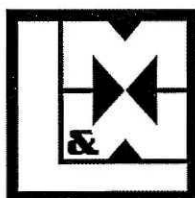


NORTH CADDO HOSPITAL SERVICE DISTRICT

COMBINED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED  
JUNE 30, 2012, 2011, AND 2010



**LESTER, MILLER & WELLS**  
*A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*



NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

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NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of North Caddo Hospital Service District's, d/b/a North Caddo Medical Center (the Hospital) financial performance provides an overview of the Hospital's financial activities during the fiscal years ended on June 30, 2012, 2011, and 2010. Because of the significance of operations and the financial relationship with the Hospital, the North Caddo Medical Center Foundation (the Foundation) is combined in the financial reports with the Hospital. Collectively, the Hospital and Foundation are hereafter referred to as the "Medical Center." Please read this analysis in conjunction with the Medical Center's financial statements, which begin on page 3.

### **Financial Highlights**

- The Medical Center's total assets increased in each of the past 3 years by approximately \$3.1 million or 36.3% in 2012, \$540,000 (7.9%) in 2011 and \$281,000 (4.3%) in 2010.
- The Medical Center reported an increase in operating income in 2012 of \$1,244,000, or 467.2%, compared to decreases of \$105,000 (64.8%) and \$232,000 (331%) in 2011 and 2010, respectively.
- Noncapital grants and contributions increased \$723,511, or 440.2% in 2012, compared to an increase of \$84,773 (106.5%) in 2011 and a decrease of \$109,740 (58.0%) in 2010.

### **Using This Annual Report**

The Medical Center's financial statements consist of three statements - a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

### **The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets**

Our analysis of the Medical Center finances begins on page ii. One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the Medical Center's resources and about its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in them. You can think of the Medical Center's net assets - the difference between assets and liabilities - as a way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, changes in Medicare and Medicaid regulations, and changes in managed care contracting as well as local economic factors to assess the overall health of the Medical Center.



NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**The Statement of Cash Flows**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides 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?"

**The Medical Center's Net Assets**

The Medical Center's net assets are the difference between its assets and liabilities reported in the balance sheet on page 3. The Medical Center's net assets increased in each of the past three years, by approximately \$1,573,000 (33.9 percent) in 2012, \$247,000 (5.6 percent) in 2011, and \$121,000 (2.8 percent) in 2010, as you can see from Table 1.

**Table 1: Assets, Liabilities, and Net Assets (In Thousands)**

	June 30,			
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total current assets	\$ 6,386	\$ 5,393	\$ 5,264	\$ 4,554
Capital assets, net	4,029	1,979	1,531	1,742
Unamortized loan costs	22	10	13	5
Other assets	30	9	44	270
Total assets	<u>\$ 10,467</u>	<u>\$ 7,390</u>	<u>\$ 6,852</u>	<u>\$ 6,571</u>
Total current liabilities	\$ 2,186	\$ 1,901	\$ 1,895	\$ 1,644
Long-term debt, net of current maturities	2,069	851	565	656
Total liabilities	<u>4,255</u>	<u>2,752</u>	<u>2,460</u>	<u>2,300</u>
Net assets:				
Invested in capital assets, net of related debt	1,352	863	733	594
Temporarily restricted net assets	-0-	-0-	33	258
Unrestricted net assets	4,860	3,776	3,626	3,419
Total net assets	<u>6,212</u>	<u>4,639</u>	<u>4,392</u>	<u>4,271</u>
Total liabilities and net assets	<u>\$ 10,467</u>	<u>\$ 7,391</u>	<u>\$ 6,852</u>	<u>\$ 6,571</u>

A significant component of the change in the Medical Center's assets is an increase in capital assets (see Table 4). Cash and cash equivalents increased by approximately \$555,000 as well as net accounts receivable increased by approximately \$530,000 in fiscal year 2012.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Operating Results and Changes in the Medical Center's Net Assets**

In 2012, the Medical Center's net assets increased by \$1,573,000 or 33.9 percent, as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Assets (In Thousands)**

	Years Ended June 30,			
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net patient service revenue	\$ 15,504	\$ 13,964	\$ 13,759	\$ 13,236
Noncapital grants	888	164	80	189
Other revenue	<u>69</u>	<u>95</u>	<u>65</u>	<u>129</u>
<b>Total operating revenues</b>	<u>16,461</u>	<u>14,223</u>	<u>13,904</u>	<u>13,554</u>
Salaries	8,056	7,771	7,671	7,181
Benefits and payroll taxes	1,852	1,781	1,724	1,437
Medical supplies and drugs	1,409	1,277	1,224	1,278
Professional services	1,854	1,643	1,172	1,368
Insurance	421	400	428	481
Depreciation and amortization	358	379	512	470
Leases and rentals	127	124	157	173
Other expenses	<u>1,405</u>	<u>1,114</u>	<u>1,178</u>	<u>1,096</u>
<b>Total operating expenses</b>	<u>15,482</u>	<u>14,489</u>	<u>14,066</u>	<u>13,484</u>
Operating income (loss)	979	(266)	(162)	70
Property tax revenue	399	345	290	255
Interest income	12	10	16	26
Rent income	24	-0-	-0-	-0-
Interest expense	(78)	(57)	(78)	(58)
Loss on disposition	<u>-0-</u>	<u>(2)</u>	<u>-0-</u>	<u>(9)</u>
Excess of revenues (expenses) before capital grants & contributions	1,336	30	66	284
Capital grants & contributions	<u>237</u>	<u>217</u>	<u>55</u>	<u>-0-</u>
<b>Increase (decrease) in net assets</b>	1,573	247	121	284
Net assets - beginning of year	4,639	4,392	4,271	3,987
<b>Net assets - end of year</b>	<u>\$ 6,212</u>	<u>\$ 4,639</u>	<u>\$ 4,392</u>	<u>\$ 4,271</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Income and Losses

The first component of the overall change in the Medical Center's net assets is its operating income (loss) – generally, the difference between net patient service revenue and the expenses incurred to perform those services. In two of the past four years, the Medical Center has incurred losses from operations. This is not unusual with the Medical Center's operating history. The Medical Center's hospital operations were begun in 1965 as a municipal hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the parish's lower income residents. Operating income in 2012 increased by approximately \$1,244 million or 467.2 percent more than the loss reported in 2011. Operating losses increased by \$105,000 (64.8 percent) and \$232,000 (331 percent) in 2011 and 2010, respectively.

The primary components of the changes in operating income (loss) are:

- Increases in noncapital grant revenue of \$724,000 (440 percent) in 2012, and \$85,000 (106.5 percent) in 2011, but a decrease of \$110,000 (58 percent) in 2010. Included in 2012 noncapital grant revenue is \$531,000 from Medicaid for meaningful use of electronic health records. The Hospital also received grant revenue of \$286,000 and \$142,000 in 2012 and 2011, respectively, to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients.
- Increases in net patient revenue of \$1,539,000 (11 percent) in 2012, \$205,000 (1.5 percent) in 2011, and \$523,000 (4 percent) in 2010.
- Increases in total operating expenses of \$993,000 (6.85 percent) in 2012, \$425,000 (3.02 percent) in 2011, and \$581,000 (4.31 percent) in 2010.
- Total salary and benefits expenses increased \$356,000 or 3.7 percent in 2012, \$157,000 or 1.7 percent in 2011, and \$776,000 or 9.2 percent in 2010.

As a percentage of net patient revenue, salary and benefit expenses were approximately 63.9%, 68.4%, and 68.3% for fiscal years 2012, 2011 and 2010, respectively.

The rate of health care inflation has a direct effect on the cost of services provided by the Medical Center. Another component of the Medical Center's costs is expenses for medical and professional services. In 2012, professional services cost \$1.854 million (12 percent of total operating expenses) and an increase of \$211,000 over 2011 costs of \$1.643 million. Medical and professional services increased by \$471,000 (40.2 percent) in 2011 but decreased by \$196,000 (14.3 percent) in 2010. The most prominent professional service fees are attributable to contract emergency room physician services.

During fiscal years 2012, 2011, and 2010, the Medical Center derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs as well as payments from patients and other third party payors. Reimbursement from Medicare, Medicaid, and most private insurance payors are based on contracted rates that are less than the Medical Center's established rates. The difference between the established rates charged and the contracted rates collected are recorded as contractual discounts. The Medical Center's net patient revenues reported on the Statement of Revenues, Expenses and Changes in Net Assets, are net of contractual discounts, bad debt and charity care charges.

