

ABBEVILLE GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010, AND 2009



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

HOSPITAL SERVICE DISTRICT NO. 2
 OF THE PARISH OF VERMILION, STATE OF LOUISIANA
 d/b/a ABBEVILLE GENERAL HOSPITAL
 HOSPITAL ENTERPRISE FUND
 YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

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Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis

Our discussion and analysis of Abbeville General Hospital's (Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Hospital's financial statements, which begin on page 3.

Financial Highlights

- The Hospital's total assets increased by approximately \$4,795,000 or roughly 22.1%. The Hospital's total liabilities decreased by approximately \$1.5 million, or roughly 16.6% due mainly to settlements with third party payors.
- During the year, the Hospital's net operating revenue rose 10.2% due to a significant increase in grant revenues. Expenses were up 0.4% or approximately \$130,000 due to increased salaries and depreciation of \$440,000 and \$61,000, respectively. The Hospital had a net operating income of \$3,791,765, which is approximately 10.6% of total operating revenue.

Using This Annual Report

The Hospital'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 Hospital, including resources held by the Hospital 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 Hospital finances begins on page 3. One of the most important questions asked about the Hospital's finances is, "Is the Hospital 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 Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all 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 and paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital'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 Hospital's patient base and measure of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

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?"

Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis (continued)

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet on page 3. The Hospital's net assets increased in each of the past two years by \$6,350,487 (50.0 percent in 2011 and \$1,351,101 (11.9 percent) in 2010, as you can see from **Table 1**.

Table 1: Assets, Liabilities and Net Assets

	<u>2011</u>	December 31 <u>2010</u>	<u>2009</u>
Total Current Assets	\$ 10,375,863	\$ 9,827,927	\$ 7,478,776
Capital Assets – Net	13,597,404	10,532,647	9,329,751
Other Assets, Including Board - Designated Investments	<u>2,541,997</u>	<u>1,359,817</u>	<u>5,066,671</u>
Total Assets	<u>\$ 26,515,264</u>	<u>\$ 21,720,391</u>	<u>\$ 21,875,198</u>
Current Liabilities	\$ 5,600,878	\$ 7,259,416	\$ 10,311,862
Long-term Debt/Liabilities	<u>1,859,462</u>	<u>1,756,538</u>	<u>210,000</u>
Total Liabilities	7,460,340	9,015,954	10,521,862
Net Assets	<u>19,054,924</u>	<u>12,704,437</u>	<u>11,353,336</u>
Total Liabilities and Net Assets	<u>\$ 26,515,264</u>	<u>\$ 21,720,391</u>	<u>\$ 21,875,198</u>

A significant component of the change in the Hospital's current assets is the increase in cash and cash equivalents and short term investments. In fiscal year 2011, cash and cash equivalents increased by roughly \$889,000 or 31.2% compared to an increase of 738.9% in the prior year.

Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis (continued)

Operating Results and Changes in the Hospital's Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for cash of the fiscal years ended December 31, 2011, 2010, and 2009.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue:			
Net Patient Svc Revenue	\$ 27,429,967	\$ 29,004,559	\$ 27,297,229
Other Revenue	<u>8,223,241</u>	<u>3,335,896</u>	<u>3,322,313</u>
Net Revenue	<u>35,653,208</u>	<u>32,340,455</u>	<u>30,619,542</u>
Expenses:			
Salaries & Benefits	19,486,172	19,365,038	18,042,006
Medical Supplies	2,948,267	3,384,277	3,253,500
Professional Fees	1,924,045	1,998,507	1,876,478
Other Operating Expense	5,881,844	5,423,084	5,440,605
Depr & Amort.	<u>1,621,115</u>	<u>1,560,035</u>	<u>1,515,734</u>
Total Operating Expense	<u>31,861,443</u>	<u>31,730,941</u>	<u>30,128,323</u>
Net Operating Income	<u>3,791,765</u>	<u>609,514</u>	<u>491,219</u>
Investment Income	27,010	45,311	19,789
Interest Expense	(96,498)	(126,214)	(151,175)
Non Operating Income	<u>2,628,210</u>	<u>822,490</u>	<u>-0-</u>
Excess of Revenues over Expense	6,350,487	1,351,101	359,833
Net Assets – Beginning of Year	<u>12,704,437</u>	<u>11,353,336</u>	<u>10,993,503</u>
Net Assets – End of Year	<u>\$ 19,054,924</u>	<u>\$ 12,704,437</u>	<u>\$ 11,353,336</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income (loss) – generally, the difference between net patient service revenue and other revenue, and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported operating income. This is a significant change from the operating income of \$491,000 reported in fiscal year 2009. In each of the past two years, operating revenues have increased in large part due to the gross patient revenue, sales tax revenue and grant revenue increases. Operating income for 2011 increased by \$3,182,251 or 522.1 percent increase from the income reported in 2010.

Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis (continued)

Operating Income (continued)

Total salary and benefits expenses increased \$121,134 or 0.6% in 2011, from \$19,365,038 in 2010, and from \$18,042,006 in 2009, resulting in a 7.3% increase. Total salary and benefits remained approximately steady from 2010 to 2011. As a percentage of net patient service revenue, salary and benefit expense was approximately 71.0%, 66.8% and 66.1% for the fiscal years ended December 2011, 2010 and 2009, respectively.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs is expenses for medical and professional services. In 2010, medical and professional services costs totaled \$2 million. In 2011, they totaled \$1.9 million or 6.0 percent of total expenses and a decrease of 3.7 percent over 2010. The majority of the decrease is attributed to the implementation of renegotiated contracts.

Source of Revenue

During fiscal year 2011, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes cafeteria sales, LTAC and MRI lease and ancillary support, rental income and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended December 31, 2011, 2010 and 2009.

Table 3: Payor Mix by Percentage

	Year-end December 31		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	47.8%	51.8%	50.5%
Medicaid	22.0%	18.9%	17.0%
Commercial Insurance	18.7%	17.6%	19.5%
Self-Pay and Other	<u>11.5%</u>	<u>11.7%</u>	<u>13.0%</u>
 Total Patient Revenues	 <u>100.0%</u>	 <u>100.0%</u>	 <u>100.0%</u>

Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis (continued)

Other Revenue

Other revenue includes sales tax revenue, cafeteria sales, LTAC and MRI lease and ancillary support, rental income and other miscellaneous services. Other revenue increased by \$4,887,345 or 146.5%.

Table 4: Other Revenue

	Year-end December 31		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Other Revenue:			
Sales Tax Revenue	\$ 2,505,625	\$ 2,351,733	\$ 2,239,819
Cafeteria Sales	222,986	222,110	221,921
LTAC Lease & Ancillary Support	229,529	271,654	316,960
MRI Lease & Ancillary Support	359,536	355,412	413,322
Joint Venture Revenue	28,771	28,051	(3,614)
Vending Machine Commission	9,566	10,284	26,187
Grants	4,772,122	38,074	62,354
Physician Office Rentals	37,118	38,801	27,025
Medical Records Abstract Fees	9,377	9,091	10,382
Physician Supplemental Pmts	40,592	-0-	-0-
Other	<u>8,019</u>	<u>10,686</u>	<u>7,957</u>
 Total Other Revenue	 <u>\$ 8,223,241</u>	 <u>\$ 3,335,896</u>	 <u>\$ 3,322,313</u>

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of capital grants and a capital donation. During fiscal year 2011, the Hospital received a \$2,655,000 donation of capital acquisitions. Investment income decreased 40.4% to \$27,010 in fiscal year 2011 from \$45,311 in 2010.

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2011, 2010, and 2009.

