7</u>	\$ <u>13,518</u>	\$ <u>401,894</u>

See accompanying notes to financial statements

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Debt Service Fund
Statements of Revenue and Expenses, and Changes in Net Assets
Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenue:			
Ad valorem taxes	\$ 2,650	\$ 16,444	\$ 97,234
Interest income	<u>108</u>	<u>2,164</u>	<u>5,161</u>
Total Revenue	<u>2,758</u>	<u>18,608</u>	<u>102,395</u>
Expenses:			
Bonds redeemed	-0-	100,000	95,000
Interest on bonds	-0-	2,875	11,211
Fiscal agent fees	<u>-0-</u>	<u>110</u>	<u>180</u>
Total Expenses	<u>-0-</u>	<u>102,985</u>	<u>106,391</u>
Excess of Revenue over Expenses	2,758	(84,377)	(3,996)
Net Assets, beginning of year	<u>13,518</u>	<u>401,894</u>	<u>405,890</u>
Net assets before transfers	16,276	317,517	401,894
Transfer to Hospital Enterprise Fund	<u>16,269</u>	<u>303,999</u>	<u>-0-</u>
Net assets, end of year	\$ <u>7</u>	\$ <u>13,518</u>	\$ <u>401,894</u>

See accompanying notes to financial statements

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 General Long-Term Debt Account Group
 Statements of General Long-Term Debt
 Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>AMOUNT AVAILABLE AND TO BE PROVIDED FOR PAYMENT OF GENERAL LONG-TERM DEBT</u>			
Serial Bonds			
Amount available in Debt Service Fund	\$ -0-	\$ 100,000	\$ 401,894
Amount to be provided	<u>-0-</u>	<u>(100,000)</u>	<u>(301,894)</u>
Total	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>100,000</u>
<u>GENERAL LONG-TERM DEBT PAYABLE</u>			
Serial Bonds Payable	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>100,000</u>

See accompanying notes to financial statements

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Debt Service Fund and General Long-Term Debt Account Group
Notes to Financial Statements
Years Ended September 30, 2003, 2002, and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Debt Service

The debt service fund was established to receive ad valorem taxes collected and to repay bonds and the interest thereon. Taxes received cannot be commingled with other funds and can be used only for the designated purpose.

General Long-Term Debt Account Group

The general long-term debt account group is a self-balancing group of accounts which includes unmatured public improvement bonds that are funded by ad valorem tax revenues.

Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. Property tax revenues are recognized when they become available. Available includes those property taxes collected.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

Budgets

Expenditures of the debt service fund are controlled through debt service commitments. No legal budget is required for this fund.

NOTE 2 - DEPOSITS

Certificates of Deposit at September 30, 2003, 2002 and 2001 with the depository bank are secured at the balance sheet date by federal depository insurance coverage and by pledged securities.

