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Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Years Ended June 30, 1998, 1997 and 1996

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Under provisions of state law, this report is a public document. A copy of this report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date: **FEB 03 1999**

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

We have audited the accompanying general purpose financial statements of Hospital Service District No. 3, Parish of Allen, State of Louisiana, Allen Parish Hospital (the "District"), a component unit of the Allen Parish Police Jury, as of and for the years ended June 30, 1998, 1997 and 1996, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital, as of and for the years ended June 30, 1998, 1997 and 1996, and the results of its operations and cash flows for the periods then ended, in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued a report dated October 21, 1998, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
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The accompanying general purpose financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 17 to the general purpose financial statements, the District has had material losses from operations for the years ended June 30, 1998, 1997 and 1996, and decreasing patient utilization of the hospital. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 17. We were also unable to satisfy ourselves as to the value and collectibility of the amount due from the joint venturer as presented in Note 16. The general purpose financial statements do not include any adjustments that might result from the outcomes of these uncertainties.

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital. Such information has been subjected to the auditing procedures applied in the audits of the general purpose financial statements, and in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.


Certified Public Accountants

October 21, 1998

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Balance Sheets - Restricted and Unrestricted Funds
June 30, 1998, 1997, and 1996

| Assets | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---|---------------------|---------------------|---------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,167,672 | \$ 782,193 | \$ 234,440 |
| Investments | 20,000 | 20,000 | 20,000 |
| Patient accounts receivable, net of estimated uncollectibles (Note 4) | 543,651 | 684,063 | 916,812 |
| Due from related party (Note 16) | 489,948 | 245,673 | 12,733 |
| Estimated Medicare and Medicaid program settlements (Note 4) | -0- | 272,735 | 272,083 |
| Inventory | 127,241 | 127,629 | 137,952 |
| Prepaid expenses | 24,018 | 16,669 | 17,964 |
| Deposit | <u>8,000</u> | <u>8,000</u> | <u>8,000</u> |
| Total current assets | <u>2,380,530</u> | <u>2,156,962</u> | <u>1,619,984</u> |
| Property, plant and equipment, net (Note 5) | 808,455 | 850,216 | 851,086 |
| Assets limited as to use (Note 7) | 125,000 | 125,000 | 125,000 |
| Other assets | <u>8,694</u> | <u>12,420</u> | <u>16,146</u> |
| Total Assets | <u>\$ 3,322,679</u> | <u>\$ 3,144,598</u> | <u>\$ 2,612,216</u> |
| Liabilities and Fund Balance | | | |
| Current liabilities: | | | |
| Current maturities of long-term debt (Note 9) | \$ 44,052 | \$ 22,470 | \$ 13,098 |
| Accounts payable and accrued expenses | 1,474,871 | 1,386,775 | 855,295 |
| Estimated Medicare and Medicaid program settlements (Note 4) | <u>53,226</u> | <u>-0-</u> | <u>-0-</u> |
| Total current liabilities | <u>1,572,149</u> | <u>1,409,245</u> | <u>868,393</u> |
| Long-term debt, net of current maturities (Note 9) | <u>237,728</u> | <u>81,481</u> | <u>29,703</u> |
| Total liabilities | <u>1,809,877</u> | <u>1,490,726</u> | <u>898,096</u> |
| Fund balance: | | | |
| Unrestricted | 1,512,802 | 1,613,247 | 1,714,120 |
| Temporarily restricted | <u>-0-</u> | <u>40,625</u> | <u>-0-</u> |
| Total fund balance | <u>1,512,802</u> | <u>1,653,872</u> | <u>1,714,120</u> |
| Total liabilities and fund balance | <u>\$ 3,322,679</u> | <u>\$ 3,144,598</u> | <u>\$ 2,612,216</u> |