The Louisiana Medicaid disproportionate share hospital program allows for the reimbursement of uncompensated care costs to small rural hospitals serving a disproportionate number of low-income patients.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The reimbursements are calculated based on cost reports filed by the small rural hospitals and are paid by the state from federal funding. Although federal appropriations have enabled the state to pay almost 100 percent of uncompensated costs to rural hospitals over the past several years, there is no assurance federal funding will continue and, therefore, no assurance that the Medical Center will receive any future payments. During the fiscal year ended 2012, the Medical Center received \$924,342 in disproportionate share payments compared to \$1,034,342 and \$1,045,247 in 2011 and 2010, respectively.

Table 3 below presents the relative percentages of net patient revenues by payor for the fiscal years ended June 30, 2012, 2011, 2010, and 2009.

**Table 3: Payor Mix by Percentage**

	Years ended June 30			
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	40.36%	35.55%	24.58%	30.80%
Medicaid	19.53%	26.14%	17.46%	11.17%
Commercial	35.47%	29.87%	45.19%	45.25%
Self-pay	4.64%	8.44%	12.77%	12.78%
Total patient revenue	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of property tax revenue, interest income, and interest expense. In 2007, parish voters approved a ten year property tax to pay expenses related to the Medical Center's ambulance services in the North Caddo Parish Hospital Service District. In April, 2012, parish voters approved a 1% sales tax for twenty-five years beginning July 1, 2012 dedicated for use by the North Caddo Hospital Service District.

**Capital Grants and Contributions**

The Medical Center receives both capital and operating grants from various state and local agencies for specific programs. These are discussed in detail in note 16 to the financial statements. Grants and contributions for operating purposes are included in total operating revenues. Capital grants and contributions are reported after nonoperating revenues and expenses. Capital grants and contributions include grants and other funds received by the Foundation which are restricted for future capital expenditures. Contributions and fund raising proceeds from the Foundation increased by \$50,000 or 29.5 percent in 2012, \$113,000 or 205.5 percent in 2011. The Foundation's initial period of operation was in 2010.

**Cash Flow**

Changes in the Medical Center's cash flows are consistent with changes in operating income (losses) and nonoperating revenues and expenses, discussed earlier, with one exception. Cash flows from operating activities increased more than operating results in 2011 due to decreases in the Medical Center's patient accounts receivable.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of 2012, the Medical Center had \$4.029 million invested in capital assets, net of accumulated depreciation, as detailed in note 5 to the financial statements. In 2012, the Medical Center purchased land and new equipment costing \$2.379 million. Of this, \$1.798 million was acquired through capital leases.

During 2012, the Medical Center committed \$1.843 million to computer hardware and software purchases for conversion to electronic health records. Also included in construction in progress is \$179,000 related to new hospital building construction plans.

**Table 4**  
**Capital Investments (Rounded to nearest thousand)**

Land	\$ 94,000
Ambulance	138,000
Anesthesia equipment	48,000
Air conditioner unit	8,000
Patient table	6,000
EKG machine	14,000
Nursing communication system	8,000
Humidifier	6,000
Stat simulator	6,000
2 cardiac monitors	10,000
Computer LAN & fiber	5,000
Ambulance stretcher	6,000
Hard drives for CT scanner	8,000
Assets not in service	1,843,000
Construction in progress	<u>179,000</u>
 Total capital asset acquisitions	 <u><u>\$ 2,379,000</u></u>

**Debt**

At year-end, the Medical Center had \$2.677 million in notes payable and capital leases outstanding as detailed in note 9 to the financial statements. Except for capital leases of \$1.798 million initiated in 2012, the Medical Center issued no new debt in 2012. Total debt outstanding represents approximately 25.6 percent of the Medical Center's total assets at June 30, 2012 versus prior years of 15.1%, 12.8% and 16.3% for 2011, 2010, and 2009, respectively.



NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Other Economic Factors**

Government spending on medical care continues to be a topic of discussion on both the federal and state levels. As a critical access hospital, the Medical Center receives cost based reimbursement for most services provided to Medicare beneficiaries who have traditional coverage. The Medical Center's two physician clinics continue to be reimbursed based on a cost based reimbursement as rural health clinics. The Louisiana Medicaid program is in transition to a managed care payment model. Its effect on future Medicaid patient volume and Medicaid payments cannot be determined. As more fully explained in note 12 in the financial statements, Medicare and Medicaid patient revenues comprise approximately 60% of the Medical Center's patient revenue.

The American Recovery and Reinvestment Act of 2009 amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Medical Center recognizes EHR incentive payments as revenue when there is reasonable assurance that the Medical Center will comply with the conditions attached to the incentive payments. As the entire EHR incentive payment is received in a lump sum for critical access hospitals and the Hospital must annually attest to increasingly stringent meaningful use criteria, the EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

**Contacting the Medical Center's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administration of North Caddo Medical Center at 1000 South Spruce Street, Vivian, Louisiana.



## **LESTER, MILLER & WELLS**

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### INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
North Caddo Hospital Service District  
Vivian, Louisiana

We have audited the accompanying combined balance sheets of North Caddo Hospital Service District d/b/a North Caddo Medical Center and its affiliate (collectively referred to as the "Medical Center"), a component unit of Caddo Parish Commission, Louisiana, as of and for the years ended June 30, 2012, 2011 and 2010, as listed in the foregoing table of contents. These combined financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center, as of June 30, 2012, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows 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 October 22, 2012, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

Board of Commissioners  
North Caddo Hospital Service District  
Vivian, Louisiana  
Page Two

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the combined financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the Medical Center's combined financial statements 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects in relation to the combined financial statements taken as a whole.