SUPPLEMENTARY INFORMATION

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Schedules of Net Patient Service Revenue
Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Routine services:			
Adult and pediatric	\$ 2,592,927	\$ 2,308,409	\$ 2,902,352
Swing bed	652,455	816,169	366,984
Nursing home services	<u>3,386,188</u>	<u>3,669,641</u>	<u>1,725,459</u>
Total routine services	<u>6,631,570</u>	<u>6,794,219</u>	<u>4,994,795</u>
Other professional services:			
Operating room	149,629	122,811	156,223
Recovery room	9,107	5,635	9,376
Anesthesiology	79,842	52,937	95,537
Radiology	2,777,112	2,207,274	1,723,672
Laboratory and blood	4,008,713	3,551,257	2,857,030
IV therapy	629,249	602,778	574,924
Respiratory therapy	2,067,619	1,867,119	1,654,300
Physical therapy	471,418	528,472	537,839
Occupational therapy	23,734	19,345	16,809
Speech therapy	14,255	12,971	5,312
EEG, EKG, telemetry	1,648,561	1,312,582	1,402,287
Medical supply	1,420,877	1,316,721	1,182,061
Pharmacy	7,606,607	7,018,805	6,788,460
Grand care	976,258	656,188	772,431
Wound care	161,753	459,509	221,180
Wellness center	34,970	36,263	45,296
Emergency service	1,875,234	1,628,033	1,389,952
Observation room	3,815	4,297	6,611
Ambulance service	810,459	692,903	496,098
Home health services	1,010,491	1,029,880	984,580
Physician private office	<u>691,479</u>	<u>-0-</u>	<u>-0-</u>
Total other professional services	<u>26,471,182</u>	<u>23,125,780</u>	<u>20,919,978</u>
Total patient service charges	\$ <u>33,102,752</u>	\$ <u>29,919,999</u>	\$ <u>25,914,773</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Schedules of Net Patient Service Revenue (Continued)
 Years Ended September 30, 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Deductions from charges:			
Medicare and Medicaid contractual adjustments	\$ 15,660,705	\$ 12,832,214	\$ 12,485,864
Uncompensated care reimbursement	(587,796)	(484,221)	(573,083)
Employee discounts	9,172	11,782	9,211
Uncompensated services	56,392	26,257	8,836
Other	<u>1,107,474</u>	<u>545,518</u>	<u>401,181</u>
 Total deductions from charges	 <u>16,245,947</u>	 <u>12,931,550</u>	 <u>12,332,009</u>
 Net patient service revenue	 \$ <u>16,856,805</u>	 \$ <u>16,988,449</u>	 \$ <u>13,582,764</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Schedules of Other Revenue
 Years Ended September 2003, 2002, and 2001

	<u>2003</u>		<u>2002</u>		<u>2001</u>
Purchase discounts taken	\$ 3,031	\$	3,067	\$	3,633
Nursing Home contract	-0-		-0-		202,196
Cafeteria	141,265		131,827		127,892
Cot rentals	1,491		1,401		1,470
Medical record abstracts	7,333		5,615		5,624
Vending	3,308		2,562		1,978
Rental income	15,700		12,850		72,500
Amulance reimbursement	126,000		68,850		116,409
Nursing Home accounting fees	-0-		-0-		4,725
Doctors' billing	9,500		23,100		27,300
Miscellaneous revenue	<u>6,996</u>		<u>9,064</u>		<u>460</u>
 Total other revenue	 \$ <u>314,624</u>	\$	 <u>258,336</u>	\$	 <u>564,187</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Schedules of Expenses – Salaries and Benefits
 Years Ended September 2003, 2002, and 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Salaries:			
Administration	\$ 1,117,776	\$ 1,099,153	\$ 863,713
Plant operations and maintenance	256,983	240,065	212,848
Laundry	112,663	107,777	103,273
Housekeeping	284,977	286,124	197,053
Dietary and cafeteria	368,206	369,810	350,156
Nursing administration	318,143	289,190	229,346
Medical records	201,243	129,534	110,886
Nursing services - acute	1,491,051	1,418,453	1,299,939
Nursing services - long-term care	1,109,282	1,099,106	529,627
Grand care	136,240	127,699	116,622
Wellness center	36,701	38,508	38,758
Operating room	42,393	45,923	37,126
Recovery room	4,172	1,533	3,595
Radiology	219,004	165,728	144,503
Laboratory	220,445	179,242	166,756
Respiratory therapy	200,831	194,912	185,285
Physical therapy	167,939	148,201	138,754
Occupational therapy	20,070	-0-	-0-
Speech therapy	12,866	-0-	-0-
Central supply	115,749	102,958	97,534
Pharmacy	167,169	162,426	156,392
Emergency room	630,597	651,009	525,128
Ambulance	190,620	179,731	176,468
Home health	387,739	378,514	346,088
Clinic	334,877	30,097	-0-
	<u>8,147,736</u>	<u>7,445,693</u>	<u>6,029,850</u>
Total salaries			
Benefits:			
FICA/Social Security	256,127	232,077	152,026
Hospitalization insurance	674,703	715,304	529,721
Other	680,405	628,879	452,509
	<u>1,611,235</u>	<u>1,576,260</u>	<u>1,134,256</u>
Total benefits			
Total salaries and benefits	\$ <u>9,758,971</u>	\$ <u>9,021,953</u>	\$ <u>7,164,106</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Schedules of Expenses – Medical Supplies and Drugs
 Years Ended September 2003, 2002, and 2001