Overall, activity at the Hospital, as measured by admissions of adults, pediatrics, and newborns, decreased by 19.0% to 1,770 admissions in 2011 from 2,186 admissions in 2010. Patient days decreased 20.8% from 9,788 in fiscal year 2010 to 7,751 in fiscal year 2011, following approximately remaining the same from fiscal year 2009 to 2010. As a result, the average length of stay for acute care patients (excluding newborns) decreased 1.3% from 2010 to 2011.

Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis (continued)

Operating and Financial Performance (continued)

Table 5: Patient and Hospital Statistical Data

	Year-end December 31		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Admissions:			
Adult and Pediatric	1,604	2,006	1,997
Newborn	166	180	201
BMC	496	589	545
Patient Days:			
Adult and Pediatric	7,487	9,498	9,357
BMC	5,416	5,629	5,154
Medicare (Included in Adult & Pediatric)	4,587	6,500	6,225
Medicaid (Included in Adult & Pediatric)	1,579	1,291	1,528
Newborn	264	290	318
Operating Room Procedures	882	891	854
Emergency Room Visits	13,848	13,344	13,309
Average Daily Census (Excluding Newborn):			
Adult and Pediatric	20.51	26.02	25.64
BMC	14.84	15.42	14.12
Average Length of Stay (Excluding Newborn):			
All Acute Care Patients	4.67	4.73	4.69
Medicare Patients	5.57	6.05	5.85
Medicaid Patients	2.96	1.86	2.98
Percentage of Acute-Care Patient Days:			
Medicare	61.27%	68.44%	66.53%
Medicaid	21.09%	13.59%	16.33%
Full-Time Equivalent (FTE's)	364	358	345

Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis (continued)

Operating and Financial Performance (continued)

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

Table 6: Allowance Summary

	Year-end December 31		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Allowances:			
Medicare Contractual Allowances	\$ 17,975,589	\$ 24,041,860	\$ 16,930,513
Medicaid Contractual Allowances	9,480,851	6,491,363	4,571,281
Blue Cross, Louisiana State Employees, and other Contractual Allowances	8,779,903	6,498,035	4,579,667
Provision for Bad Debt	5,221,883	5,934,782	4,010,923
Other Adjustments	976,904	579,058	313,816
Charity Care	1,826,439	1,444,035	1,325,235
Uncompensated Care Reimbursement	<u>(2,168,215)</u>	<u>(3,864,039)</u>	<u>(4,076,533)</u>
 Total Allowances	 <u>\$ 42,093,354</u>	 <u>\$ 41,125,094</u>	 <u>\$ 27,654,902</u>

As a result of a continued effort in accounts receivable collection efforts, days in accounts receivable decreased to 53 days in 2011, down from 57 days in 2010. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$1,826,439 were forgone during 2011, compared to \$1,444,035 in 2010, and \$1,325,235 in 2009.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$13.6 million invested in capital assets, net of accumulated depreciation, as detailed in note 5 to the financial statements. In 2011, the Hospital purchased capital assets costing \$2,029,922. Of this, \$1,649,122 (81.2%) was the acquisition of new equipment and building repairs as can be seen in **Table 8**:

Abbeville General Hospital
Abbeville, Louisiana

Management's Discussion and Analysis (continued)

Capital Asset and Debt Administration (Continued)

Table 7: Capital Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 681,280	\$ 497,250	\$ 417,250
Land Improvements	335,025	335,025	335,025
Building & Equipment	<u>41,733,427</u>	<u>38,136,007</u>	<u>36,951,612</u>
Subtotal	42,749,732	38,968,282	37,703,887
Less Accumulated Depr.	30,198,349	28,733,837	28,663,819
Construction in Progress	<u>1,046,021</u>	<u>298,202</u>	<u>289,683</u>
Net Property, Plant & Equipment	<u>\$ 13,597,404</u>	<u>\$ 10,532,647</u>	<u>\$ 9,329,751</u>

Table 8: Major Additions over \$100,000

<u>Capital Investment</u>	<u>2011 Cost</u>
Nursing Home Land	\$ 184,030
Floor Replacement Project	\$ 159,526
C-Arm	\$ 134,444
Health Information System-Phase 4	\$ 82,329
Projects under construction	\$ 873,344

Debt

At year-end, the Hospital had \$1,986,993 in short-term and long-term debt. Long-term debt decreased by approximately \$2.2 million in fiscal year 2011. More detailed information about the Hospital's long-term liabilities is presented in the note 8 to basic financial statements. Total debt outstanding represents approximately 7.5% of the Hospital's total assets at December 31, 2011 versus prior years of 19.2% and 18.8% respectfully.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital administration.



LESTER, MILLER & WELLS

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Independent Auditors' Report

To the Board of Commissioners
Hospital Service District No. 2
Parish of Vermilion, State of Louisiana
Abbeville, Louisiana

We have audited the accompanying financial statements of Hospital Service District No. 2, Parish of Vermilion, State of Louisiana, Abbeville General Hospital (the Hospital), a component unit of the Vermilion Parish Police Jury, as of and for the years ended December 31, 2011 and 2010, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Hospital as of and for the year ended December 31, 2009, were audited by other auditors whose report dated August 28, 2010, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 2, Parish of Vermilion, Abbeville General Hospital as of December 31, 2011 and 2010, and the respective changes in financial position 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 June 20, 2012, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages "i" through "viii" be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic

Board of Commissioners
Hospital Service District No. 2
Parish of Vermilion, State of Louisiana
Abbeville, Louisiana
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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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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 audit was conducted for the purpose of forming an opinion on the financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements.

Lester Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

June 20, 2012



ABBEVILLE GENERAL HOSPITAL
BALANCE SHEETS
DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current Assets			
Cash and cash equivalents (Note 3)	\$ 3,606,057	\$ 2,843,613	\$ 338,988
Short-term investments	724,859	-0-	-0-
Limited use assets (Note 6)	5,258	918,929	298,898
Accounts receivable, net of allowances for uncollectibles (Note 4)	3,981,906	4,505,089	4,779,825
Estimated third-party payor settlements	324,223	444,349	726,915
Other receivables	842,421	135,720	108,841
Inventories	733,401	797,803	909,293
Prepaid expenses	157,738	182,424	316,016
Total Current Assets	<u>10,375,863</u>	<u>9,827,927</u>	<u>7,478,776</u>
Non-Current Assets			
Capital assets, net (Note 5)	13,597,404	10,532,647	9,329,751
Limited use assets (Note 6)	2,484,638	1,303,228	5,033,674
Other	57,359	56,589	32,997
Total Assets	<u>\$ 26,515,264</u>	<u>\$ 21,720,391</u>	<u>\$ 21,875,198</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 968,327	\$ 996,921	\$ 1,315,818
Accrued salary and payroll taxes	757,542	695,882	621,122
Accrued vacation payable (Note 7)	734,221	738,135	705,717
Estimated third-party payor settlements	1,280,000	31,355	1,105,623
Accrued retirement	555,298	506,714	455,240
Deferred revenue	1,147,397	1,820,817	2,043,222
Other liabilities	30,562	66,592	169,800
Current portion of long-term debt (Note 8)	127,531	2,403,000	3,895,320
Total Current Liabilities	<u>5,600,878</u>	<u>7,259,416</u>	<u>10,311,862</u>
Long-term Liabilities			
Long-term debt (Note 8)	<u>1,859,462</u>	<u>1,756,538</u>	<u>210,000</u>
Net Assets			
Invested in capital assets, net of related debt	13,597,404	10,532,647	9,329,751
Restricted: debt service (non-expendable)	-0-	-0-	281,719
Restricted: sales tax proceeds (expendable)	2,098,874	1,343,722	1,138,602
Unrestricted	3,358,646	828,068	603,264
Total Net Assets	<u>19,054,924</u>	<u>12,704,437</u>	<u>11,353,336</u>
Total Liabilities and Net Assets	<u>\$ 26,515,264</u>	<u>\$ 21,720,391</u>	<u>\$ 21,875,198</u>

See accompanying notes to financial statements.