*Lester, Miller & Wells*

Certified Public Accountants  
Alexandria, Louisiana

October 22, 2012





NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED BALANCE SHEETS  
AS OF JUNE 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 2,710,506	\$ 2,155,417	\$ 672,744
Net accounts receivable (Note 4)	3,213,942	2,683,681	4,199,678
Other receivables	6,283	142,093	19,081
Inventories	256,518	231,574	243,556
Prepaid expenses	199,018	179,861	129,141
Total current assets	<u>6,386,267</u>	<u>5,392,626</u>	<u>5,264,200</u>
Capital assets, net (Note 5)	<u>4,028,549</u>	<u>1,979,611</u>	<u>1,531,279</u>
Other assets:			
Assets limited as to use (Note 6)	-0-	-0-	32,752
Unamortized election cost (Note 7)	30,232	9,167	10,762
Unamortized loan fees (Note 8)	<u>21,814</u>	<u>9,734</u>	<u>12,654</u>
Total assets	<u>\$ 10,466,862</u>	<u>\$ 7,391,138</u>	<u>\$ 6,851,647</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,146,860	\$ 881,590	\$ 1,291,980
Accrued salaries and payroll withholdings	251,071	217,706	228,373
Estimated third-party payor settlements	180,400	536,770	64,000
Current portion of long-term debt (Note 9)	608,006	265,085	310,754
Total current liabilities	<u>2,186,337</u>	<u>1,901,151</u>	<u>1,895,107</u>
Long-term debt (Note 9)	<u>2,069,039</u>	<u>851,141</u>	<u>564,972</u>
Total liabilities	<u>4,255,376</u>	<u>2,752,292</u>	<u>2,460,079</u>
Net assets:			
Invested in capital assets (net of related debt)	1,351,504	863,385	732,801
Temporarily restricted net assets (Note 6)	-0-	-0-	32,752
Unrestricted net assets	<u>4,859,982</u>	<u>3,775,461</u>	<u>3,626,015</u>
Total net assets	<u>6,211,486</u>	<u>4,638,846</u>	<u>4,391,568</u>
Total liabilities and net assets	<u>\$ 10,466,862</u>	<u>\$ 7,391,138</u>	<u>\$ 6,851,647</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:			
Net patient service revenue	\$ 15,503,785	\$ 13,964,433	\$ 13,759,278
Noncapital grants and contributions	887,859	164,348	79,575
Other operating revenue	<u>68,697</u>	<u>94,662</u>	<u>64,562</u>
 Total revenues	 <u>16,460,341</u>	 <u>14,223,443</u>	 <u>13,903,415</u>
Operating Expenses:			
Salaries	8,055,836	7,770,893	7,671,075
Benefits and payroll taxes	1,851,799	1,781,323	1,723,818
Medical supplies and drugs	1,408,946	1,277,075	1,223,130
Professional services	1,854,076	1,642,787	1,171,744
Insurance	420,736	400,293	428,249
Depreciation and amortization	358,129	378,936	511,974
Leases and rentals	127,545	124,201	157,313
Other expenses	<u>1,405,320</u>	<u>1,114,278</u>	<u>1,177,749</u>
 Total expenses	 <u>15,482,387</u>	 <u>14,489,786</u>	 <u>14,065,052</u>
 Operating income (loss)	 <u>977,954</u>	 <u>(266,343)</u>	 <u>(161,637)</u>
Nonoperating revenues (expenses):			
Loss on disposition of assets	-0-	(1,727)	-0-
Interest income	12,413	9,863	16,060
Property tax revenue	398,841	345,245	289,603
Rent income	24,332	-0-	-0-
Interest expense	<u>(78,202)</u>	<u>(56,901)</u>	<u>(78,400)</u>
 Excess of revenues (expenses) before capital grants and contributions	 1,335,338	 30,137	 65,626
 Capital grants and contributions	 <u>237,302</u>	 <u>217,141</u>	 <u>54,950</u>
 Increase (decrease) in net assets	 <u>1,572,640</u>	 <u>247,278</u>	 <u>120,576</u>
 Net assets at beginning of year	 <u>4,638,846</u>	 <u>4,391,568</u>	 <u>4,270,992</u>
 Net assets at end of year	 \$ <u>6,211,486</u>	 \$ <u>4,638,846</u>	 \$ <u>4,391,568</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:			
Cash receipts from and on behalf of patients	\$ 14,617,154	\$ 15,953,200	\$ 12,842,191
Other receipts and payments, net	1,092,366	135,999	135,995
Payments to suppliers and contractors	(5,024,196)	(5,063,237)	(3,700,025)
Payments for employees and benefits	<u>(9,876,261)</u>	<u>(9,511,321)</u>	<u>(9,525,485)</u>
Net cash provided (used) by operating activities	<u>809,063</u>	<u>1,514,641</u>	<u>(247,324)</u>
Cash flows from investing activities:			
Interest on investments	12,413	9,863	16,060
Rent income	<u>24,332</u>	<u>-0-</u>	<u>-0-</u>
Net cash provided (used) by investing activities	<u>36,745</u>	<u>9,863</u>	<u>16,060</u>
Cash flows from noncapital financing activities:			
Property tax revenues received	398,841	345,245	289,603
Loan proceeds from bank	-0-	46,000	-0-
Principal payments on operating loan	<u>-0-</u>	<u>(123,248)</u>	<u>(76,833)</u>
Net cash provided by noncapital financing activities	<u>398,841</u>	<u>267,997</u>	<u>212,770</u>
Cash flows from capital and related financing activities:			
Proceeds from capital asset escrow	-0-	32,753	224,747
Loan financing & election fees	(37,659)	-0-	-0-
Purchase of property and equipment	(581,491)	(264,474)	(230,843)
Proceeds from disposal of assets	-0-	3,350	13,675
Proceeds from issuance of long-term debt	-0-	-0-	14,601
Interest paid on long-term debt	(70,659)	(52,990)	(61,491)
Principal payments on long-term debt	(237,053)	(245,608)	(220,785)
Capital grants and contributions	<u>237,302</u>	<u>217,141</u>	<u>54,950</u>
Net cash provided (used) by capital and related financing activities	<u>(689,560)</u>	<u>(309,828)</u>	<u>(205,146)</u>
Net increase (decrease) in cash and cash equivalents	555,089	1,482,673	(223,640)
Beginning cash and cash equivalents	<u>2,155,417</u>	<u>672,744</u>	<u>896,384</u>
Ending cash and cash equivalents	\$ <u>2,710,506</u>	\$ <u>2,155,417</u>	\$ <u>672,744</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED STATEMENTS OF CASH FLOWS (Continued)  
FOR THE YEARS ENDED JUNE 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ <u>70,659</u>	\$ <u>52,990</u>	\$ <u>61,491</u>
Noncash investing, capital, and financing activities:			
Capital lease obligations for buildings & equipment	\$ <u>1,797,872</u>	\$ <u>563,357</u>	\$ <u>80,247</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 977,954	\$ (266,343)	\$ (161,637)
Adjustments to reconcile operating income to net cash flows provided (used) in operating activities:			
Depreciation and amortization	358,129	378,936	511,974
Changes in:			
Net accounts receivable	(530,261)	1,515,997	(831,007)
Other receivables	135,810	(123,012)	(8,147)
Inventories	(24,944)	11,983	(5,115)
Prepaid expenses	(42,347)	(50,721)	(89,554)
Accounts payable and accrued expenses	257,727	(414,301)	564,062
Accrued salaries and payroll taxes	33,365	(10,668)	(141,822)
Estimated third-party payor settlements	<u>(356,370)</u>	<u>472,770</u>	<u>(86,078)</u>
Net cash provided (used) by operating activities	\$ <u>809,063</u>	\$ <u>1,514,641</u>	\$ <u>(247,324)</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organizations

North Caddo Hospital Service District, d/b/a North Caddo Medical Center (the "Hospital"), was created by the board of commissioners of Caddo Parish, Louisiana, to operate, control, and manage all matters concerning the area's health care functions. The parish board of commissioners appoints nine voting members to the Hospital governing board, and they may not issue debt or levy taxes without the parish's approval. For this reason, the Hospital is considered to be a component unit of Caddo Parish and is included as a discretely presented component unit in the basic financial statements of the parish.

North Caddo Medical Center Foundation (the "Foundation") was incorporated March 2, 2009, as a Louisiana non-profit organization to aid, strengthen, and further the work and services of the Hospital. The Foundation is included in the Hospital's reporting entity because of the significance of its operations and financial relationship with the Hospital. Collectively, the Hospital and the Foundation are hereafter referred to as the "Medical Center".

Nature of Business

Located in Vivian, Louisiana, the Hospital provides inpatient, outpatient, emergency, and skilled nursing (through swing beds) services primarily for residents of the Vivian area. The Hospital also operates several physician clinics in the area. Admitting physicians are primarily practitioners in the local area.

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 there from, to or for the benefit of the Hospital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

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

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use proprietary Fund Accounting*, as amended, the Medical Center has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such 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, and to the AICPA, Audit and Accounting Guide – Health Care Entities, published by the American Institute of Certified Public Accountants.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Principles of Combination

The accompanying financial statements include the accounts and transactions of the Hospital combined with its affiliate, the Foundation. All material intercompany accounts and transactions have been eliminated.

Income Taxes

The Hospital is a political subdivision and exempt from taxation. The Foundation is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)3 of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 365 days or less. Certificates of deposit with original maturities over 365 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Donor-restricted Gifts

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

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, designated assets set aside by the Foundation Board, restricted by contributors' designations for capital projects and designated assets set aside by the Hospital Board, over which the Hospital Board retains control and may at its discretion subsequently use for other purposes.

Inventory

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



NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded at cost for purchased assets or at fair market value on the date of any donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Building and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	8 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The Medical Center capitalizes depreciable property and equipment valued at \$5,000 or more, with a useful life greater than two years. 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.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Medical Center's interest cost was capitalized in 2012, 2011 or 2010.

Unamortized Election Cost

Unamortized election cost represent the capitalized costs of elections to levy taxes for the Medical Center's benefit and are being amortized over the life of the related levy.

Net Assets

Net assets of the Medical Center are classified in four components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. Restricted nonexpendable net assets equal the principal portion of permanent endowments. The Medical Center has no restricted expendable or nonexpendable net assets at this time. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Resources

When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Medical Center's principal activity. Operating revenue also includes ad valorem taxes passed to provide the Medical Center with revenue to operate and provide medical services in north Caddo Parish. Non-exchange revenues, including grants and contributions received for purposes of capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Medical Center receives grants and contributions from individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Credit Risk

The Hospital is located in Vivian, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital's estimate of collectability 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 Hospital has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 12. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.



NORTH CADDO HOSPITAL SERVICE DISTRICT,  
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NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

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

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classifications.

NOTE 3 - 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.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2012, 2011, and 2010. The Foundation's deposits were entirely insured at June 30, 2012, 2011, and 2010.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value is to changes in market interest rates.