	<u>2003</u>		<u>2002</u>		<u>2001</u>
Nursing services	\$ 22,879	\$	24,028	\$	23,770
Grand care	109		32		41
Wellness center	26		-0-		301
Operating room	13,046		11,694		9,741
Anesthesiology	693		287		252
Radiology	51,541		69,971		66,084
Laboratory and blood	31,806		29,071		22,898
IV therapy	96,053		92,578		89,762
Respiratory therapy	25,554		22,950		19,968
Physical therapy	3,250		2,856		3,026
Occupational therapy	301		-0-		-0-
Telemetry	4,267		4,528		3,964
Central supply	70,900		81,617		81,360
Pharmacy	791,924		776,651		761,316
Emergency room	8,563		10,502		8,817
Ambulance	3,533		6,903		7,463
Home health	21,897		20,753		23,454
Clinic	18,576		3,470		-0-
Nursing home supplies	<u>116,568</u>		<u>147,000</u>		<u>65,455</u>
Total medical supplies and drugs	\$ <u>1,281,486</u>	\$	<u>1,304,891</u>	\$	<u>1,187,672</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Schedules of Expenses – Professional Fees
 Years Ended September 2003, 2002, and 2001

	<u>2003</u>		<u>2002</u>		<u>2001</u>
Swing bed	\$ 523	\$	440	\$	385
Grand care	47,674		57,363		57,778
Anesthesiology	81,739		106,900		88,671
Radiology	167,480		181,374		113,584
Laboratory	147,590		149,134		113,060
Physical therapy	17,024		42,732		34,406
Occupational therapy	530		5,280		4,440
Speech therapy	1,845		5,003		2,025
EKG, EEG	79,016		75,052		65,475
Emergency room	789,140		715,421		666,980
Home health	5,174		22,497		19,444
Pharmacy	6,150		7,510		2,916
Clinic	<u>3,283</u>		<u>832</u>		<u>-0-</u>
 Total professional fees	 \$ <u>1,347,168</u>	\$	 <u>1,369,538</u>	\$	 <u>1,169,164</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Schedules of Expenses – Other Expenses
 Years Ended September 2003, 2002, and 2001

	<u>2003</u>		<u>2002</u>		<u>2001</u>
Contract services	\$ 8,232	\$	6,353	\$	5,843
Consultants	63,991		32,204		24,128
Legal	138,209		98,727		99,170
Supplies	983,618		880,234		762,498
Repairs and maintenance	378,119		350,714		370,424
Utilities	315,195		256,347		264,512
Telephone	59,902		72,042		55,307
Travel	80,730		81,521		68,759
Rentals	66,317		47,484		57,513
Advertising	33,279		24,665		21,524
Recruitment	2,902		775		2,874
Dues and subscriptions	65,122		62,166		57,539
Miscellaneous	110,700		58,063		49,550
Physician's private office	72,960		-0-		-0-
Provider tax	<u>220,428</u>		<u>231,160</u>		<u>109,015</u>
Total other expenses	\$ <u>2,599,704</u>	\$	<u>2,202,455</u>	\$	<u>1,948,656</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Combining Balance Sheet
September 30, 2003