ABBEVILLE GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Net patient service revenues (Note 9)	\$ 27,429,967	\$ 29,004,559	\$ 27,297,229
Sales taxes	2,505,625	2,351,733	2,239,819
Grants	4,772,122	38,074	62,354
Other operating revenues	<u>945,494</u>	<u>946,089</u>	<u>1,020,140</u>
 Total Revenues	 <u>35,653,208</u>	 <u>32,340,455</u>	 <u>30,619,542</u>
Expenses			
Salaries	16,999,347	16,559,058	15,391,922
Benefits and payroll taxes	2,486,825	2,805,980	2,650,084
Supplies and drugs	2,948,267	3,384,277	3,253,500
Professional fees	1,924,045	1,998,507	1,876,478
Other expenses	5,037,089	4,643,886	4,569,009
Insurance	844,755	779,198	871,596
Depreciation and amortization	<u>1,621,115</u>	<u>1,560,035</u>	<u>1,515,734</u>
 Total Expenses	 <u>31,861,443</u>	 <u>31,730,941</u>	 <u>30,128,323</u>
 Operating Income (Loss)	 <u>3,791,765</u>	 <u>609,514</u>	 <u>491,219</u>
Nonoperating Revenues (Expenses)			
Interest income	15,522	29,998	3,659
Interest income from limited use assets	11,488	15,313	16,130
Interest expense	(96,498)	(126,214)	(151,175)
Intergovernmental transfer	(26,790)	-0-	-0-
Donation of capital asset	2,655,000	-0-	-0-
Capital grants	<u>-0-</u>	<u>822,490</u>	<u>-0-</u>
 Increase (Decrease) in Net Assets	 6,350,487	 1,351,101	 359,833
 Beginning Net Assets	 <u>12,704,437</u>	 <u>11,353,336</u>	 <u>10,993,503</u>
 Ending Net Assets	 \$ <u>19,054,924</u>	 \$ <u>12,704,437</u>	 \$ <u>11,353,336</u>

See accompanying notes to financial statements.

ABBEVILLE GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 28,648,501	\$ 28,265,188	\$ 26,155,235
Other receipts from operations	7,516,540	3,309,017	3,419,126
Cash payments to employees and for employee-related cost	(19,379,842)	(19,206,386)	(17,780,621)
Cash payments for other operating expenses	<u>(10,729,692)</u>	<u>(10,982,891)</u>	<u>(10,367,762)</u>
Net cash provided (used) by operating activities	<u>6,055,507</u>	<u>1,384,928</u>	<u>1,425,978</u>
Cash flows from investing activities:			
Cash distributions / (proceeds) from investments	(992,598)	3,110,415	415,986
Investment in joint venture	(28,771)	(28,051)	(26,026)
Distributions from joint venture	62,000	-0-	17,454
Intergovernmental transfer	(26,790)	-0-	-0-
Interest income	<u>27,010</u>	<u>45,311</u>	<u>19,789</u>
Net cash provided (used) by investing activities	<u>(959,149)</u>	<u>3,127,675</u>	<u>427,203</u>
Cash flows from capital and related financing activities:			
Acquisition of property, plant, and equipment	(2,029,922)	(2,755,825)	(1,767,761)
Cash proceeds from debt issuance	1,879,993	3,949,538	3,032,431
Principal payments on long-term debt	(4,052,538)	(3,895,320)	(3,312,000)
Bond issue costs	(34,949)	(2,647)	-0-
Proceeds from capital grants	-0-	822,490	-0-
Interest expense	<u>(96,498)</u>	<u>(126,214)</u>	<u>(151,175)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,333,914)</u>	<u>(2,007,978)</u>	<u>(2,198,505)</u>
Net increase (decrease) in cash and cash equivalents	762,444	2,504,625	(345,324)
Beginning cash and cash equivalents	<u>2,843,613</u>	<u>338,988</u>	<u>684,312</u>
Ending cash and cash equivalents	\$ <u>3,606,057</u>	\$ <u>2,843,613</u>	\$ <u>338,988</u>

See accompanying notes to financial statements.

ABBEVILLE GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>132,528</u>	\$ <u>128,113</u>	\$ <u>148,824</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 3,791,765	\$ 609,514	\$ 491,219
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Depreciation and amortization	1,621,115	1,560,035	1,515,734
Provision for bad debts	5,221,883	5,934,782	4,010,923
Changes in current assets (increase) decrease			
Accounts receivable	(4,698,700)	(5,660,046)	(5,062,725)
Estimated third-party payor settlements	120,126	282,566	(567,852)
Other receivables	(706,701)	(26,879)	96,813
Inventories	64,402	111,490	8,701
Prepaid expenses	24,686	133,592	22,164
Changes in current liabilities increase (decrease)			
Accounts payable	(28,594)	(318,897)	187,278
Accrued salary and payroll taxes	61,660	74,760	96,907
Accrued vacation payable	(3,914)	32,418	129,876
Estimated third-party payor settlements	1,248,645	(1,074,268)	235,993
Accrued retirement	48,584	51,474	34,602
Deferred revenue	(673,420)	(222,405)	241,667
Other liabilities	<u>(36,030)</u>	<u>(103,208)</u>	<u>(15,322)</u>
Net cash provided (used) by operating activities	\$ <u>6,055,507</u>	\$ <u>1,384,928</u>	\$ <u>1,425,978</u>

See accompanying notes to financial statements.

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Vermilion Parish Hospital Service District No. 2 (the Hospital or the District) was created by an ordinance of the Vermilion Parish Police Jury on February 6, 1962.

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

Nature of Business

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

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 measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, 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, the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

Cash and Cash Equivalents

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

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

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

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

Significant Concentration of Economic Dependence

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

Net Patient Service Revenues

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the Hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Inventory

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

Income Taxes

The District's income is exempt from taxation.

Capital Assets

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

Buildings and Improvements	5 to 40 years
Fixed Equipment	15 to 20 years
Major Movables	5 to 20 years

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

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Assets

Net assets of the Hospital 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 Hospital. Restricted non expendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

Revenue and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Restricted Revenues

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Grants and Contributions

From time to time, the District received 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 non operating revenues. Amounts restricted to capital acquisitions are reported after non operating revenues and expenses.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

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; employee injuries and illnesses; natural disasters; and medical malpractice. 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.

Investments in debt and equity securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

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.

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 Hospital'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. As of December 31, 2011, 2010 and 2009, the balances reported by financial institutions were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

Interest Rate Risks – 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 to changes in market interest rates.

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The carrying amounts of deposits and investments are included in the Hospital's balance sheet as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Carrying amount			
Deposits	\$ 5,842,635	\$ 4,396,172	\$ 1,727,216
Investments	<u>978,177</u>	<u>669,598</u>	<u>3,944,344</u>
	<u>\$ 6,820,812</u>	<u>\$ 5,065,770</u>	<u>\$ 5,671,560</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 3,606,057	\$ 2,843,613	\$ 338,988
Short-term investments	724,859	-0-	-0-
Assets whose use is limited - current	5,258	918,929	298,898
Assets whose use is limited - noncurrent	<u>2,484,638</u>	<u>1,303,228</u>	<u>5,033,674</u>
	<u>\$ 6,820,812</u>	<u>\$ 5,065,770</u>	<u>\$ 5,671,560</u>

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Patients	\$ 6,748,906	\$ 7,063,077	\$ 6,992,112
Estimated allowances for uncollectibles	<u>(2,767,000)</u>	<u>(2,557,988)</u>	<u>(2,212,287)</u>
Net accounts receivable	<u>\$ 3,981,906</u>	<u>\$ 4,505,089</u>	<u>\$ 4,779,825</u>