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Statements of Operations - Unrestricted Fund
Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|----------------------------------|---------------------|---------------------|------------------|
| Revenue: | | | |
| Net patient service revenue | \$ 4,961,568 | \$ 4,458,516 | \$ 4,470,136 |
| Maintenance taxes | 84,247 | 88 | 75,312 |
| Grants | -0- | -0- | -0- |
| Donations | 500 | -0- | -0- |
| Other | <u>242,187</u> | <u>187,444</u> | <u>31,153</u> |
| Total revenue | <u>5,288,502</u> | <u>4,646,048</u> | <u>4,576,601</u> |
| Expenses: | | | |
| Salaries and benefits | 1,750,227 | 1,765,564 | 2,156,610 |
| Medical supplies and drugs | 173,830 | 221,894 | 227,775 |
| Insurance | 98,272 | 103,812 | 139,208 |
| Provision for bad debts | 751,543 | 112,241 | 154,151 |
| Depreciation and amortization | 92,457 | 91,510 | 87,740 |
| Interest expense | 10,678 | 8,826 | 3,492 |
| Other expenses | <u>2,538,015</u> | <u>2,456,303</u> | <u>1,820,082</u> |
| Total expenses | <u>5,415,022</u> | <u>4,760,150</u> | <u>4,589,058</u> |
| Operating income (loss) | (126,520) | (114,102) | (12,457) |
| Nonoperating income | | | |
| Interest income | <u>26,075</u> | <u>13,229</u> | <u>16,065</u> |
| Excess of revenues over expenses | <u>\$ (100,445)</u> | <u>\$ (100,873)</u> | <u>\$ 3,608</u> |

See accompanying notes to financial statements.

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 Allen Parish Hospital
 Statements of Changes in Fund Balances
 Years Ended June 30, 1998, 1997 and 1996

| | <u>UNRESTRICTED</u> | <u>RESTRICTED</u> |
|---|---------------------|-------------------|
| Fund balance, May 31, 1995 | \$ 1,710,512 | \$ -0- |
| Excess of revenues over expenses | <u>3,608</u> | <u>-0-</u> |
| Fund balance, June 30, 1996 | 1,714,120 | -0- |
| Excess of revenues over expenses | (100,873) | -0- |
| Unexpended Rural Health Care Transition Grant | <u>-0-</u> | <u>40,625</u> |
| Fund balance, June 30, 1997 | 1,613,247 | 40,625 |
| Excess of revenues over expenses | (100,445) | -0- |
| Amounts released from restrictions | <u>-0-</u> | <u>(40,625)</u> |
| Fund balance, June 30, 1998 | <u>\$ 1,512,802</u> | <u>\$ -0-</u> |

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Statements of Cash Flows - Restricted and Unrestricted Funds
Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|--|------------------|------------------|------------------|
| Cash flows from operating activities | | | |
| Operating income (loss) | \$ (126,520) | \$ (114,102) | \$ (12,457) |
| Interest expense considered capital financing activity | 10,678 | 8,826 | 3,492 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation and amortization | 92,457 | 91,510 | 87,740 |
| Provision for bad debts | 751,543 | 112,241 | 154,151 |
| Malpractice losses | 100,000 | -0- | -0- |
| Changes in: | | | |
| Patient accounts receivable | (611,131) | 120,508 | (751,319) |
| Due from related party | (244,275) | (232,940) | 9,030 |
| Estimated Medicare and Medicaid program settlements | 325,961 | (652) | (200,668) |
| Inventory | 388 | 10,323 | (32,887) |
| Prepaid expenses | (7,349) | 1,295 | 25,649 |
| Deposit | -0- | -0- | (8,000) |
| Accounts payable and accrued expenses | <u>88,096</u> | <u>531,480</u> | <u>(80,502)</u> |
| Net cash provided by operating activities | <u>379,848</u> | <u>528,489</u> | <u>(805,771)</u> |
| Cash flows from investing activities | | | |
| Interest on investments | 26,075 | 13,229 | 16,065 |
| Purchase of investments | (694,000) | (694,000) | (694,000) |
| Proceeds from sale of investments | <u>694,000</u> | <u>694,000</u> | <u>694,000</u> |
| Net cash provided by investing activities | <u>\$ 26,075</u> | <u>\$ 13,229</u> | <u>\$ 16,065</u> |