	<u>LaSalle General Hospital</u>	<u>LaSalle Nursing Home</u>	<u>Eliminating Entries</u>	<u>Combined</u>
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 1,080,212	\$ 675,079	\$ -0-	\$ 1,755,291
Assets whose use is limited - required for current liabilities	-0-	17,850	-0-	17,850
Investments	2,637,509	3,015,930	-0-	5,653,439
Estimated third-party payor settlements	87,500	24,427	-0-	111,927
Accounts receivable, net of estimated uncollectibles	2,598,444	229,393	(32,298)	2,795,539
Inventory	239,586	8,484	-0-	248,070
Prepaid expenses	76,166	18,346	-0-	94,512
Total Current Assets	<u>6,719,417</u>	<u>3,989,509</u>	<u>(32,298)</u>	<u>10,676,628</u>
Property, plant, and equipment, net	5,619,503	1,016,174	-0-	6,635,677
Other assets	22,838	25	-0-	22,863
Total Assets	<u>\$ 12,361,758</u>	<u>\$ 5,005,708</u>	<u>\$ (32,298)</u>	<u>\$ 17,335,168</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ 320,080	\$ 66,464	\$ (32,298)	\$ 354,246
Accrued expenses and withholdings payable	625,722	182,808	-0-	808,530
Resident deposits	-0-	17,850	-0-	17,850
Retirement plan payable	239,300	-0-	-0-	239,300
Total Current Liabilities	<u>1,185,102</u>	<u>267,122</u>	<u>(32,298)</u>	<u>1,419,926</u>
Total Liabilities	<u>\$ 1,185,102</u>	<u>\$ 267,122</u>	<u>\$ (32,298)</u>	<u>\$ 1,419,926</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Combining Balance Sheet (Continued)
 September 30, 2003

	<u>LaSalle General Hospital</u>	<u>LaSalle Nursing Home</u>	<u>Eliminating Entries</u>	<u>Combined</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ 5,619,503	\$ 1,016,174	\$ -0-	\$ 6,635,677
Unrestricted net assets	<u>5,557,153</u>	<u>3,722,412</u>	<u>-0-</u>	<u>9,279,565</u>
Total Net Assets	<u>11,176,656</u>	<u>4,738,586</u>	<u>-0-</u>	<u>15,915,242</u>
Total Liabilities and Net Assets	<u>\$ 12,361,758</u>	<u>\$ 5,005,708</u>	<u>\$ (32,298)</u>	<u>\$ 17,335,168</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Combining Balance Sheet
September 30, 2002

	<u>LaSalle General Hospital</u>	<u>LaSalle Nursing Home</u>	<u>Eliminating Entries</u>	<u>Combined</u>
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 1,022,924	\$ 535,881	\$ -0-	\$ 1,558,805
Assets whose use is limited - required for current liabilities	-0-	30,199	-0-	30,199
Investments	2,600,000	2,951,736	-0-	5,551,736
Estimated third-party payor settlements	289,107	14,538	-0-	303,645
Accounts receivable, net of estimated uncollectibles	2,587,401	268,531	(37,588)	2,818,344
Inventory	244,848	10,592	-0-	255,440
Prepaid expenses	<u>45,997</u>	<u>14,505</u>	<u>-0-</u>	<u>60,502</u>
 Total Current Assets	 <u>6,790,277</u>	 <u>3,825,982</u>	 <u>(37,588)</u>	 <u>10,578,671</u>
Property, plant, and equipment, net	5,529,664	1,021,977	-0-	6,551,641
Other assets	<u>7,203</u>	<u>314</u>	<u>-0-</u>	<u>7,517</u>
 Total Assets	 <u>\$ 12,327,144</u>	 <u>\$ 4,848,273</u>	 <u>\$ (37,588)</u>	 <u>\$ 17,137,829</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ 370,225	\$ 77,348	\$ (37,588)	\$ 409,985
Accrued expenses and withholdings payable	585,216	133,244	-0-	718,460
Resident deposits	-0-	30,199	-0-	30,199
Retirement plan payable	<u>215,844</u>	<u>-0-</u>	<u>-0-</u>	<u>215,844</u>
 Total Current Liabilities	 <u>1,171,285</u>	 <u>240,791</u>	 <u>(37,588)</u>	 <u>1,374,488</u>
 Total Liabilities	 <u>\$ 1,171,285</u>	 <u>\$ 240,791</u>	 <u>\$ (37,588)</u>	 <u>\$ 1,374,488</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Combining Balance Sheet
 September 30, 2002