The following is a summary of the mix of receivables from patients and third-party payors at December 31:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	9%	12%	15%
Medicaid	15%	16%	26%
Commercial and other third-party payors	24%	23%	30%
Patients	<u>52%</u>	<u>49%</u>	<u>29%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 5 - CAPITAL ASSETS, NET

The following is a summary of capital assets and related accumulated depreciation at December 31:

	<u>2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>2011</u>
Land	\$ 497,250	\$ 184,030	\$ -0-	\$ 681,280
Land improvements	335,025	-0-	-0-	335,025
Buildings	19,043,187	2,926,165	131,854	21,837,498
Fixed equipment	4,968,505	90,512	18,178	5,040,839
Major movables	14,124,315	735,274	4,499	14,855,090
Construction in progress	<u>298,202</u>	<u>1,088,793</u>	<u>340,974</u>	<u>1,046,021</u>
Total	39,266,484	5,024,774	495,505	43,795,753
Accumulated depreciation	<u>28,733,837</u>	<u>1,620,165</u>	<u>155,653</u>	<u>30,198,349</u>
Net	<u>\$ 10,532,647</u>	<u>\$ 3,404,609</u>	<u>\$ 339,852</u>	<u>\$ 13,597,404</u>
	<u>2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>2010</u>
Land	\$ 417,250	\$ 80,000	\$ -0-	\$ 497,250
Land improvements	335,025	-0-	-0-	335,025
Buildings	18,891,435	1,043,593	891,841	19,043,187
Fixed equipment	4,353,910	614,595	-0-	4,968,505
Major movables	13,706,267	1,009,118	591,070	14,124,315
Construction in progress	<u>289,683</u>	<u>8,519</u>	<u>-0-</u>	<u>298,202</u>
Total	37,993,570	2,755,825	1,482,911	39,266,484
Accumulated depreciation	<u>28,663,819</u>	<u>1,552,929</u>	<u>1,482,911</u>	<u>28,733,837</u>
Net	<u>\$ 9,329,751</u>	<u>\$ 1,202,896</u>	<u>\$ -0-</u>	<u>\$ 10,532,647</u>

ABBEVILLE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 5 - CAPITAL ASSETS, NET (Continued)

	<u>2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>2009</u>
Land	\$ 417,250	\$ -0-	\$ -0-	\$ 417,250
Land improvements	278,280	56,745	-0-	335,025
Buildings	18,790,902	100,533	-0-	18,891,435
Fixed equipment	4,335,054	18,856	-0-	4,353,910
Major movables	12,911,841	1,505,436	711,010	13,706,267
Construction in progress	<u>203,490</u>	<u>460,916</u>	<u>374,723</u>	<u>289,683</u>
 Total	 36,936,817	 2,142,486	 1,085,733	 37,993,570
Accumulated depreciation	<u>27,935,774</u>	<u>1,439,055</u>	<u>711,010</u>	<u>28,663,819</u>
 Net	 \$ <u>9,001,043</u>	 \$ <u>703,431</u>	 \$ <u>374,723</u>	 \$ <u>9,329,751</u>

NOTE 6 - ASSETS WHOSE USE IS LIMITED

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>By Third Parties</u>			
Held by trustee under indenture agreement	\$ -0-	\$ -0-	\$ 281,719
Held by ordinance for use of sales tax	2,098,874	1,343,722	1,138,602
Employee benefit trust fund	5,258	73,803	17,179
 <u>By Board</u>			
Capital projects	\$ 385,764	\$ 804,632	\$ 3,895,072
Less limited use assets required for current liabilities	<u>(5,258)</u>	<u>(918,929)</u>	<u>(298,898)</u>
 Non-current limited use assets	 \$ <u>2,484,638</u>	 \$ <u>1,303,228</u>	 \$ <u>5,033,674</u>

NOTE 7 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$734,221, \$738,135, and \$705,717, of vacation pay at December 31, 2011, 2010 and 2009. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital leases, at December 31, follows:

	<u>2010</u>		<u>Additions</u>		<u>Payments</u>		<u>2011</u>		<u>Due Within One Year</u>
2007 LPFA Certificate of Indebtedness	\$ 210,000	\$	-0-	\$	103,000	\$	107,000	\$	107,000
2010 Revenue Anticipation Note	2,300,000		-0-		2,300,000		-0-		-0-
2010 Bond Anticipation Note	1,468,000		-0-		1,468,000		-0-		-0-
2010 Bond Anticipation Note	181,538		-0-		181,538		-0-		-0-
2010 Bond Anticipation Note	<u>-0-</u>		<u>1,879,993</u>		<u>-0-</u>		<u>1,879,993</u>		<u>20,531</u>
 Total	 \$ <u>4,159,538</u>	\$	 <u>1,879,993</u>	\$	 <u>4,052,538</u>	\$	 <u>1,986,993</u>	\$	 <u>127,531</u>

	<u>2009</u>		<u>Additions</u>		<u>Payments</u>		<u>2010</u>		<u>Due Within One Year</u>
Refunding Bond Issue 2003	\$ 295,000	\$	-0-	\$	295,000	\$	-0-	\$	-0-
2007 LPFA Certificate of Indebtedness	310,000		-0-		100,000		210,000		103,000
2008 Bond Anticipation Note	1,000,320		-0-		1,000,320		-0-		-0-
2009 Revenue Anticipation Note	2,500,000		-0-		2,500,000		-0-		-0-
2010 Revenue Anticipation Note	-0-		2,300,000		-0-		2,300,000		2,300,000
2010 Bond Anticipation Note	-0-		1,468,000		-0-		1,468,000		-0-
2010 Bond Anticipation Note	<u>-0-</u>		<u>181,538</u>		<u>-0-</u>		<u>181,538</u>		<u>-0-</u>
 Total	 \$ <u>4,105,320</u>	\$	 <u>3,949,538</u>	\$	 <u>3,895,320</u>	\$	 <u>4,159,538</u>	\$	 <u>2,403,000</u>

	<u>2008</u>		<u>Additions</u>		<u>Payments</u>		<u>2009</u>		<u>Due Within One Year</u>
Refunding Bond Issue 2003	\$ 930,000	\$	-0-	\$	635,000	\$	295,000	\$	295,000
2007 LPFA Certificate of Indebtedness	407,000		-0-		97,000		310,000		100,000
2008 Revenue Anticipation Note	2,580,000		-0-		2,580,000		-0-		-0-
2008 Bond Anticipation Note	467,889		532,431		-0-		1,000,320		1,000,320
2009 Revenue Anticipation Note	<u>-0-</u>		<u>2,500,000</u>		<u>-0-</u>		<u>2,500,000</u>		<u>2,500,000</u>
 Total	 \$ <u>4,384,889</u>	\$	 <u>3,032,431</u>	\$	 <u>3,312,000</u>	\$	 <u>4,105,320</u>	\$	 <u>3,895,320</u>

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 8 - LONG-TERM DEBT (Continued)

The following are the terms and due dates of the Hospital's long-term debt at December 31:

- Refunding Bond Issue 2003 at 3.2% maturing serially on February 1, of each year beginning in 2004, with interest payable February 1, and August 1, of each year beginning in 2004, with the final maturity on February 1, 2010
- 2007 LPFA Certificate of Indebtedness at 0% interest, maturing serially on October 1, of each year beginning in 2008, with the final maturity on October 1, 2012
- 2007 LPFA Certificate of Indebtedness at 4.19% interest, maturing serially on October 1, of each year beginning in 2008, with interest payable April 1, and October 1, of each year beginning in 2008, with the final maturity on October 1, 2012
- 2008 Bond Anticipation Note, Series A at 2.66% with interest payable on May 23, and November 23, beginning in 2008, and maturing on May 23, 2010
- 2009 Revenue Anticipation Note at 2.75%, with interest payable at maturity on March 1, 2010
- 2010 Revenue Anticipation Note at 2.89%, with interest payable at maturity on March 1, 2011
- 2010 Bond Anticipation Note, Series B at 2.66% with interest payable at maturity on May 19, 2011
- 2010 Bond Anticipation Note, Series C at 2.13% with interest payable at maturity on August 20, 2011