The carrying amounts of deposits and investments are included in the Medical Center's balance sheets as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Carrying Amount			
Deposits	\$ <u>2,710,506</u>	\$ <u>2,155,417</u>	\$ <u>705,496</u>
Totals	\$ <u>2,710,506</u>	\$ <u>2,155,417</u>	\$ <u>705,496</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 2,710,506	\$ 2,155,417	\$ 672,744
Assets limited as to use	<u>-0-</u>	<u>-0-</u>	<u>32,752</u>
Totals	\$ <u>2,710,506</u>	\$ <u>2,155,417</u>	\$ <u>705,496</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 4 - ACCOUNTS RECEIVABLE, NET

A summary of net accounts receivable at June 30 is presented below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Patient accounts receivable	\$ 5,762,742	\$ 6,167,681	\$ 10,380,707
Estimated third-party settlement	<u>390,668</u>	<u>-0-</u>	<u>247,630</u>
	6,153,410	6,167,681	10,628,337
Estimated uncollectibles	<u>(2,939,468)</u>	<u>(3,484,000)</u>	<u>(6,428,659)</u>
Net accounts receivable	\$ <u>3,213,942</u>	\$ <u>2,683,681</u>	\$ <u>4,199,678</u>

The following is a summary of the mix of gross receivables from patients and third-party payors at June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	29%	18%	23%
Medicaid	6%	7%	22%
Commercial and other third-party payors	16%	21%	11%
Patients	<u>49%</u>	<u>54%</u>	<u>44%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended June 30, 2012, 2011 and 2010 were as follows:

	<u>2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2012</u>
Land	\$ 160,222	\$ 93,912	\$ -0-	\$ 254,134
Land improvements	179,744	-0-	-0-	179,744
Buildings and improvements	2,215,020	-0-	-0-	2,215,020
Furniture and equipment	3,853,240	263,010	-0-	4,116,250
Construction in progress	<u>10,985</u>	<u>2,022,445</u>	<u>-0-</u>	<u>2,033,430</u>
Totals	6,419,211	2,379,367	-0-	8,798,578
Less accumulated depreciation and amortization	<u>4,439,600</u>	<u>330,425</u>	<u>(4)</u>	<u>4,770,029</u>
Capital assets, net	\$ <u>1,979,611</u>	\$ <u>2,048,942</u>	\$ <u>4</u>	\$ <u>4,028,549</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>2010</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2011</u>
Land	\$ 111,243	\$ 48,979	\$ -0-	\$ 160,222
Land improvements	173,837	5,907	-0-	179,744
Buildings and improvements	2,144,881	70,139	-0-	2,215,020
Furniture and equipment	3,171,419	691,821	10,000	3,853,240
Construction in progress	<u>-0-</u>	<u>10,985</u>	<u>-0-</u>	<u>10,985</u>
Totals	5,601,380	827,831	10,000	6,419,211
Less accumulated depreciation and amortization	<u>4,070,101</u>	<u>374,422</u>	<u>4,923</u>	<u>4,439,600</u>
Capital assets, net	\$ <u>1,531,279</u>	\$ <u>453,409</u>	\$ <u>5,077</u>	\$ <u>1,979,611</u>
	<u>2009</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2010</u>
Land	\$ 111,243	\$ -0-	\$ -0-	\$ 111,243
Land improvements	173,837	-0-	-0-	173,837
Buildings and improvements	2,040,590	104,291	-0-	2,144,881
Furniture and equipment	<u>3,247,055</u>	<u>338,807</u>	<u>414,443</u>	<u>3,171,419</u>
Totals	5,572,725	443,098	414,443	5,601,380
Less accumulated depreciation and amortization	<u>3,830,356</u>	<u>508,505</u>	<u>268,760</u>	<u>4,070,101</u>
Capital assets, net	\$ <u>1,742,369</u>	\$ <u>(65,407)</u>	\$ <u>145,683</u>	\$ <u>1,531,279</u>

NOTE 6 - ASSETS LIMITED AS TO USE

The component of assets limited as to use at June 30, is set forth in the following table.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Escrowed restricted cash	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>32,752</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
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NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 7 - UNAMORTIZED ELECTION COST

The following is a summary of unamortized election cost and related amortization, at June 30:

	<u>2012</u>		<u>2011</u>		<u>2010</u>
Cost of 2008 tax election	\$ 15,943	\$	15,943	\$	15,943
Cost of 2012 tax election	22,659		-0-		-0-
Less accumulated amortization	<u>(8,370)</u>		<u>(6,776)</u>		<u>(5,181)</u>
Unamortized cost of tax election	<u>\$ 30,232</u>	\$	<u>9,167</u>	\$	<u>10,762</u>

NOTE 8 - UNAMORTIZED LOAN FEES

The following is a summary of unamortized loan cost and related amortization, at June 30:

	<u>2012</u>		<u>2011</u>		<u>2010</u>
Loan origination fees	\$ 29,601	\$	14,601	\$	14,601
Less accumulated amortization	<u>7,787</u>		<u>4,867</u>		<u>1,947</u>
Unamortized loan origination fees	<u>\$ 21,814</u>	\$	<u>9,734</u>	\$	<u>12,654</u>

NOTE 9 - LONG-TERM DEBT

A summary of long-term debt and capital lease obligations at June 30 follows:

	June 30, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2012</u>	<u>Due Within One Year</u>
Capital lease obligations	\$ 888,099	\$ 1,797,872	\$ 217,763	\$ 2,468,208	\$ 531,405
Line of credit	-0-	-0-	-0-	-0-	-0-
Notes payable	<u>228,127</u>	<u>-0-</u>	<u>19,290</u>	<u>208,837</u>	<u>76,601</u>
Total	<u>\$ 1,116,226</u>	<u>\$ 1,797,872</u>	<u>\$ 237,053</u>	<u>\$ 2,677,045</u>	<u>\$ 608,006</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010

NOTE 9 - LONG-TERM DEBT (Continued)

	June 30, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2011</u>	Due Within <u>One Year</u>
Capital lease obligations	\$ 683,015	\$ 426,237	\$ 221,153	\$ 888,099	\$ 197,585
Line of credit	77,248	46,000	123,248	-0-	-0-
Notes payable	<u>115,463</u>	<u>137,120</u>	<u>24,456</u>	<u>228,127</u>	<u>67,500</u>
Total	\$ <u>875,726</u>	\$ <u>609,357</u>	\$ <u>368,857</u>	\$ <u>1,116,226</u>	\$ <u>265,085</u>

	June 30, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2010</u>	Due Within <u>One Year</u>
Capital lease obligations	\$ 798,838	\$ 595,803	\$ 711,626	\$ 683,015	\$ 174,687
Line of credit	154,082	-0-	76,834	77,248	77,248
Notes payable	<u>115,463</u>	<u>-0-</u>	<u>-0-</u>	<u>115,463</u>	<u>58,819</u>
Total	\$ <u>1,068,383</u>	\$ <u>595,803</u>	\$ <u>788,460</u>	\$ <u>875,726</u>	\$ <u>310,754</u>

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2012, 2011 and 2010, follow:

- 8.0% note payable to affiliate, collateralized by the equipment and furnishings purchased.
- 8.0% note payable to affiliate, unsecured.
- Capital lease obligations, at imputed interest rate of 6% collateralized by buildings with a cost of \$174,430 at June 30, 2012.
- Capital lease obligations, at varying rates of imputed interest from 0.72% to 9% collateralized by equipment with a cost of \$3,072,430 at June 30, 2012.
- 3% line of credit for up to \$250,000 that matured on November 6, 2011. Collateral consisted of pledged certificate of deposit for similar amount. This line of credit was not renewed by the Hospital.
- 3.25% note payable, principal and interest payable in monthly payments of \$1,837, collateralized by a Hospital savings account with approximate value of \$150,000.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending <u>June 30,</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 76,601	\$ 6,332	\$ 531,405	\$ 80,332
2014	40,297	4,525	530,330	55,852
2015	31,130	2,659	473,703	37,954
2016	20,255	1,676	419,345	24,634
2017	\$ 20,923	\$ 1,008	\$ 381,304	\$ 13,609

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NOTE 9 - LONG-TERM DEBT (Continued)

Year Ending June 30,	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018 - 2022	\$ 19,631	\$ 318	\$ 41,122	\$ 33,878
2023 - 2027	-0-	-0-	55,468	19,532
2028 - 2032	<u>-0-</u>	<u>-0-</u>	<u>35,531</u>	<u>3,469</u>
Totals	\$ <u>208,837</u>	\$ <u>16,518</u>	\$ <u>2,468,208</u>	\$ <u>269,260</u>

NOTE 10 - CAPITAL LEASES

During the year ended June 30, 2010, the Hospital terminated its computer system related lease-purchase agreement and simultaneously entered into a new lease-purchase agreement. Under the new agreement, Government Capital Corporation placed \$476,911 of financing proceeds in escrow from which \$444,159 was disbursed for payoff of the terminated computer system lease obligation, a telephone system, and various other equipment.