	<u>LaSalle General Hospital</u>	<u>LaSalle Nursing Home</u>	<u>Eliminating Entries</u>	<u>Combined</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ 5,529,664	\$ 1,021,977	\$ -0-	\$ 6,551,641
Unrestricted net assets	<u>5,626,195</u>	<u>3,585,505</u>	<u>-0-</u>	<u>9,211,700</u>
 Total Net Assets	 <u>11,155,859</u>	 <u>4,607,482</u>	 <u>-0-</u>	 <u>15,763,341</u>
 Total Liabilities and Net Assets	 \$ <u>12,327,144</u>	 \$ <u>4,848,273</u>	 <u>(37,588)</u>	 \$ <u>17,137,829</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Combining Balance Sheet
September 30, 2001

	<u>LaSalle General Hospital</u>	<u>LaSalle Nursing Home</u>	<u>Eliminating Entries</u>	<u>Combined</u>
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 373,015	\$ 720,688	\$ -0-	\$ 1,093,703
Assets whose use is limited - required for current liabilities	-0-	25,133	-0-	25,133
Investments	1,718,642	1,335,805	-0-	3,054,447
Estimated third-party payor settlements	249,267	13,317	-0-	262,584
Accounts receivable, net of estimated uncollectibles	3,172,017	293,922	(39,669)	3,426,270
Inventory	255,211	11,113	-0-	266,324
Prepaid expenses	36,997	13,788	-0-	50,785
Total Current Assets	<u>5,805,149</u>	<u>2,413,766</u>	<u>(39,669)</u>	<u>8,179,246</u>
Assets whose use is limited under bond covenant agreement	737,388	-0-	-0-	737,388
Property, plant, and equipment, net	5,009,361	966,161	-0-	5,975,522
Other assets	<u>7,153</u>	<u>698</u>	<u>-0-</u>	<u>7,851</u>
Total Assets	\$ <u>11,559,051</u>	\$ <u>3,380,625</u>	\$ <u>(39,669)</u>	\$ <u>14,900,007</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts payable	\$ 240,498	\$ 79,363	\$ (39,669)	\$ 280,192
Accrued expenses and withholdings payable	520,176	106,028	-0-	626,204
Resident deposits	-0-	25,133	-0-	25,133
Retirement plan payable	193,825	-0-	-0-	193,825
Current maturities of debt	245,000	-0-	-0-	245,000
Total Current Liabilities	<u>1,199,499</u>	<u>210,524</u>	<u>(39,669)</u>	<u>1,370,354</u>
Debt, net of current maturities	<u>255,000</u>	<u>-0-</u>	<u>-0-</u>	<u>255,000</u>
Total Liabilities	\$ <u>1,454,499</u>	\$ <u>210,524</u>	\$ <u>(39,669)</u>	\$ <u>1,625,354</u>

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Combining Balance Sheet (Continued)
 September 30, 2001

	<u>LaSalle General Hospital</u>	<u>LaSalle Nursing Home</u>	<u>Eliminating Entries</u>	<u>Combined</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ 5,009,361	\$ 966,161	\$ -0-	\$ 5,975,522
Restricted net assets	500,000	-0-	-0-	500,000
Unrestricted net assets	<u>4,595,191</u>	<u>2,203,940</u>	<u>-0-</u>	<u>6,799,131</u>
Total Net Assets	<u>10,104,552</u>	<u>3,170,101</u>	<u>-0-</u>	<u>13,274,653</u>
Total Liabilities and Net Assets	\$ <u>11,559,051</u>	\$ <u>3,380,625</u>	\$ <u>(39,669)</u>	\$ <u>14,900,007</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Combining Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended September 30, 2003