Scheduled principal and interest repayments on the long-term debt follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 127,531	\$ 38,124	\$ 165,655
2013	63,310	101,090	164,400
2014	65,971	98,429	164,400
2015	68,745	95,655	164,400
2016	71,635	92,765	164,400
2017 to 2021	405,958	416,042	822,000
2022 to 2026	498,771	323,229	822,000
2027 to 2031	612,803	209,197	822,000
2032 to 2036	<u>72,269</u>	<u>1,539</u>	<u>73,808</u>
Totals	\$ <u>1,986,993</u>	\$ <u>1,376,070</u>	\$ <u>3,363,063</u>

Management has executed an agreement with the USDA to borrow \$2,500,000 over 25 years at 4.125% or lower interest rate if available. Management intended to finalize the loan in 2011. The proceeds of the loan will pay off the 2010 Bond Anticipation Note, Series B and C short-term notes, and accordingly the amounts of \$1,468,000 and \$181,538 have been classified as long-term debt at December 31, 2010.

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 9 - NET PATIENT SERVICE REVENUES

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital qualified for a Medicare low volume add-on for inpatient payments. These payments are effective for discharges occurring October 1, 2010 until September 30, 2012, if not extended by Congress. The additional payment received under the Medicare low volume add-on was \$725,802 and \$154,743 for the years ended December 31, 2011 and 2010. Because the Hospital qualifies as a Medicare Dependent Hospital (MDH), it receives additional reimbursement. The additional payments received under MDH status was \$300,354, \$315,715 and \$358,053 for the years ended December 31, 2011, 2010 and 2009. The benefits related to MDH designation are set to expire on September 30, 2012, if not extended by Congress. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2012, if not extended by Congress. The additional payments received under the hold harmless provision were \$615,525, \$450,135, and \$445,416 for the years ended December 31, 2011, 2010, and 2009, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day. Geriatric psychiatry services are reimbursed based on a prospective method based on length of stay, diagnosis, and other factors.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Most outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. Geriatric psychiatry services are reimbursed on a prospectively determined per diem rate.

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

The following is a summary of the Hospital's net patient revenues for the years ended December 31:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross patient service revenues	\$ 69,523,321	\$ 70,129,653	\$ 54,952,131
Contractual adjustments	(36,236,343)	(37,031,258)	(26,081,461)
Provision for bad debts	(5,221,883)	(5,934,782)	(4,010,923)
Policy discounts	(976,904)	(579,058)	(313,816)
Charity care	(1,826,439)	(1,444,035)	(1,325,235)
Uncompensated care reimbursement	<u>2,168,215</u>	<u>3,864,039</u>	<u>4,076,533</u>
 Net patient service revenues	 <u>\$ 27,429,967</u>	 <u>\$ 29,004,559</u>	 <u>\$ 27,297,229</u>

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 9 - NET PATIENT SERVICE REVENUES (Continued)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare and Medicaid patient charges	\$ 48,451,393	\$ 49,465,417	\$ 38,444,171
Contractual adjustments	<u>(29,052,922)</u>	<u>(31,676,049)</u>	<u>(22,224,788)</u>
Program patient service revenue	\$ <u>19,398,471</u>	\$ <u>17,789,368</u>	\$ <u>16,219,383</u>
Percent of total gross patient charges	<u>70%</u>	<u>71%</u>	<u>70%</u>
Percent of total net patient revenues	<u>71%</u>	<u>61%</u>	<u>59%</u>

The Hospital received interim amounts of \$2,294,795, \$3,641,634, and \$4,318,200 for Medicaid and self-pay uncompensated care services (UCC) for the years ended December 31, 2011, 2010, and 2009, respectively, which represents 8%, 13%, and 16% of the net patient service revenues, respectively. The interim amounts 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 by Medicaid after audit by Medicaid. Management estimated that the Hospital was overpaid by \$800,000 during the fiscal year ended December 31, 2011, and has made provisions for such recoupments. 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 10 - PROFESSIONAL LIABILITY RISK

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

NOTE 11 - CONTINGENCIES

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

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 11 - CONTINGENCIES (Continued)

The principal contingencies are described below:

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

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

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

The Hospital also is enrolled in a self-insurance plan to provide health insurance to its employees. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. The Hospital has acquired stop-loss insurance to cover individual claims exceeding \$75,000 or aggregate claims exceeding \$1,816,000 per year.

NOTE 12 - PENSION PLAN

The District has a defined contribution pension plan. The plan is administered by The Standard Insurance Company who holds all plan assets. Any employee who on any entry date is within six months of meeting the plan eligibility requirements will qualify. Plan eligibility is defined as two years of service. The District contributions are five percent of the covered payroll. Actual contributions made by the District for the years ended December 31, 2011, 2010 and 2009 were \$539,559, \$492,061, and \$445,162.

ABBEVILLE GENERAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 13 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2011, that have initial or remaining lease terms in excess of one year.

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 389,229
2013	345,219
2014	128,612
2015	260,612
2016	<u>217,177</u>
Total minimum lease payments	<u>\$ 1,340,849</u>

NOTE 14 - PURCHASE AGREEMENTS

The Hospital is committed to purchases of laboratory supplies over the next 5 years at the then prevailing market prices. At December 31, 2011, 2010, and 2009, these committed purchases amounted to \$284,515, \$284,515, and \$184,115.

NOTE 15 - 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% of charity care or owe a reduced "sliding scale" amount based on the patient's level of income in comparison to the Federal Poverty Guidelines based on a 200% scale. 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 \$837,000, \$653,000 and \$726,000 for the years ended December 31, 2011, 2010 and 2009, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured care, were approximately \$592,000, \$663,000 and \$679,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

NOTE 16 - SALES TAX REVENUE

On July 19, 2008, the voters of the District passed a half cent sales tax. The terms of the vote stipulated that the sales tax was in lieu of ad valorem taxes, therefore no further ad valorem taxes would be collected by the District. The sales tax collections are restricted to paying the cost of emergency room operations and acquiring, maintaining and improving hospital buildings, equipment and other capital facilities within the Hospital Service District No. 2. Sales tax revenue is approximately 7%, 7% and 7% of the total revenues in 2011, 2010, and 2009, respectively.

ABBEVILLE GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

NOTE 17 - GRANT REVENUE

The District recognized operating grant income of approximately \$1,276,000 for Medicare and \$508,000 for Medicaid during the year ended December 31, 2011, 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 use of an EHR's potential related to the improvement of quality, efficiency, and patient safety. The Centers for Medicare and Medicaid 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 District met Stage 1 criteria during FY 2011, which include electronically capturing health information in a coded format and using certified EHR technology to meet certain required core objectives for a continuous ninety day period. The District'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 District 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.

The District received a grant of \$2,927,638 in 2011 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 District, along with 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.

NOTE 18 - COMMITMENTS

The Hospital entered into various construction contracts, which totaled \$4,086,150, including change orders as of December 31, 2011. The Hospital paid \$360,438 towards this commitment as of December 31, 2011.