NOTE 11 - COMMITMENTS UNDER NONCANCELABLE OPERATING LEASES

The Hospital is committed under various noncancelable operating leases, all of which are for real estate and equipment. These expire in various years through 2017. Future minimum operating lease payments are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2013	\$ 117,404
2014	72,825
2015	60,705
2016	37,530
2017	<u>14,903</u>
Total	\$ <u>303,367</u>

NOTE 12 - NET PATIENT SERVICE REVENUE

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

Medicare – Effective July 1, 2001, the Hospital became a "Critical Access Hospital" (CAH). This designation enables the Hospital to receive cost based reimbursement for most services provided to Medicare



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NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

beneficiaries who have traditional coverage. Rural health clinic services primarily continue to be reimbursed based on a cost based methodology.

The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital'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 Hospital. The Hospital's cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

Medicaid – Medicaid inpatient acute services are reimbursed based on a prospectively determined per diem rate. Some Medicaid outpatient services are reimbursed under a cost reimbursement methodology, while others are paid on a prospectively determined fee schedule. The Hospital is reimbursed at a tentative rate for cost based services with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2009.

Commercial – The Hospital has also 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 daily rates.

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

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics.

Additionally, the Hospital foregoes charges relating to Medicare, Medicaid and other third-party payors. Following is a schedule of patient service revenue at established rates and charges foregone for the years ended June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Gross patient service charges	\$ 28,693,937	\$ 27,945,010	\$ 26,020,028
Deductions from patient charges:			
Contractual adjustments	11,009,070	12,116,156	9,784,507
Uncompensated care reimbursement, net of recoveries	(924,342)	(921,342)	(1,045,247)
Provision for bad debts	3,032,539	2,764,374	3,521,490
Charity care	<u>72,885</u>	<u>21,389</u>	<u>-0-</u>
Total deductions from patient charges	<u>13,190,152</u>	<u>13,980,577</u>	<u>12,260,750</u>
Net patient service revenue	\$ <u>15,503,785</u>	\$ <u>13,964,433</u>	\$ <u>13,759,278</u>

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NOTE 12 - NET PATIENT SERVICE REVENUE (Continued)

The Hospital receives a substantial portion of its revenue from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare and Medicaid gross patient charges	\$ 16,894,483	\$ 16,745,404	\$ 15,079,754
Contractual adjustments	<u>7,609,774</u>	<u>8,130,888</u>	<u>7,050,661</u>
 Program patient service revenue without UCC	 \$ <u>9,284,709</u>	 \$ <u>8,614,516</u>	 \$ <u>8,029,093</u>
 Percent of total gross patient charges	 <u>59%</u>	 <u>60%</u>	 <u>58%</u>
Percent of net patient revenue	<u>60%</u>	<u>62%</u>	<u>58%</u>

The Hospital received interim payments of \$924,342, \$1,034,342, and \$1,045,247, for Medicaid and uninsured uncompensated care services (UCC) during the years ended June 30, 2012, 2011, and 2010, respectively, which represents 6%, 7%, and 8% of net patient service revenues, respectively. The interim payments received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped after audit by Medicaid. The federal definition of UCC changed effective July 1, 2010, which reduced income in 2011 and for future years. The Hospital has made provision for recoupment of \$113,000 and \$64,000 for fiscal years 2011 and 2007, respectively. With the exception of 2011 and 2007, 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. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

NOTE 13 - COMPENSATED ABSENCES

As of June 30, 2012, 2011, and 2010, the Hospital has accrued a compensated absence liability of \$316,465, \$316,465, and \$270,767, respectively. The Hospital pays accrued vacation absences upon termination, if proper notice and termination procedures are followed.

NOTE 14 - PENSION PLAN

Plan description - The Hospital contributes to the Parochial Employees' Retirement System of Louisiana, a Public Employee Retirement System (the Plan), that is a cost sharing multiple-employer plan established by the Louisiana legislature as of January 1, 1953, by Act 205 of 1952. The system was revised by Act No. 765 of 1979, effective January 1, 1980, to replace the "regular plan" with the Plan B Fund of which the Hospital is a participant. Plan B provides retirement, disability and death benefits to plan members and beneficiaries. The Retirement System is governed by the Louisiana Revised Statutes, Title 11, Sections 1901 through 2015, specifically, and other general laws of the State of Louisiana.

The Parochial Employees' Retirement System of Louisiana issues a publicly available financial statement report that includes financial statements and required supplementary information for the Plan. That report may



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NOTE 14 - PENSION PLAN (Continued)

be obtained by writing the Parochial Employees' Retirement System of Louisiana, 7905 Wrenwood Boulevard, Baton Rouge, Louisiana, 70809.

Plan funding - Employer and employee contributions to the Plan are established by state statute. Employee contributions are three percent (3%) of covered wages for each of the years ended June 30, 2012, 2011, and 2010. Employer contributions are ten percent (10%) of covered wages for each of the years ended June 30, 2012, 2011, and 2010. In addition to the aforementioned contributions the tax collectors of various parishes contribute one fourth of one percent of all tax collections.

The following is a schedule that summarizes information regarding the defined contribution retirement plans in effect for the years ended June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total payroll	\$ 8,055,836	\$ 7,770,893	\$ 7,671,075
Total covered payroll	6,549,083	6,260,225	6,148,304
Employee contributions	194,449	185,688	184,441
Employer contributions	\$ 654,908	\$ 626,042	\$ 500,535

NOTE 15 - CONTINGENCIES

The Medical Center evaluates contingencies based upon the best available evidence. To the extent that resolution of contingencies results in amounts which vary from the Medical Center's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 12) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined. Further, in order to continue receiving reimbursement from the Medicare 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. 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 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.

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NOTE 15 - CONTINGENCIES (Continued)

Professional and General Liability Risk - Under current Louisiana law, the Hospital's liability for medical malpractice is statutorily limited to \$500,000 per claim. To cover this exposure, the Hospital has obtained insurance coverage of \$100,000 per claim with the Louisiana Hospital Association Malpractice and General Liability Trust and an additional \$400,000 per claim with the State of Louisiana Patient's Compensation Fund.

The Hospital is a participant of the Louisiana Hospital Association Malpractice and General Liability Trust (the Trust) and Workers' Compensation Interlocal Risk Management Agency (the Agency). These trust funds retrospectively set premiums for members based on the loss history of each entire group. The Hospital expenses premiums paid to these multi-provider captive insurance companies over the policy periods covered.

According to the trust document for the Trust participants are jointly and severally liable for the obligations of the Trust with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Trust. This contingent liability is not to exceed the amount necessary to make up trust fund deficiencies in the trust fund year in which the obligations were incurred, and such liability is not to exceed an amount equal to the charges otherwise due by such participant during such plan year.

According to the trust documents for the Agency, participants are liable jointly and in solido for claims not paid pursuant to Subpart J of Part I of Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Fund, but only to the extent that such losses and expenses are not paid by the excess coverage secured by the Fund.

Management does not believe that any significant contingent liabilities exist under these insurance arrangements.

Workers' Compensation Liability Risk - The Hospital became self-funded with respect to unemployment claims effective October 1, 1998. As a self-funded employer, the Hospital must reimburse the Louisiana Department of Labor on a dollar-for-dollar basis for unemployment benefits paid to former employees. The Hospital reimbursed the Louisiana Department of Labor \$1,279, \$2,172, and \$23,274 for claims paid on behalf of the Hospital during the fiscal years ended June 30, 2012, 2011, and 2010, respectively.

Management does not believe that any significant contingent liabilities exist under this arrangement.

NOTE 16 - GRANT REVENUE

The Hospital received grant revenue of \$286,114 and \$142,093 in 2012 and 2011, respectively, to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the Hospital, along with the other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement. Various other grants were received during the year for other uses.

The Hospital recognized operating grant revenue of \$530,743 from Medicaid during the year ended June 30, 2012, as an incentive for implementing electronic health records (EHR). The key component of receiving the EHR incentive payments is "demonstrating meaningful use," which is meeting a series of objectives that make

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NOTE 16 - GRANT REVENUE (Continued)

use of an EHR's potential related to the improvement of quality, efficiency, and patient safety. The Centers for Medicare and Medicaid Services has indicated that demonstrating meaningful use will be phased in during the next few years in three stages, with each progressive stage incorporating more stringent measures. The Hospital's policy is to record the incentive payments once various stages have been met rather than recognizing ratably throughout the attestation period. In order to receive the incentive payments under each stage, a hospital must attest through a secure mechanism that they have met the meaningful use criteria. The EHR payments each year are based on management's best estimate. The payments can be retained and additional payments can be earned for each stage if the Hospital meets certain criteria in future implementation. The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries.