	<u>LaSalle General Hospital</u>	<u>LaSalle Nursing Home</u>	<u>Eliminating Entries</u>	<u>Combined</u>
Revenue:				
Net patient service revenue	\$ 13,591,586	\$ 3,292,404	\$ (27,185)	\$ 16,856,805
Gain (loss) on disposal of equipment	724	-0-	-0-	724
Grant income	10,525	-0-	-0-	10,525
Ad valorem taxes	131,726	-0-	-0-	131,726
Other revenue	<u>768,852</u>	<u>16,785</u>	<u>(471,013)</u>	<u>314,624</u>
Total Revenue	<u>14,503,413</u>	<u>3,309,189</u>	<u>(498,198)</u>	<u>17,314,404</u>
Expenses:				
Salaries and benefits	7,864,126	1,907,976	(13,131)	9,758,971
Medical supplies and drugs	1,164,918	116,568	-0-	1,281,486
Insurance	283,414	53,489	-0-	336,903
Professional fees	1,339,079	35,274	(27,185)	1,347,168
Other expenses	2,025,092	1,032,494	(457,882)	2,599,704
Provision for bad debts	1,379,951	1,350	-0-	1,381,301
Depreciation and amortization	<u>486,538</u>	<u>97,143</u>	<u>-0-</u>	<u>583,681</u>
Total Expenses	<u>14,543,118</u>	<u>3,244,294</u>	<u>(498,198)</u>	<u>17,289,214</u>
Operating Income (Loss)	<u>(39,705)</u>	<u>64,895</u>	<u>-0-</u>	<u>25,190</u>
Nonoperating Income:				
Interest income	44,233	56,661	-0-	100,894
IGT transfer - administrative fee	<u>-0-</u>	<u>9,548</u>	<u>-0-</u>	<u>9,548</u>
Total Nonoperating Income	<u>44,233</u>	<u>66,209</u>	<u>-0-</u>	<u>110,442</u>
Excess of Revenue over Expenses	4,528	131,104	-0-	135,632
Net assets at beginning of year	11,155,859	4,607,482	-0-	15,763,341
Transfer from Debt Service Fund	<u>16,269</u>	<u>-0-</u>	<u>-0-</u>	<u>16,269</u>
Net assets at end of year	<u>\$ 11,176,656</u>	<u>\$ 4,738,586</u>	<u>\$ -0-</u>	<u>\$ 15,915,242</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Combining Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended September 30, 2002

	LaSalle General Hospital	LaSalle Nursing Home	Eliminating Entries	Combined
Revenue:				
Net patient service revenue	\$ 13,440,227	\$ 3,558,297	\$ (10,075)	\$ 16,988,449
Gain (loss) on disposal of equipment	880	(256)	-0-	624
Grant income	-0-	-0-	-0-	-0-
Other revenue	<u>759,217</u>	<u>14,111</u>	<u>(514,992)</u>	<u>258,336</u>
 Total Revenue	 <u>14,200,324</u>	 <u>3,572,152</u>	 <u>(525,067)</u>	 <u>17,247,409</u>
Expenses:				
Salaries and benefits	7,132,503	1,899,178	(9,728)	9,021,953
Medical supplies and drugs	1,157,891	147,000	-0-	1,304,891
Insurance	259,813	39,370	-0-	299,183
Professional fees	1,349,516	30,097	(10,075)	1,369,538
Other expenses	1,651,939	1,055,780	(505,264)	2,202,455
Provision for bad debts	1,516,547	-0-	-0-	1,516,547
Depreciation and amortization	422,557	83,656	-0-	506,213
Interest	<u>7,569</u>	<u>-0-</u>	<u>-0-</u>	<u>7,569</u>
 Total Expenses	 <u>13,498,335</u>	 <u>3,255,081</u>	 <u>(525,067)</u>	 <u>16,228,349</u>
 Operating Income (Loss)	 <u>701,989</u>	 <u>317,071</u>	 <u>-0-</u>	 <u>1,019,060</u>
Nonoperating Income:				
Interest income	45,321	44,957	-0-	90,278
IGT transfer - administrative fee	<u>-0-</u>	<u>1,075,353</u>	<u>-0-</u>	<u>1,075,353</u>
 Total Nonoperating Income	 <u>45,321</u>	 <u>1,120,310</u>	 <u>-0-</u>	 <u>1,165,631</u>
 Excess of Revenue over Expenses	 747,310	 1,437,381	 -0-	 2,184,691
 Net assets at beginning of year	 10,104,552	 3,170,101	 -0-	 13,274,653
 Transfer from Debt Service Fund	 <u>303,997</u>	 <u>-0-</u>	 <u>-0-</u>	 <u>303,997</u>
 Net assets at end of year	 \$ <u>11,155,859</u>	 \$ <u>4,607,482</u>	 \$ <u>-0-</u>	 \$ <u>15,763,341</u>