NOTE 19 - SUBSEQUENT EVENTS

Events have been evaluated through June 20, 2012 for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

ABBEVILLE GENERAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Routine Services:			
Adults and pediatric	\$ 4,619,452	\$ 5,593,419	\$ 5,409,331
Intensive care unit	2,105,434	2,111,299	1,777,302
Swing bed	251,087	354,271	164,448
Psychiatric	5,635,121	5,577,719	4,867,412
Nursery	<u>139,655</u>	<u>146,779</u>	<u>155,893</u>
 Total	 <u>12,750,749</u>	 <u>13,783,487</u>	 <u>12,374,386</u>
 Other Professional Services:			
Operating room			
Inpatient	1,522,613	1,898,293	1,763,716
Outpatient	<u>1,790,403</u>	<u>1,869,898</u>	<u>1,621,464</u>
 Total	 <u>3,313,016</u>	 <u>3,768,191</u>	 <u>3,385,180</u>
Recovery room			
Inpatient	69,269	80,695	64,554
Outpatient	<u>88,814</u>	<u>73,599</u>	<u>64,521</u>
 Total	 <u>158,083</u>	 <u>154,294</u>	 <u>129,075</u>
Anesthesia			
Inpatient	367,821	446,978	411,471
Outpatient	<u>756,084</u>	<u>725,664</u>	<u>716,945</u>
 Total	 <u>1,123,905</u>	 <u>1,172,642</u>	 <u>1,128,416</u>
Radiology			
Inpatient	2,555,481	2,646,263	1,971,610
Outpatient	<u>10,822,399</u>	<u>9,916,537</u>	<u>7,322,118</u>
 Total	 <u>13,377,880</u>	 <u>12,562,800</u>	 <u>9,293,728</u>
Laboratory			
Inpatient	3,172,034	3,333,863	1,929,931
Outpatient	<u>10,675,996</u>	<u>9,645,824</u>	<u>5,759,206</u>
 Total	 <u>\$ 13,848,030</u>	 <u>\$ 12,979,687</u>	 <u>\$ 7,689,137</u>

ABBEVILLE GENERAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Blood			
Inpatient	\$ 189,945	\$ 255,129	\$ 152,640
Outpatient	<u>89,942</u>	<u>80,357</u>	<u>58,610</u>
Total	<u>279,887</u>	<u>335,486</u>	<u>211,250</u>
Respiratory care			
Inpatient	3,746,108	4,194,759	2,890,085
Outpatient	<u>532,031</u>	<u>491,565</u>	<u>329,330</u>
Total	<u>4,278,139</u>	<u>4,686,324</u>	<u>3,219,415</u>
Physical therapy			
Inpatient	217,454	274,381	235,988
Outpatient	<u>30,332</u>	<u>23,605</u>	<u>27,159</u>
Total	<u>247,786</u>	<u>297,986</u>	<u>263,147</u>
EKG			
Inpatient	452,541	533,273	500,747
Outpatient	<u>821,612</u>	<u>673,152</u>	<u>564,623</u>
Total	<u>1,274,153</u>	<u>1,206,425</u>	<u>1,065,370</u>
Central supply			
Inpatient	945,128	1,009,569	880,983
Outpatient	<u>657,019</u>	<u>606,755</u>	<u>506,423</u>
Total	<u>1,602,147</u>	<u>1,616,324</u>	<u>1,387,406</u>
Pharmacy			
Inpatient	5,704,120	6,381,039	5,325,297
Outpatient	<u>2,253,379</u>	<u>1,944,050</u>	<u>1,623,621</u>
Total	<u>7,957,499</u>	<u>8,325,089</u>	<u>6,948,918</u>
Dialysis			
Inpatient	92,872	152,217	115,200
Outpatient	<u>120,911</u>	<u>140,760</u>	<u>80,865</u>
Total	<u>\$ 213,783</u>	<u>\$ 292,977</u>	<u>\$ 196,065</u>

ABBEVILLE GENERAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Outpatient psychiatric program	\$ <u>1,247,824</u>	\$ <u>1,485,942</u>	\$ <u>1,606,422</u>
Outpatient clinic			
Inpatient	8,054	1,503	12,632
Outpatient	<u>257,448</u>	<u>257,476</u>	<u>209,134</u>
Total	<u>265,502</u>	<u>258,979</u>	<u>221,766</u>
Emergency room			
Inpatient	737,580	794,521	565,084
Outpatient	<u>4,083,493</u>	<u>3,521,760</u>	<u>2,649,364</u>
Total	<u>4,821,073</u>	<u>4,316,281</u>	<u>3,214,448</u>
Observation room			
Inpatient	324,938	482,039	219,830
Outpatient	<u>779,019</u>	<u>727,318</u>	<u>407,890</u>
Total	<u>1,103,957</u>	<u>1,209,357</u>	<u>627,720</u>
Rural health clinic (Abbeville) - outpatient	<u>1,116,608</u>	<u>1,191,795</u>	<u>1,313,609</u>
Rural health clinic (Maurice) - outpatient	<u>543,300</u>	<u>485,587</u>	<u>676,673</u>
Total Other Professional Services	<u>56,772,572</u>	<u>56,346,166</u>	<u>42,577,745</u>
Gross Patient Service Charges	<u>69,523,321</u>	<u>70,129,653</u>	<u>54,952,131</u>
Allowances and Uncollectibles:			
Contractual adjustments	36,236,343	37,031,258	26,081,461
Provision for bad debts	5,221,883	5,934,782	4,010,923
Policy discounts	976,904	579,058	313,816
Charity care	1,826,439	1,444,035	1,325,235
Uncompensated care reimbursement	<u>(2,168,215)</u>	<u>(3,864,039)</u>	<u>(4,076,533)</u>
Total Allowances and Uncollectibles	<u>42,093,354</u>	<u>41,125,094</u>	<u>27,654,902</u>
Net Patient Service Revenue	\$ <u>27,429,967</u>	\$ <u>29,004,559</u>	\$ <u>27,297,229</u>

ABBEVILLE GENERAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cafeteria sales	\$ 222,986	\$ 222,110	\$ 221,921
LTAC lease and ancillary support	229,529	271,654	316,960
MRI lease and ancillary support	359,536	355,412	413,322
Joint venture revenue	28,771	28,051	(3,614)
Vending machine commission	9,566	10,284	26,187
Physician office rentals	37,118	38,801	27,025
Medical records abstract fees	9,377	9,091	10,382
Physician supplemental payments	40,592	-0-	-0-
Miscellaneous revenue	<u>8,019</u>	<u>10,686</u>	<u>7,957</u>
Total other operating revenue	\$ <u>945,494</u>	\$ <u>946,089</u>	\$ <u>1,020,140</u>

ABBEVILLE GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Personnel	\$ 39,390	\$ 90,397	\$ 62,999
Administration	1,418,751	1,251,259	1,124,814
Plant operations and maintenance	346,098	294,855	289,248
Laundry and linen	25,338	25,213	24,766
Housekeeping	515,294	474,548	425,406
Dietary and cafeteria	632,378	644,950	603,709
Nursing administration	674,430	664,383	630,666
Purchasing	154,381	146,308	141,297
Pharmacy	497,618	490,815	467,950
Medical records	542,297	566,498	510,171
Social service	58,445	48,017	51,291
Nursing services, acute care	2,301,931	2,575,393	2,460,678
Nursing services, intensive care unit	698,348	717,097	660,496
Nursing services, psychiatric unit	1,361,451	1,303,181	1,147,226
Nursing services, nursery	149,808	160,413	141,343
Operating room	741,456	658,017	598,488
Recovery room	180,717	192,431	179,446
Anesthesiology	832,724	806,850	643,414
Radiology	876,807	855,963	827,286
Laboratory	690,451	667,932	684,184
Respiratory care	603,173	565,689	576,578
Dialysis	117,246	123,603	106,903
Outpatient psychiatric program	269,074	280,796	256,840
Outpatient clinic	241,639	219,987	185,447
Emergency room	1,258,365	1,061,426	967,543
Rural health clinic - Abbeville	841,504	689,605	738,592
Rural health clinic - Maurice	917,142	970,797	868,645
Private physician office	13,091	12,635	16,496
	<u>16,999,347</u>	<u>16,559,058</u>	<u>15,391,922</u>
Total salaries			
Payroll taxes	1,203,154	1,176,552	1,080,568
Health insurance	684,111	1,087,980	1,076,570
Pension plan	539,559	492,061	445,162
Other	60,001	49,387	47,784
	<u>2,486,825</u>	<u>2,805,980</u>	<u>2,650,084</u>
Total benefits			
Total salaries and benefits	\$ <u>19,486,172</u>	\$ <u>19,365,038</u>	\$ <u>18,042,006</u>