Other operating grant revenue received during 2012, 2011 and 2010 was from the town of Vivian for the school nurse program.

Nonoperating grants received during 2012, 2011 and 2010 were from Department of Health and Human Services for emergency preparedness.

NOTE 17 - NORTH CADDO MEDICAL CENTER FOUNDATION (AFFILIATE)

The accompanying combined financial statements include the accounts of the Foundation, with intercompany accounts eliminated. Foundation contributions received of \$217,341, \$167,591, and \$54,950 are included in capital grants and contributions for the years ended June 30, 2012, 2011, and 2010, respectively. Medical Center support of operational expenses for the Foundation were \$37,597, \$18,668 and \$28,957 during years ended June 30, 2012, 2011 and 2010, respectively.

Following is a summary of net assets and results of operations of the Foundation as of June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 108,158	\$ 106,159	\$ 54,059
Prepaid expenses	<u>2,500</u>	<u>1,500</u>	<u>1,000</u>
Total assets	<u>\$ 110,658</u>	<u>\$ 107,659</u>	<u>\$ 55,059</u>
<b>LIABILITIES AND NET ASSETS</b>			
Net assets	<u>\$ 110,658</u>	<u>\$ 107,659</u>	<u>\$ 55,059</u>
Total liabilities and net assets	<u>\$ 110,658</u>	<u>\$ 107,659</u>	<u>\$ 55,059</u>

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NOTE 17 - NORTH CADDO MEDICAL CENTER FOUNDATION (AFFILIATE) (Continued)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>REVENUE</b>			
Contribution revenue	\$ 217,341	\$ 167,591	\$ 54,950
Interest income	<u>542</u>	<u>611</u>	<u>109</u>
Total revenue	217,883	168,202	55,059
<b>EXPENSES</b>			
Grants to Hospital	191,242	100,535	-0-
Fundraising and administrative expense	<u>23,642</u>	<u>15,067</u>	<u>-0-</u>
Excess of revenue over expenses	\$ <u>2,999</u>	\$ <u>52,600</u>	\$ <u>55,059</u>

NOTE 18 - CHARITY CARE

The Hospital provides charity care to patients who are financially unable to pay for part or all of the healthcare services they receive. The patient will either qualify for 100% charity care or owe a portion based on the patient's level of income. Accordingly, the Hospital does not report the amounts it expects not to collect in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including wages and related benefits, supplies and other operating expenses. The costs of caring for charity care patients were approximately \$24,600, \$7,300, and \$-0- for the years ended June 30, 2012, 2011, and 2010, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately \$1,210,500, \$1,063,000 and \$1,045,000 for the years ended June 30, 2012, 2011 and 2010, respectively. Charges for services and supplies furnished to patients who may qualify for charity care but are not documented according to Hospital policy are included in bad debt expense.

NOTE 19 - RELATED PARTY TRANSACTIONS

The Hospital has entered into a management contract with Willis-Knighton Medical Center (WKMC), a large metropolitan health care provider operating in Shreveport and Bossier City, Louisiana. Under this contract, WKMC has agreed to manage the operations of the Hospital and to provide the Hospital with a qualified administrator. The administrator is an employee of WKMC and acts on behalf of WKMC in the Hospital's best interest. The contract is on a monthly basis and requires that the Hospital reimburse WKMC for the salary and benefits of the Hospital's administrator.

In January 2009, the Hospital acquired the Plain Dealing, Louisiana Medical and Surgical Clinic from WKMC. The transaction involved the Hospital purchasing the equipment and furnishings of the clinic for \$24,541.

On February 21, 2008, the Hospital acquired the Vivian, Louisiana Medical and Surgical Clinic from WKMC. The transaction involved the Hospital issuing two promissory notes to WKMC, one for the purchase price of the clinic's receivables, \$248,891, and the other for the purchase price of the clinic's equipment and furnishings, \$95,956. The receivables note bears interest at 8 percent per annum and at June 30, 2010, its balance, \$23,000, was past due, but was fully paid by June 30, 2011. The equipment and furnishings note is secured by the equipment and furnishings purchased, bears interest at 8 percent per annum, is payable monthly over a



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NOTE 19 - RELATED PARTY TRANSACTIONS (Continued)

seven-year period ending February 25, 2015, and had an outstanding balance of \$92,463 at June 30, 2012. See Note 9.

In March 2009, the Hospital entered into an operating lease with WKMC for the Plain Dealing Medical and Surgical Clinic building. The lease terms provided for monthly rentals of \$750 for three years through March 14, 2012 with an automatic one year renewal. This lease was converted to a capital lease in December 2009. The term of the lease was amended to twenty years through March 14, 2029. The lease bears interest at 6 percent per annum and at June 30, 2012 its balance was \$96,844.

The Hospital entered into an operating lease with WKMC for the Vivian Medical and Surgical Clinic building. The lease terms provide for monthly rentals of \$6,420 for five years through January 31, 2013 with an automatic one year renewal. Rental expense on this lease during the years ended June 30, 2012, 2011 and 2010 was \$77,038 for each year.

During the years ended June 30, 2012, 2011, and 2010, the Hospital incurred, \$288,563, \$284,414 and \$281,229, respectively, for the administrator's salary and benefits, office supplies, laundry services and various patient services with WKMC.

At June 30, 2012, 2011, and 2010, the Hospital owed WKMC \$333,474, \$183,697 and \$442,325, respectively, for various services and supplies, which is included in accounts payable.

NOTE 20 - SUBSEQUENT EVENTS

Effective July 1, 2012, the North Caddo Hospital Service District began collecting a one percent (1%) sales tax dedicated for use by the Hospital. The sales tax was approved for 25 years and the Hospital intends to use the sales tax proceeds to fund debt service associated with construction of a new hospital facility. Any remaining sales tax levy amounts received may be used for Hospital operations.

Events have been evaluated through October 22, 2012, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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	<u>2012</u>	<u>2011</u>	<u>2010</u>
Daily patient services:			
Routine services	\$ 1,693,331	\$ 1,656,323	\$ 1,641,101
Swing bed	527,400	386,400	94,500
Obstetrics	<u>138,710</u>	<u>128,611</u>	<u>131,571</u>
 Total daily patient services	 <u>2,359,441</u>	 <u>2,171,334</u>	 <u>1,867,172</u>
Other professional services:			
Cardiac monitor			
Inpatient	-0-	-0-	-0-
Outpatient	<u>1,730</u>	<u>865</u>	<u>865</u>
 Total cardiac monitor	 <u>1,730</u>	 <u>865</u>	 <u>865</u>
Operating room			
Inpatient	52,151	81,523	97,900
Outpatient	<u>277,528</u>	<u>351,027</u>	<u>382,552</u>
 Total operating room	 <u>329,679</u>	 <u>432,550</u>	 <u>480,452</u>
Anesthesia			
Inpatient	89,641	90,817	118,120
Outpatient	<u>164,921</u>	<u>182,121</u>	<u>185,478</u>
 Total anesthesia	 <u>254,562</u>	 <u>272,938</u>	 <u>303,598</u>
Radiology			
Inpatient	207,020	195,020	180,885
Outpatient	<u>883,599</u>	<u>839,057</u>	<u>775,790</u>
 Total radiology	 <u>1,090,619</u>	 <u>1,034,077</u>	 <u>956,675</u>
Ultrasound			
Inpatient	70,060	63,256	73,032
Outpatient	<u>244,633</u>	<u>245,454</u>	<u>276,133</u>
 Total ultrasound	 <u>\$ 314,693</u>	 <u>\$ 308,710</u>	 <u>\$ 349,165</u>