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Statements of Cash Flows - Restricted and Unrestricted Funds (Continued)
Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---|---------------------|-------------------|-------------------|
| Cash flows from non-capital financing activities | | | |
| Net proceeds from unexpended grant | \$ (40,625) | \$ 40,625 | \$ -0- |
| Net cash provided by non-capital financing activities | <u>(40,625)</u> | <u>40,625</u> | <u>-0-</u> |
| Cash flows from capital and related financing activities: | | | |
| Principal payments on long-term debt | (22,171) | (23,500) | (9,041) |
| Interest expense on long-term debt | (10,678) | (8,826) | (3,492) |
| Acquisition of capital assets | (46,970) | (2,264) | (10,558) |
| Proceeds from certificates of indebtedness | 100,000 | -0- | -0- |
| Capitalization of organizational cost | <u>-0-</u> | <u>-0-</u> | <u>(18,630)</u> |
| Net cash used by capital and related financing activities | <u>20,181</u> | <u>(34,590)</u> | <u>(41,721)</u> |
| Net increase (decrease) in cash and cash equivalents | 385,479 | 547,753 | (831,427) |
| Cash and cash equivalents, beginning of year | <u>782,193</u> | <u>234,440</u> | <u>1,065,867</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,167,672</u> | <u>\$ 782,193</u> | <u>\$ 234,440</u> |

The Hospital entered into various capital lease obligations for \$84,650 and \$27,204 in 1997 and 1996, respectively.

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

The Allen Parish Hospital Service District No. 3 (the "Hospital" or the "District") was created by an ordinance of the Allen Parish Police Jury.

The Hospital is a political subdivision of the Allen Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Allen Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Allen Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Allen 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"), acute inpatient and psychiatric hospital services. The District began offering home health services during the year ended June 30, 1996.

Hospital Land

The land on which the Hospital was built was donated by Powell Lumber Company to Allen Parish Hospital Service District No. 3. The donation was made with the restriction that the land is to be used primarily as a site for a public hospital and should the donee or their successors or assignees fail to use the land for a public hospital, the title shall revert to Powell Lumber Company.

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.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting

The Hospital uses the accrual method of accounting. Revenue is recorded when earned and expenses are recorded when incurred. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking, money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities of more than 90 days are classified as investments. Cash and cash equivalents 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.

Credit Risk

The District provides medical care primarily to Allen 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 Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the hospital's patients.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Third Party Cost-Based Revenues

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

Inventory

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

Income Taxes

The entity is a political subdivision and exempt from taxation.

Property, Plant and Equipment

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

| | |
|-------------------------|----------------|
| Buildings | 12 to 40 years |
| Machinery and Equipment | 3 to 20 years |
| Furniture and Fixtures | 3 to 20 years |

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

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

Changes in Reporting Classification

The classification of certain prior year amounts have been changed to reflect consistent reporting when compared to current year balances. The financial statement format has been changed to reflect changes in the AICPA Audit and Accounting Guide - Health Care Organizations, issued May 1, 1998.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 3 - DEPOSITS

Included in cash and cash equivalents, investments and assets whose use is limited are cash on hand, deposits with the depository banks for money market accounts, checking accounts and certificates of deposit. For all deposits, the market value and carrying value are the same. The deposits are insured by the FDIC and collateral held by the pledging financial institution's trust departments in the District's name.

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---------------------------------|-------------------|-------------------|-------------------|
| Net patient accounts receivable | \$ 774,696 | \$ 896,429 | \$ 1,180,617 |
| Other receivables | <u>4,897</u> | <u>3,164</u> | <u>3,195</u> |
| | 779,593 | 899,593 | 1,183,812 |
| Estimated uncollectibles | <u>(235,942)</u> | <u>(215,530)</u> | <u>(267,000)</u> |
| Total | \$ <u>543,651</u> | \$ <u>684,063</u> | \$ <u>916,812</u> |

The Hospital generated a substantial portion of its charges from Medicare and Medicaid programs at discounted rates. The following is a summary of gross Medicare and Medicaid patient charges:

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|-------------------------|---------------------|---------------------|---------------------|
| Medicare patients | \$ 4,114,686 | \$ 3,922,748 | \$ 2,715,052 |
| Medicaid patients | <u>2,299,925</u> | <u>1,605,182</u> | <u>3,045,661</u> |
| Total | \$ <u>6,414,611</u> | \$ <u>5,527,930</u> | \$ <u>5,760,713</u> |
| Percent of all patients | <u>78%</u> | <u>79%</u> | <u>78%</u> |

Medicaid disproportionate share payments in the amount of \$176,562, \$92,598, and \$236,113 have been included in net revenues for the periods ended June 30, 1998, 1997 and 1996, respectively. Calculations are based upon oral interpretations by Louisiana Medicaid officials of existing Medicaid regulations. Final interpretations and audit determinations could result in changes.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT.

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 1998.

| | June 30, <u>1997</u> | <u>ASSET COST</u> | | June 30, <u>1998</u> |
|--------------------------|-------------------------|-------------------|---------------|-------------------------|
| | | Additions | Deductions | |
| Land | \$ 19,550 | \$ -0- | \$ -0- | \$ 19,550 |
| Land improvements | 29,002 | -0- | -0- | 29,002 |
| Buildings | 1,300,233 | -0- | -0- | 1,300,233 |
| Fixed equipment | 58,519 | -0- | -0- | 58,519 |
| Major movable equipment | 1,060,740 | 41,232 | -0- | 1,101,972 |
| Construction in progress | <u>-0-</u> | <u>5,738</u> | <u>-0-</u> | <u>5,738</u> |
| Total | <u>\$ 2,468,044</u> | <u>\$ 46,970</u> | <u>\$ -0-</u> | <u>\$ 2,515,014</u> |

| | June 30, <u>1997</u> | <u>ACCUMULATED DEPRECIATION</u> | | June 30, <u>1998</u> |
|-------------------------|-------------------------|---------------------------------|---------------|-------------------------|
| | | Additions | Deductions | |
| Land improvements | \$ 25,558 | \$ 1,026 | \$ -0- | \$ 26,584 |
| Buildings | 679,890 | 33,388 | -0- | 713,278 |
| Fixed equipment | 38,897 | 2,670 | -0- | 41,567 |
| Major movable equipment | <u>873,483</u> | <u>51,647</u> | <u>-0-</u> | <u>925,130</u> |
| Total | <u>\$ 1,617,828</u> | <u>\$ 88,731</u> | <u>\$ -0-</u> | <u>\$ 1,706,559</u> |

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 1997.

| | June 30, <u>1996</u> | <u>ASSET COST</u> | | June 30, <u>1997</u> |
|-------------------------|-------------------------|-------------------|---------------|-------------------------|
| | | Additions | Deductions | |
| Land | \$ 19,550 | \$ -0- | \$ -0- | \$ 19,550 |
| Land improvements | 29,002 | -0- | -0- | 29,002 |
| Buildings | 1,300,233 | -0- | -0- | 1,300,233 |
| Fixed equipment | 58,519 | -0- | -0- | 58,519 |
| Major movable equipment | <u>973,826</u> | <u>86,914</u> | <u>-0-</u> | <u>1,060,740</u> |
| Total | <u>\$ 2,381,130</u> | <u>\$ 86,914</u> | <u>\$ -0-</u> | <u>\$ 2,468,044</u> |

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

| | June 30, <u>1996</u> | <u>ACCUMULATED DEPRECIATION</u> | | June 30, <u>1997</u> |
|-------------------------|-------------------------|---------------------------------|---------------|-------------------------|
| | | Additions | Deductions | |
| Land improvements | \$ 23,985 | \$ 1,573 | \$ -0- | \$ 25,558 |
| Buildings | 646,502 | 33,388 | -0- | 679,890 |
| Fixed equipment | 36,227 | 2,670 | -0- | 38,897 |
| Major movable equipment | <u>823,330</u> | <u>50,153</u> | <u>-0-</u> | <u>873,483</u> |
| Total | <u>\$ 1,530,044</u> | <u>\$ 87,784</u> | <u>\$ -0-</u> | <u>\$ 1,617,828</u> |

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 1996.