ABBEVILLE GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Nursing service	\$ 41,829	\$ 93,258	\$ 57,581
Intensive care unit	287	-0-	-0-
Psychiatric unit	465,279	334,216	398,010
Nursery	55,001	29,400	13,800
Operating room	325,273	164,304	9,725
Anesthesiology	130,006	156,696	254,945
Radiology	119,903	104,716	84,994
Laboratory	193,155	211,463	211,344
Respiratory care	250	-0-	-0-
Physical therapy	69,815	71,943	72,599
EKG	50,078	55,452	49,794
Dialysis	139	-0-	-0-
Outpatient psychiatric program	76,749	76,085	103,896
Emergency room	257,766	600,503	519,848
Rural health clinic - Abbeville	109,088	51,625	52,271
Rural health clinic - Maurice	<u>29,427</u>	<u>48,846</u>	<u>47,671</u>
 Total professional fees	 \$ <u>1,924,045</u>	 \$ <u>1,998,507</u>	 \$ <u>1,876,478</u>

ABBEVILLE GENERAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Management fees	\$ 77,867	\$ 62,053	\$ 11,774
Miscellaneous service fees	624,467	561,512	581,249
Legal and accounting	148,784	155,852	132,976
Supplies	1,167,127	1,178,940	1,099,264
Repairs and maintenance	695,116	697,961	687,353
Utilities	680,309	624,450	601,058
Telephone	94,259	83,536	78,597
Travel and education	48,073	48,293	32,530
Rentals	1,026,005	832,571	751,931
Dues and subscriptions	151,764	192,794	15,187
Recruitment and advertising	154,965	37,102	211,234
Miscellaneous	<u>168,353</u>	<u>168,822</u>	<u>365,856</u>
 Total other expenses	 \$ <u>5,037,089</u>	 \$ <u>4,643,886</u>	 \$ <u>4,569,009</u>

ABBEVILLE GENERAL HOSPITAL
 SCHEDULE OF COMPENSATION PAID TO BOARD MEMBERS
 YEARS ENDED DECEMBER 31,

	<u>2011</u>		<u>2010</u>		<u>2009</u>
Robert Leblanc	\$ 1,250	\$	1,250	\$	1,200
James Sequra, III	-0-		-0-		650
Josephine Levy	1,150		1,150		1,100
John Boudreaux	1,250		1,200		1,250
Corbett Lebouef, MD	1,250		1,150		1,200
Jody Landry	1,200		1,150		1,200
Robert Romero	1,300		1,250		1,250
Oswald Broussard	<u>850</u>		<u>700</u>		<u>450</u>
 Totals	 \$ <u>8,250</u>	\$	 <u>7,850</u>	\$	 <u>8,300</u>



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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

To the Board of Commissioners
Hospital Service District No. 2
Parish of Vermilion
Abbeville, Louisiana

We have audited the financial statements of Hospital Service District No. 2, Parish of Vermilion ("Abbeville General Hospital"), a component unit of the Vermilion Parish Police Jury, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Abbeville General Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Abbeville General Hospital's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting: 2011-1, 2011-2, 2011-3, 2011-4 and 2011-5. 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.

Board of Commissioners
Hospital Service District No. 2
Parish of Vermilion
Abbeville, Louisiana
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Abbeville General Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under Government Auditing Standards.

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

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

Lester Miller & Wells

Certified Public Accountant
Alexandria, Louisiana

June 20, 2012



ABBEVILLE GENERAL HOSPITAL
AUDITORS' SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified – No
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – None

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

Finding 2011-1 – Draft of Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006 SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Response: The Hospital's accounting personnel will continue to attend education courses in order to further their knowledge of GAAP. Further, due to the size of our organization, we will continue to rely on our independent auditors to assist us in the preparation of our external financial statements.

Finding 2011-2 – Outstanding Checks

Finding: The bank reconciliation contains outstanding checks which were issued more than a year ago. This can lead to a misstatement of cash and accounts payable.

Recommendation: Outstanding items over six months old should be investigated timely and handled correctly.



ABBEVILLE GENERAL HOSPITAL
AUDITORS' SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Section II. Financial Statement Findings (Continued)

Finding 2011-2 – Outstanding Checks (Continued)

Response: The accounting staff will identify the aged outstanding checks that should be liquidated and will make attempts to contact the payees. All payees not responding to the attempts by October 31, 2012 will be reported to the Louisiana Unclaimed Property Division and the outstanding check will be liquidated through this reporting process.

Finding 2011-3 – Accounting Process

Finding: The accounting procedures do not include posting significant journal entries in a timely fashion. This could lead to inaccurate interim financial statements influencing the decisions of management.

Recommendation: We recommend completing reconciliations and posting journal entries on a monthly basis in order to provide accurate interim financial statements.

Response: An additional staff member was added to the Business Office/Accounting Department in May 2012. Such position titled as the Data Processing/Accounting Clerk will perform the daily cash and AR subsidiary reconciliations, thereby relieving the time spent by the Accounting Supervisor currently performing these tasks. This new staff should allow for additional time for the Accounting Supervisor to focus on interim reconciliations that will minimize the need for annual reconciliations and thus eliminating significant journal entries being posted through the year-end journal entry processes.

Finding 2011-4 – Delayed Claims and Collections

Finding: Claims for rural health clinic services have been delayed since the clinics converted to the new billing system. The clinics' accounts receivable increased from \$192,613 in 2008 to \$503,460 in 2009. The accounts receivable increased also in 2010 to \$753,001. The delay in claims could result in increased denials

Recommendation: We recommend reviewing the procedures and determining the delay in order to implement procedures to increase the collections of old claims. Additionally, new claims should be filed timely and denials should be addressed promptly.

Response: In the 4th quarter of 2009, the rural health clinic's billing system was integrated with the hospital's billing system. Such conversion entailed programming limitations/complexities in accomplishing electronic claims submittal to Medicare and Medicaid. In the 3rd quarter of 2011, the "Assistant Business Office Director" position was created with specific duties assigned to directly focus on the rural health clinic billing. Since that appointment in January 2012, we began utilizing a clearinghouse to submit claims, which offers front end edits to ensure clean claim submittal. The clearinghouse allows for an automated claim filing process, which provides enhancements for the billing systems weaknesses in electronic billing. This will reduce the amount of manual work so that personnel can research older accounts. In addition, the clearinghouse offers an automated denials management tool, which will be used by the Assistant Business Office Director to identify and address denials on a timelier basis in order to reduce the clinics accounts receivable.



ABBEVILLE GENERAL HOSPITAL
AUDITORS' SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Section II. Financial Statement Findings (Continued)

Finding 2011-4 – Delayed Claims and Collections (Continued)

The Business Office Director will monitor the accounts receivable through monthly reports to determine if improvement is made. This monitoring process will be discussed with the Assistant Business Office Director to determine if further changes need to be implemented. The established goal to achieve by 9/30/12 is \$450,000.

Finding 2011-5 – Credit Balances

Finding: The credit balances for accounts receivable grew from \$381,964 to \$487,111 at December 31, 2011.

Recommendation: We recommend the Hospital investigate credit balances on patient accounts to make necessary adjustments to or timely refund the balance as needed on a monthly basis.