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	<u>2012</u>	<u>2011</u>	<u>2010</u>
CT scans & nuclear medicine			
Inpatient	\$ 462,737	\$ 412,656	\$ 477,596
Outpatient	<u>2,177,754</u>	<u>1,728,872</u>	<u>1,823,670</u>
Total CT scans & nuclear medicine	<u>2,640,491</u>	<u>2,141,528</u>	<u>2,301,266</u>
MRI			
Inpatient	59,550	42,300	33,100
Outpatient	<u>332,150</u>	<u>285,000</u>	<u>299,700</u>
Total MRI	<u>391,700</u>	<u>327,300</u>	<u>332,800</u>
Laboratory & blood			
Inpatient	1,807,413	1,447,931	1,342,738
Outpatient	<u>2,112,236</u>	<u>1,932,062</u>	<u>1,899,370</u>
Total laboratory & blood	<u>3,919,649</u>	<u>3,379,993</u>	<u>3,242,108</u>
Respiratory care			
Inpatient	769,887	746,080	638,314
Outpatient	<u>250,892</u>	<u>587,874</u>	<u>600,948</u>
Total respiratory care	<u>1,020,779</u>	<u>1,333,954</u>	<u>1,239,262</u>
Physical therapy			
Inpatient	378,019	241,980	-0-
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total physical therapy	<u>378,019</u>	<u>241,980</u>	<u>-0-</u>
EKG and EEG			
Inpatient	245,770	230,457	221,925
Outpatient	<u>460,739</u>	<u>420,926</u>	<u>438,845</u>
Total EKG and EEG	\$ <u>706,509</u>	\$ <u>651,383</u>	\$ <u>660,770</u>



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YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Central supply			
Inpatient	\$ 1,265,298	\$ 1,086,340	\$ 807,950
Outpatient	<u>98,476</u>	<u>117,321</u>	<u>172,311</u>
Total central supply	<u>1,363,774</u>	<u>1,203,661</u>	<u>980,261</u>
Pharmacy			
Inpatient	1,959,572	1,767,619	1,441,955
Outpatient	<u>944,972</u>	<u>1,011,439</u>	<u>1,042,002</u>
Total pharmacy	<u>2,904,544</u>	<u>2,779,058</u>	<u>2,483,957</u>
Emergency and treatment room			
Inpatient	562,669	527,893	432,211
Outpatient	<u>4,080,283</u>	<u>4,542,925</u>	<u>3,927,864</u>
Total emergency and treatment room	<u>4,642,952</u>	<u>5,070,818</u>	<u>4,360,075</u>
Other outpatient services			
Intensive outpatient psychiatry	-0-	-0-	(838)
Ambulance	1,108,493	1,128,808	1,094,690
Physicians and surgeons clinic	3,999,936	4,206,994	4,419,257
Plain Dealing clinic	1,148,379	1,151,303	861,854
Kidmed	2,316	387	8,755
HealthPlex	73,335	72,313	42,003
Fitness center	<u>42,337</u>	<u>35,056</u>	<u>35,881</u>
Total other outpatient services	<u>6,374,796</u>	<u>6,594,861</u>	<u>6,461,602</u>
Total other professional services	<u>26,334,496</u>	<u>25,773,676</u>	<u>24,152,856</u>
Gross patient service charges	\$ <u>28,693,937</u>	\$ <u>27,945,010</u>	\$ <u>26,020,028</u>

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COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)  
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Gross patient service charges	\$ <u>28,693,937</u>	\$ <u>27,945,010</u>	\$ <u>26,020,028</u>
Deductions from patient charges:			
Contractual adjustments	11,009,070	12,116,156	9,784,507
Uncompensated care reimbursement, net of recoveries	(924,342)	(921,342)	(1,045,247)
Provision for bad debts	3,032,539	2,764,374	3,521,490
Charity care	<u>72,885</u>	<u>21,389</u>	<u>-0-</u>
Total deductions from patient charges	<u>13,190,152</u>	<u>13,980,577</u>	<u>12,260,750</u>
Net patient service revenue	\$ <u>15,503,785</u>	\$ <u>13,964,433</u>	\$ <u>13,759,278</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED SCHEDULES OF OTHER OPERATING REVENUE  
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>		<u>2011</u>		<u>2010</u>
Cafeteria	\$ 40,443	\$	45,939	\$	35,257
Medical records fees	3,549		6,285		6,928
Vending	2,117		1,157		1,818
Miscellaneous	<u>22,588</u>		<u>41,281</u>		<u>20,559</u>
Total other operating revenue	\$ <u>68,697</u>	\$	<u>94,662</u>	\$	<u>64,562</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS  
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Salaries:			
Routine nursing	\$ 1,396,516	\$ 1,295,272	\$ 1,240,100
Obstetrics	29,567	21,465	20,912
Nursing administration	156,757	151,211	29,505
Education	9,109	33,992	31,370
Operating room	10,155	10,888	11,890
Anesthesiology	232,363	211,006	225,911
Radiology	256,106	231,307	208,905
Ultrasound	8,548	8,079	12,591
CT scan	64,928	71,760	91,971
Laboratory	470,083	402,773	478,287
Respiratory therapy	239,629	205,630	200,121
Central supply	82,832	74,585	80,428
Pharmacy	149,653	141,398	146,687
Physicians and surgeons clinic	1,933,979	2,100,036	1,916,437
Plain Dealing clinic	565,193	601,965	541,627
Emergency room	140,286	158,967	442,842
Treatment room	813	2,422	4,993
Ambulance	504,483	501,235	504,056
HealthPlex	77,278	71,805	85,213
School nurse	62,749	62,391	80,379
Fitness center	59,527	47,572	50,478
Medical records	157,300	144,026	143,821
Maintenance	195,251	150,275	127,495
Housekeeping	228,289	214,665	210,759
Dietary	214,068	205,909	215,646
Administration	<u>810,374</u>	<u>650,259</u>	<u>568,651</u>
 Total salaries	 <u>8,055,836</u>	 <u>7,770,893</u>	 <u>7,671,075</u>
Benefits and payroll taxes:			
Retirement	650,879	630,844	518,773
Payroll taxes	534,544	505,643	496,976
Health insurance	665,097	642,664	684,795
Unemployment benefits	<u>1,279</u>	<u>2,172</u>	<u>23,274</u>
 Total benefits and payroll taxes	 <u>1,851,799</u>	 <u>1,781,323</u>	 <u>1,723,818</u>
 Total salaries and benefits	 \$ <u>9,907,635</u>	 \$ <u>9,552,216</u>	 \$ <u>9,394,893</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED SCHEDULES OF OPERATING EXPENSES – MEDICAL SUPPLIES AND DRUGS  
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Routine nursing	\$ 151,081	\$ 126,029	\$ 98,301
Obstetrics	12,453	15,922	19,544
Cardiac care	6,721	3,536	3,397
Operating room	77,604	92,716	113,641
Anesthesiology	7,426	7,471	13,693
Radiology	11,405	6,794	4,281
Ultrasound	247	763	455
MRI	3,558	4,050	4,070
CT scan	24,268	11,691	17,559
Laboratory	247,140	210,213	174,986
Respiratory therapy	79,885	56,379	39,033
Central supply	45,004	27,847	38,170
Pharmacy	400,850	428,894	411,307
Cardiology	364	442	687
Physicians and surgeons clinic	105,568	107,136	134,566
HealthPlex	6,686	6,381	3,941
Plain Dealing clinic	48,697	62,306	39,914
School nurse	1,510	381	4,797
Ambulance	37,221	22,255	26,492
Emergency room	83,739	74,824	62,378
Treatment room	28,098	6,367	8,759
Fitness center	<u>29,421</u>	<u>4,678</u>	<u>3,159</u>
 Total medical supplies and drugs	 \$ <u>1,408,946</u>	 \$ <u>1,277,075</u>	 \$ <u>1,223,130</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL SERVICES  
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Administrative and computer	\$ 167,226	\$ 183,143	\$ 213,715
Legal and professional fees	217,971	176,870	159,080
Board member fees	10,200	10,500	11,000
Laundry purchased services	67,897	63,492	61,382
Dietary	30,067	24,752	3,128
Routine nursing & obstetrics	40,211	75	-0-
Residents	53,881	63,853	43,801
Anesthesia	22,980	34,810	25,553
Radiology	-0-	11,402	-0-
MRI	89,854	92,387	99,088
Ultrasound	50,000	46,240	50,051
CT scan	2,478	352	-0-
Laboratory	135,897	111,395	48,185
Respiratory therapy	13,200	19,038	15,840
Physical therapy	224,571	151,913	2,160
Pharmacy	14,190	11,842	21,313
HealthPlex	12,888	15,208	-0-
Emergency room	700,565	621,484	416,768
Treatment room	-0-	4,031	-0-
Ambulance	-0-	-0-	680
	<hr/>	<hr/>	<hr/>
Total professional services	\$ <u>1,854,076</u>	\$ <u>1,642,787</u>	\$ <u>1,171,744</u>