| | June 30, <u>1995</u> | <u>ASSET COST</u> | | June 30, <u>1996</u> |
|-------------------------|-------------------------|-------------------|---------------|-------------------------|
| | | Additions | Deductions | |
| Land | \$ 19,550 | \$ -0- | \$ -0- | \$ 19,550 |
| Land improvements | 29,002 | -0- | -0- | 29,002 |
| Buildings | 1,298,930 | 1,303 | -0- | 1,300,233 |
| Fixed equipment | 58,519 | -0- | -0- | 58,519 |
| Major movable equipment | <u>937,367</u> | <u>36,459</u> | <u>-0-</u> | <u>973,826</u> |
| Total | <u>\$ 2,343,368</u> | <u>\$ 37,762</u> | <u>\$ -0-</u> | <u>\$ 2,381,130</u> |

| | June 30, <u>1995</u> | <u>ACCUMULATED DEPRECIATION</u> | | June 30, <u>1996</u> |
|-------------------------|-------------------------|---------------------------------|---------------|-------------------------|
| | | Additions | Deductions | |
| Land improvements | \$ 22,411 | \$ 1,574 | \$ -0- | \$ 23,985 |
| Buildings | 613,129 | 33,373 | -0- | 646,502 |
| Fixed equipment | 33,557 | 2,670 | -0- | 36,227 |
| Major movable equipment | <u>775,691</u> | <u>47,639</u> | <u>-0-</u> | <u>823,330</u> |
| Total | <u>\$ 1,444,788</u> | <u>\$ 85,256</u> | <u>\$ -0-</u> | <u>\$ 1,530,044</u> |

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 Allen Parish Hospital
 Notes to Financial Statements
 Years Ended June 30, 1998, 1997 and 1996

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

A summary of assets held under capital leases, which are included in property, plant and equipment, at June 30 follows:

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|--------------------------|------------------|-------------------|------------------|
| Equipment | \$ 123,333 | \$ 128,433 | \$ 52,385 |
| Accumulated depreciation | <u>(39,673)</u> | <u>(21,379)</u> | <u>(6,728)</u> |
| Total | <u>\$ 83,660</u> | <u>\$ 107,054</u> | <u>\$ 45,657</u> |

NOTE 6 - ORGANIZATIONAL COSTS

Organizational costs represent expenditures, less amortization, related to the start-up of the home health services. Straight-line amortization over 60 months began in November 1995, upon inception of the new services.

NOTE 7 - ASSETS LIMITED AS TO USE

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited is summarized in the following table. Investments are stated at cost that approximates market.

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---|-------------------|-------------------|-------------------|
| Under malpractice funding arrangement - held by trustee: | | | |
| Certificates of deposit | <u>\$ 125,000</u> | <u>\$ 125,000</u> | <u>\$ 125,000</u> |

NOTE 8 - ACCRUED EXPENSES

A summary of accrued expenses follows:

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---------------|------------------|------------------|------------------|
| Salaries | \$ 72,516 | \$ 64,675 | \$ 55,115 |
| Payroll taxes | 2,503 | 846 | 4,543 |
| Other | <u>320</u> | <u>224</u> | <u>-0-</u> |
| Total | <u>\$ 75,339</u> | <u>\$ 65,745</u> | <u>\$ 59,658</u> |

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 Allen Parish Hospital
 Notes to Financial Statements
 Years Ended June 30, 1998, 1997 and 1996

NOTE 9 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30, 1998, 1997 and 1996, follows:

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|--|-------------------|------------------|------------------|
| 5.05 percent Certificates of Indebtedness, Series 1998, due March 1, 2007, collateralized by a pledge of tax revenues | \$ 100,000 | \$ -0- | \$ -0- |
| 9.00 percent note payable due September 30, 2011, unsecured | <u>100,000</u> | <u>-0-</u> | <u>-0-</u> |
| Total long-term debt | 200,000 | -0- | -0- |
| Less current maturities of long-term debt | <u>20,122</u> | <u>-0-</u> | <u>-0-</u> |
| Long-term debt, net of current maturities | <u>\$ 179,878</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
| Capital lease obligations, at varying rates of imputed interest from 9.25 percent to 24.60 percent collateralized by leased equipment with a book value of \$89,684 at June 30, 1998 | \$ 81,780 | \$ 103,951 | \$ 42,801 |
| Less current portion of capital lease obligations | <u>23,930</u> | <u>22,470</u> | <u>13,098</u> |
| Capital lease obligations, excluding current portion | <u>\$ 57,850</u> | <u>\$ 81,481</u> | <u>\$ 29,703</u> |