Response: Additional personnel and resources will be directed to research and address credit balances. The Business Office Director will monitor the credits in accounts receivable through monthly reports to determine if improvement is accomplished. The results of this monitoring will help determine if further changes will be required and implemented.

Section III. Federal Awards, Findings and Questioned Costs

Not Applicable

Section IV. Management Letter

Not Applicable



ABBEVILLE GENERAL HOSPITAL
AUDITORS' SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Section I. Financial Statement Findings

2010-1 – Financial Statement Preparation

Fiscal Year Initially Reported: December 31, 2006

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Resolution: Not resolved – See finding 2011-1.

2010-2 – Outstanding Checks

Fiscal Year Initially Reported: December 31, 2008

Finding: The bank reconciliation contains outstanding checks which were issued more than a year ago. This can lead to a misstatement of cash and accounts payable.

Recommendation: Outstanding items over six months old should be investigated timely and handled correctly.

Resolution: Not resolved – See finding 2011-2.

2010-3 – Accounting Process

Fiscal Year Initially Reported: December 31, 2009

Finding: The accounting procedures do not include posting significant journal entries in a timely fashion. This could lead to inaccurate interim financial statements influencing the decisions of management.

Recommendation: We recommend completing reconciliations and posting of journal entries on a monthly basis in order to provide accurate interim financial statements.

Resolution: Not resolved – See finding 2011-3.



ABBEVILLE GENERAL HOSPITAL
AUDITORS' SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Section I. Financial Statement Findings (Continued)

2010-4 – Delayed Claims and Collections

Fiscal Year Initially Reported: December 31, 2009

Finding: Claims for clinic services have been delayed substantially since the clinic converted to the new billing system. In addition, the Hospital did not submit Medicaid claims for sick baby charges earned during the year.

Recommendation: All claims should be filed in a timely manner and any denials should be investigated immediately. System issues that are identified should be investigated promptly. Management should have procedures to detect unprocessed claims. Management should also monitor days in accounts receivable throughout the year and investigate significant increases.

Resolution: Not resolved – See finding 2011-4.

2010-5 – Employee Turnover

Fiscal Year Initially Reported: December 31, 2009

Finding: There is a high turnover of accounting personnel which has led to a weakness of internal controls.

Recommendation: We recommend continued search to hire competent, long-term financial personnel to develop and oversee internal controls during preparation of monthly financial statements.

Resolution: This matter has been resolved.

2011-6 – Grant Revenue

Fiscal Year Initially Reported: December 31, 2010

Finding: Management did not record grant revenue that was earned during the year. Assets and non-operating revenue was understated by \$813,207.

Recommendation: We recommend recording revenue when earned on a monthly basis in accordance with generally accepted accounting principles.

Resolution: This matter has been resolved.

Section II. Federal Award Findings and Questioned Costs

Not Applicable

Section III. Management Letter

Not Applicable



June 28, 2012

Legislative Audit Advisory Council
PO Box 94397
Baton Rouge, LA 70804-9397

Re: Abbeville General Hospital
FYE 12/31/11 Financial Audit
Management Corrective Action Plan

Dear Council Members,

The hospital has taken the following actions in response to the findings of our auditors, Lester, Miller and Wells, CPAs for the fiscal year ending 12/31/11.

Finding 2011-1 – Draft of Financial Statements: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006 SAS 112 now requires management to ensure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principals (GAAP) lacks the resources necessary internally to complete the reporting requirements.

Position(s) of Agency Personnel taking corrective action:

N/A

Corrective Action:

The Hospital's accounting personnel will continue to attend education courses in order to further their knowledge of GAAP. Further, due to the size of our organization, we will continue to rely on our independent auditors to assist us in the preparation of our external financial statements.

Date Corrective Action Complete:

N/A

Finding 2011-2 – Outstanding Checks: The bank reconciliation contains outstanding checks which were issued more than a year ago. This can lead to a misstatement of cash and accounts payable.

Position(s) of Agency Personnel taking corrective action:

Accounting Supervisor

Corrective Action:

The accounting staff has identified the aged outstanding checks that should be liquidated and has sent notices out to the payees. All payees not responding to the notice by 10/31/12 will be reported to the Louisiana Unclaimed Property Division and the outstanding check will be liquidated through this reporting process.

Date Corrective Action Complete:

10/31/2012

Finding 2011-3 – Accounting Process: The accounting procedures do not include posting significant journal entries in a timely fashion. This could lead to inaccurate interim financial statements influencing the decisions of management.

Position(s) of Agency Personnel taking corrective action:

Accounting Supervisor
Data Processing/Accounting Clerk

Corrective Action:

An additional staff member was added to the Business Office/Accounting Department in May 2012. Such position titled as the Data Processing/Accounting Clerk will perform the daily cash and AR subsidiary reconciliations, thereby relieving the time spent by the Accounting Supervisor currently performing these tasks. This new staff should allow for additional time for the Accounting Supervisor to focus on interim reconciliations that will minimize the need for annual reconciliations and thus eliminating significant journal entries being posted through the year-end journal entry processes.

Date Corrective Action Complete:

12/31/12

Finding 2011-4 – Delayed Claims and Collections: Claims for rural health clinic services have been delayed since the clinics converted to the new billing system. The clinics' accounts receivable increased from \$192,613 in 2008 to \$503,460 in 2009. The accounts receivable increased also in 2010 to \$753,001. The delay in claims could result in increased denials.

Position(s) of Agency Personnel taking corrective action:

Business Office Director
Assistant Business Office Director
Physician Office Billing Specialist

Corrective Action:

In the 4th quarter of 2009, the rural health clinic's billing system was integrated with the hospital's billing system. Such conversion entailed programming limitations/complexities in accomplishing electronic claims submittal to Medicare and Medicaid. In the 3rd quarter of 2011, the "Assistant Business Office Director" position was created with specific duties assigned to directly focus on the rural health clinic billing. Since that appointment in January 2012, we began utilizing a clearinghouse to submit claims, which offers front end edits to ensure clean claim submittal. The clearinghouse allows for an automated claim filing process, which provides enhancements for the billing systems weaknesses in electronic billing. This will reduce the amount of manual work so that personnel can research older accounts. In addition, the clearinghouse offers an automated denials management tool, which will be used by the Assistant Business Office Director to identify and address denials on a more timely basis in order to reduce the clinics accounts receivable. The Business Office Director will monitor the accounts receivable through monthly reports to determine if improvement is made. This monitoring process will be discussed with the Assistant Business Office Director to determine if further changes need to be implemented. The established goal to achieve by 9/30/12 is \$450,000.

Date Corrective Action Complete:

9/30/2012

Finding 2011-5 – Credit Balances: The credit balances for accounts receivable grew from \$381,964 to \$487,111 at December 31, 2011.

Position(s) of Agency Personnel taking corrective action:

Business Office Director
Data Processing/Accounting Clerk

Corrective Action:

In the 4th quarter of 2011 there was a vacancy in the position responsible for working credits in the accounts receivable. This position has been filled and additional resources have been directed to research and address the credits. The Business Office Director will monitor the credits in the accounts receivable through monthly reports to determine if improvement is made. The results of this monitoring process will be used to determine if further changes need to be implemented.

Date Corrective Action Complete:

9/30/2012

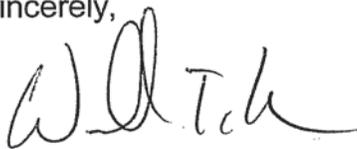
Legislative Audit Advisory Council

June 28, 2012

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Hopefully, the above provides adequate explanation of the remedial actions taken as a result of the auditor's comments. However, should you require additional information or need further clarification, please do not hesitate to contact me at (337)898-6377

Sincerely,

A handwritten signature in black ink, appearing to read "W. Troy Hair". The signature is fluid and cursive, with the first name "W." and last name "Hair" clearly legible.

W. Troy Hair
Chief Financial Officer