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Combining Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended September 30, 2001

	LaSalle General Hospital	LaSalle Nursing Home	Eliminating Entries	Combined
Revenue:				
Net patient service revenue	\$ 11,889,000	\$ 1,700,850	\$ (7,086)	\$ 13,582,764
Gain (loss) on disposal of equipment	2,594	-0-	-0-	2,594
Grant income	-0-	-0-	-0-	-0-
Other revenue	790,034	6,844	(232,691)	564,187
Total Revenue	12,681,628	1,707,694	(239,777)	14,149,545
Expenses:				
Salaries and benefits	6,349,472	814,634	-0-	7,164,106
Medical supplies and drugs	1,122,217	65,455	-0-	1,187,672
Insurance	208,852	18,880	-0-	227,732
Professional fees	1,160,860	15,390	(7,086)	1,169,164
Other expenses	1,622,848	558,499	(232,691)	1,948,656
Provision for bad debts	1,153,236	17,683	-0-	1,170,919
Depreciation and amortization	388,499	32,547	-0-	421,046
Interest	29,097	-0-	-0-	29,097
Total Expenses	12,035,081	1,523,088	(239,777)	13,318,392
Operating Income (Loss)	646,547	184,606	-0-	831,153
Nonoperating Income:				
Interest income	198,707	20,836	-0-	219,543
IGT transfer - administrative fee	-0-	932,260	-0-	932,260
Total Nonoperating Income	198,707	953,096	-0-	1,151,803
Excess of Revenue over Expenses	845,254	1,137,702	-0-	1,982,956
Net assets at beginning of year	9,259,298	2,032,399	-0-	11,291,697
Net assets at end of year	\$ 10,104,552	\$ 3,170,101	\$ -0-	\$ 13,274,653

Hospital Service District No. 2
 Of the Parish of LaSalle, State of Louisiana
 Schedules of Per Diem and
 Other Compensation Paid to Board Members
 Years Ended September 30, 2003, 2002, and 2001

Board Members	<u>TERM</u> <u>EXPIRES</u>	<u>2003</u>	-Compensation- <u>2002</u>	<u>2001</u>
Bobby Joe Ganey	April, 2008	NONE	NONE	NONE
Harlon Nobles	April, 2004	NONE	NONE	NONE
W. O. Poole	April, 2005	NONE	NONE	NONE
Jimmie Humphries	April, 2006	NONE	NONE	NONE
I.C. Turnley, Jr., M.D.	April, 2007	NONE	NONE	NONE

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

Melanie I. Layssard, CPA
Brenda J. Lloyd, CPA

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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**

To the Board of Commissioners
Hospital Service District No. 2
Parish of LaSalle, State of Louisiana
Jena, Louisiana

We have audited the basic financial statements of Hospital Service District No. 2, Parish of LaSalle, the ("District"), a component unit of the LaSalle Parish Police Jury, as of and for the years ended September 30, 2003, 2002, and 2001, and have issued our report thereon dated January 8, 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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 a material weakness.