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 Allen Parish Hospital
 Notes to Financial Statements
 Years Ended June 30, 1998, 1997 and 1996

NOTE 9 - LONG-TERM DEBT (Continued)

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

| <u>Year Ending June 30,</u> | <u>Long-Term Debt</u> | <u>Capital Lease Obligations</u> |
|---------------------------------|---------------------------|--------------------------------------|
| 1999 | \$ 20,122 | \$ 31,517 |
| 2000 | 13,170 | 31,315 |
| 2001 | 14,561 | 26,876 |
| 2002 | 14,989 | 6,041 |
| 2003 | 16,457 | -0- |
| Thereafter | <u>120,701</u> | <u>-0-</u> |
| | <u>\$ 200,000</u> | 95,749 |
| | | <u>13,969</u> |
| | | <u>\$ 81,780</u> |

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

NOTE 10 - 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 June 30, 1998, that have initial or remaining lease terms in excess of one year.

| <u>Year Ending June 30</u> | <u>Amount</u> |
|------------------------------|------------------|
| 1999 | \$ 18,516 |
| 2000 | <u>15,430</u> |
| Total minimum lease payments | <u>\$ 33,946</u> |

NOTE 11 - COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital charged operations for accrued paid days off and vested sick pay of \$33,912, \$39,555 and \$27,617 in 1998, 1997 and 1996, respectively. 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 Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 12 - PROFESSIONAL LIABILITY RISK

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

The District has acquired additional coverage for professional medical malpractice liability through a private insurance carrier by purchasing a claims-made policy.

NOTE 13 - 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 result in amounts which vary from the District's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third Party Reimbursement Programs (Note 4) - The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. Of particular significance are large Medicaid disproportionate payments which have been received, but are subject to change based upon audit results and regulatory interpretations. The amount of such adjustments cannot be determined.

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

Professional Liability Risk (Note 12) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

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

The District's management is aware that many older computer systems are unable to handle dates on or after January 1, 2000, causing existing equipment and software to be obsolete. The District's management is addressing the need and cost for upgrades and/or replacements with department heads and vendors. The cost of upgrades and/or replacements for all other computer hardware or software cannot be reasonably estimated at this time.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 14 - CHARITY CARE

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

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---|---------------|---------------|-------------------|
| Charges foregone, based on established rates | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>217,193</u> |
| Estimated costs and expenses incurred to provide charity care | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>128,496</u> |
| Equivalent percentage of charity care patients to all patients served | <u>-0-%</u> | <u>-0-%</u> | <u>2.96%</u> |

NOTE 15 - GRANTS

The District received a federal grant for \$50,000 commencing September 1996 and ending September 1997. The grant was for the Partial Hospitalization Program.

NOTE 16 - RELATED PARTY (JOINT VENTURE)

On April 1, 1995, the District entered into a joint venture with Evangeline Psychiatric Care, Inc. (EPC). As an equity interest, the District contributed the use of all of its assets and related liabilities as of March 31, 1995. EPC agreed to establish a line of credit for \$375,000 for its equity interest in the joint venture. The net profits and losses will be split 60/40 to EPC and the District, respectively.

The Hospital had the following transactions and balances with EPC.