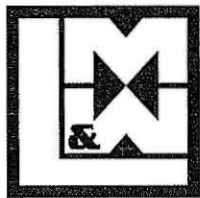


NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
COMBINED SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES  
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Miscellaneous purchased services	\$ 62,409	\$ 51,287	\$ 88,057
Marketing	59,390	30,451	45,803
Non-medical supplies	428,710	334,135	331,858
Dietary food expense	177,178	156,108	137,024
Maintenance and repairs	208,245	159,001	156,657
Utilities	121,805	114,177	113,255
Telephone	104,861	87,931	114,209
Travel and education	86,697	76,034	73,373
Dues and subscriptions	63,848	47,216	30,433
Postage	31,697	30,207	26,399
Sales and property taxes	546	654	141
Grant expenses	4,059	3,242	28,962
Foundation fundraising & special events	37,597	18,668	28,957
Miscellaneous expense	<u>18,278</u>	<u>5,167</u>	<u>2,621</u>
 Total other expenses	 \$ <u>1,405,320</u>	 \$ <u>1,114,278</u>	 \$ <u>1,177,749</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,  
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE  
SCHEDULE OF PER DIEM AND  
OTHER COMPENSATION PAID TO HOSPITAL BOARD MEMBERS  
YEAR ENDED JUNE 30, 2012

Compensation (including per diem) Paid to Hospital Board Members:	<u>Per Diem</u>	<u>Mileage</u> <u>Reimbursement</u>	<u>Total</u> <u>Compensation</u>
Helen Adger	\$ 1,000	\$ -0-	\$ 1,000
Kenneth Clay	1,200	-0-	1,200
Robert Green, Jr.	1,100	-0-	1,100
Robert Guth	700	50	750
Mary Irvin	900	-0-	900
David Norman	1,200	-0-	1,200
Brenda Smith	1,200	250	1,450
Patricia White	1,200	300	1,500
Earl Williamson, Jr.	<u>1,100</u>	<u>-0-</u>	<u>1,100</u>
	\$ <u>9,600</u>	\$ <u>600</u>	\$ <u>10,200</u>



## LESTER, MILLER & WELLS

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

Board of Commissioners  
North Caddo Hospital Service District  
Vivian, Louisiana

We have audited the combined financial statements of North Caddo Hospital Service District d/b/a North Caddo Medical Center and its affiliate (the "Medical Center"), a component unit of Caddo Parish Commission, Louisiana, as of and for the years ended June 30, 2012, 2011 and 2010, and have issued our report thereon dated October 22, 2012. 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.

#### Internal Control Over Financial Reporting

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings to be a material weakness: 2012-01.

Board of Commissioners  
North Caddo Hospital Service District  
Vivian, Louisiana  
Page Two

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency: 2012-02.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2012-03 and 2012-04.

The Medical Center's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Medical Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, 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.

*Lester, Miller & Wells*

Certified Public Accountants  
Alexandria, Louisiana

October 22, 2012



North Caddo Hospital Service District  
Schedule of Findings  
Year Ended June 30, 2012

**Section I. Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified - Yes
- Significant deficiencies identified - Yes

Compliance

- Noncompliance issue noted - Yes

Management letter issued - No

*Federal Awards* - Not applicable

**Section II. Findings**

**FINDING 2012-01 – Cost Reimbursement**

**Finding:** Estimates for annual Medicare and Medicaid cost report settlements are not being recorded on a timely basis. Because the Hospital qualifies as a critical access hospital, the Hospital is reimbursed under retrospective cost reimbursement method and the annual cost report settlement can be material to the Hospital.

**Recommendation:** Management should monitor estimated cost settlements by preparing and recording interim cost reports during the year.

**Response:** Management implemented the recommendation by March 31, 2012 by performing an interim calculation. However, due to miscommunication, the results were not recorded into the general ledger until year end. The hospital's accountant and CFO will be responsible for ensuring that interim calculations are recorded promptly in the future.

**FINDING 2012-02 – Segregation of Duties**

**Finding:** Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

**Recommendation:** We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes: 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend written procedures for added close supervision and review.

**Response:** Management will continue to segregate duties as much as possible and will closely supervise and review duties to prevent errors.



North Caddo Hospital Service District  
Schedule of Findings  
Year Ended June 30, 2012

**Section II. Findings (Continued)**

**FINDING 2012-03 – Public Bid Law**

**Finding:** The Hospital purchased an ambulance for \$138,000. The expenditure was not properly advertised and accepted in accordance with provisions of R.S. 38:2211-2296.

**Recommendation:** We suggest that management become familiar with and review Louisiana regulations regarding governmental entities to avoid noncompliance issues.

**Response:** Multiple bids were accepted and reviewed, but the Hospital did not advertise for public bids. Management did not believe that the public bid law applied because of the donor restriction placed on the funds donated specifically for this ambulance purchase.

**FINDING 2012-04 – Participation in Transactions**

**Finding:** Louisiana R.S. 42:1112 says "no public servant, except as provided in R.S. 42:1120, shall participate in a transaction involving the governmental entity in which, to his actual knowledge, any of the following persons has a substantial economic interest: (1) any member of his immediate family..." During our audit, we noted three instances of noncompliance.

**Recommendation:** We suggest that management become familiar with and review Louisiana regulations regarding governmental entities to avoid noncompliance issues.

**Response:** Management and the board of commissioners are now aware of the requirement to disqualify themselves from participating in a transaction involving the Hospital when a violation of Louisiana statutes would result. Management has obtained and will follow current state statutes on this and other laws applicable to operation of Louisiana hospital service districts.

**Section III. Federal Awards Findings and Questioned Costs**

Not applicable

**Section IV. Management Letter**

Not applicable





North Caddo Hospital Service District  
Schedule of Prior Year Findings  
Year Ended June 30, 2012

**Section I. Findings**

**2011-01 – Medicare Cost Reimbursement**

**Fiscal Year Initially Reported:** June 30, 2008

**Finding:** Estimates for annual Medicare and Medicaid cost report settlements are not being recorded on a timely basis. Because the Hospital qualifies as a critical access hospital, the Hospital is reimbursed under retrospective cost reimbursement method and the annual cost report settlement can be material to the Hospital.

**Recommendation:** Management should monitor estimated cost settlements by preparing and recording interim cost reports during the year.

**Response:** Management intends to implement the recommendation by March 31, 2012. The CFO will be responsible for the calculation at least quarterly thereafter.

**Resolution:** This matter was partially resolved. See Finding 2012-01

**2011-02 – Segregation of Duties**

**Fiscal Year Initially Reported:** June 30, 2009

**Finding:** Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

**Recommendation:** We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

**Response:** Management will continue to segregate duties as much as possible and will closely supervise and review duties to prevent errors.

**Resolution:** This matter has not been resolved. See Finding 2012-02



North Caddo Hospital Service District  
Schedule of Prior Year Findings  
Year Ended June 30, 2012

**Section I. Findings (Continued)**

**FINDING 2011-03 – Contracts**

**Fiscal Year Initially Reported:** June 30, 2011

**Finding:** While we noted that an executed contract with each physician does exist, transactions with physicians occurred prior to obtaining signed agreements.

**Recommendation:** We encourage management to work with legal counsel to review federal and state regulations in order to ensure timely compliance with medical services contracts. Policies and procedures should be revised and timely adhered to for maintenance of all hospital contracts and assuring that transactions do not occur until all documentation is complete.

**Response:** The accounting department does not issue checks without copies of appropriate documentation for transactions, including the approved and executed contracts, time records, etc. and administration will no longer allow physician activity to continue during contract negotiation. Administration shall create a tickler file system which cross references all related physician contracts and includes other relevant data such as renewal deadline, expiration date, a summary of financial terms, etc. by March 31, 2012. The tickler system shall be coordinated with legal counsel at least quarterly to insure compliance with state and federal laws.

**Resolution:** This matter has been resolved.

**FINDING 2011-04 – State Bond Commission Approval for New Long-Term Debt**

**Fiscal Year Initially Reported:** June 30, 2011

**Finding:** Louisiana R.S. 39:1410.60 – 1410.65 requires approval from the State Bond Commission before incurring any long-term indebtedness. We noted that State Bond Commission approval was received; however, it was not received prior to incurring the debt.

**Recommendation:** We suggest that management become familiar with and review Louisiana regulations regarding governmental entities to avoid noncompliance issues.

**Response:** Management and the board of commissions are now aware of the required State Bond Commission approval and will follow same. Management has obtained and will follow current state statutes on this and other laws applicable to operation of Louisiana hospital service districts.

**Resolution:** This matter has been resolved.

**Section II. Federal Award Findings and Questioned Costs**

Not applicable

**Section III. Management Letter**

Not applicable