Board of Commissioners
Hospital Service District No. 2
Page Two

This report is intended solely for the information of the Board of Commissioners, Management and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Lester, Miller & Wells

Certified Public Accountants

January 8, 2004

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Management Recommendations
Years Ended September 30, 2003, 2002, and 2001

September 30, 2001

None

September 30, 2002

Compliance

Finding: The District's deposits with one financial institution exceeded the FDIC and pledged securities by \$477,065 on September 30, 2002. Louisiana Revised Statutes requires all deposits to be fully secured.

Recommendation: We recommend the District monitor its deposits with financial institutions on a monthly basis to ensure that they do not exceed the FDIC and pledged securities amount.

Management's Response: This oversight was cured on October 16, 2002. By the CFO reviewing monthly reports from the bank on pledged securities, this will not happen in the future.

Resolution: This matter has been resolved.

September 30, 2003

Finding: Upon testing ER physician payments, we noted that the ER rates paid were not being verified. Also noted three of the twelve invoices did not have an approving signature.

Recommendation: A master detail of billing rates should be maintained and used to verify correct billing and approval of expenditures.

Management's Response: We have requested detailed billing from our ER group. We plan on using these comments as leverage to ensure compliance.

Finding: Upon testing of expenditures, we noted that the invoices for Anesthesiology were unable to be tested. The contract states a per point payment, but points are not listed on the invoice to verify.

Recommendation: We recommend asking the vendor to include points on the invoice for verification of invoice amounts.

Management's Response: We have discussed with our CRNA and have devised a method for points to be listed on the Operating Room tickets and on the monthly invoice.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Management Recommendations
Years Ended September 30, 2003, 2002, and 2001

September 30, 2003 (Continued)

Finding: Upon inquiry as to Physician Office revenues, receipts and accounts receivable, we noted a lack of controls and procedures. No accounts receivable subsidiary ledger existed at 9/30/03. We noted a significant delay in the posting of transactions as August transactions were being posted in December.

Recommendation: Since these clinics are located "off-site" and are more susceptible to possible misappropriation, we recommend that internal control procedures be established and monitored on an ongoing basis. Detailed patient subsidiary ledger should be established and maintained. Timely and accurate financial information is necessary to make informed decisions about the performance of these clinics.

Management's Response: The billing associated with these two clinics has involved many hurdles that were beyond our control. Since the billing began to move forward, it has gone slower than we anticipated, and much slower than timely. Detailed calculations have been made monthly in order to have informed estimates on the financial statements. We currently have a detailed AR for Ahmed as of 9/30/03. Once the billing is brought to current, there will be many useful reports printed from our clinic software that we can utilize in a timely manner. Our plan all along has been timely and accurate information, it's just taking us longer than we planned.

Finding: Upon inquiry as to procedures for the writing off of amounts to the business office adjustment account, we noted no approval process exists for these adjustments.

Recommendation: We recommend some type of review and approval process be implemented for business office adjustments.

Management's Response: It is now in our Business Office policy that the CFO review business office adjustments monthly. On any adjustments over \$500, the CFO will receive an explanation from the billing clerk who submitted the adjustment.

Finding: Upon review of payroll liability accounts, it was noted that these accounts are not being reconciled.

Recommendation: We recommend that these accounts be reconciled monthly. These accounts reflect funds that have been withheld from employees in order to be remitted to a third party.

Management's Response: Payroll liability accounts will be reconciled monthly.

Hospital Service District No. 2
Of the Parish of LaSalle, State of Louisiana
Management Recommendations
Years Ended September 30, 2003, 2002, and 2001

September 30, 2003 (Continued)

Finding: Upon testing cash receipts, we noted in 3 of 5 instances deposits were not being made daily.

Recommendation: Deposits should be made daily in order to prevent possible misappropriation.

Management's Response: Deposits will be made timely.