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---|-------------------|-------------------|------------------|
| Beginning amount due from (to) EPC | \$ 245,673 | \$ 12,733 | \$ 21,763 |
| EPC's 60% share of (profits) or losses | 150,665 | 151,309 | (5,412) |
| Direct expenses incurred by EPC and payable by the District | (156,390) | (158,369) | (163,618) |
| Payments by the District to EPC | <u>250,000</u> | <u>240,000</u> | <u>160,000</u> |
| Ending amount due from (to) EPC | \$ <u>489,948</u> | \$ <u>245,673</u> | \$ <u>12,733</u> |

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Notes to Financial Statements
Years Ended June 30, 1998, 1997 and 1996

NOTE 17 - GOING CONCERN

There are conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the District's ability to continue as a going concern for a reasonable period of time. These conditions or events include, but are not limited to the following: (1) losses from operations of \$126,520, \$114,102 and \$12,457 in 1998, 1997 and 1996 respectively (2) low patient utilization of the Hospital (3) *future possible reductions in Medicare reimbursement due to the Balanced Budget Act of 1997* and (4) excess denials of claims by Medicare and Medicaid intermediaries.

Management's plans for dealing with the adverse effects of the conditions or events identified in the previous paragraph include, but are not limited to, the continued efforts to attract physicians to increase patient utilization of the hospital, expansion of the healthcare services, such as an outpatient rehabilitation program, wound management care and various procedures, and increased efforts to obtain grants for current and new programs.

SUPPLEMENTAL INFORMATION

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Net Patient Service Revenue
Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|--|---------------------|---------------------|---------------------|
| Routine services: | | | |
| Adult and pediatric | \$ 124,925 | \$ 173,665 | \$ 229,215 |
| Psychiatric | 3,422,047 | 2,689,239 | 4,194,180 |
| Swing-bed | <u>6,885</u> | <u>1,755</u> | <u>14,850</u> |
| Total routine services | <u>3,553,857</u> | <u>2,864,659</u> | <u>4,438,245</u> |
| Other professional services | | | |
| Radiology | 268,797 | 289,661 | 357,082 |
| Nuclear medicine | 25,551 | 28,019 | 285 |
| Laboratory | 676,999 | 597,775 | 722,067 |
| Blood | 17,933 | 15,288 | 8,143 |
| Respiratory therapy | 51,644 | 73,246 | 131,141 |
| Electrocardiology | 58,580 | 64,640 | 87,025 |
| Central supply | 229,903 | 259,700 | 213,386 |
| Intravenous therapy | 58,550 | 64,270 | 94,231 |
| Pharmacy | 388,463 | 301,612 | 461,445 |
| Partial day psychiatric | 1,257,299 | 437,139 | -0- |
| Emergency room | -0- | 5,400 | 58,560 |
| ER physician | -0- | 5,740 | 91,234 |
| Observation room | 4,230 | 11,510 | 15,000 |
| Contract physician | 216,063 | 341,959 | 355,047 |
| Home health visits | 1,408,200 | 1,631,080 | 301,525 |
| Kid med | <u>3,677</u> | <u>1,645</u> | <u>7,347</u> |
| Total other professional services | <u>4,665,889</u> | <u>4,128,684</u> | <u>2,903,518</u> |
| Gross patient service revenues | <u>8,219,746</u> | <u>6,993,343</u> | <u>7,341,763</u> |
| Contractual adjustments | 3,372,198 | 2,594,307 | 2,860,382 |
| Medicaid disproportionate share payments | (176,562) | (92,598) | (236,113) |
| Discounts | 62,542 | 33,118 | 30,165 |
| Uncompensated services - Hill Burton program | -0- | -0- | 15,948 |
| Uncompensated services - Free Care plan | <u>-0-</u> | <u>-0-</u> | <u>201,245</u> |
| Total deductions from revenue | <u>3,258,178</u> | <u>2,534,827</u> | <u>2,871,627</u> |
| Net patient service revenue | <u>\$ 4,961,568</u> | <u>\$ 4,458,516</u> | <u>\$ 4,470,136</u> |

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 Allen Parish Hospital
 Other Operating Revenue
 Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---------------------------------------|-----------------------|-----------------------|----------------------|
| Meals | \$ 7,648 | \$ 9,606 | \$ 13,082 |
| Medical records transcript fees | 2,198 | 2,409 | 862 |
| Miscellaneous rental | 7,800 | 7,800 | 7,150 |
| Related party 60% loss (income) share | 150,665 | 151,309 | (5,412) |
| Supplies sold to employees | -0- | 364 | 80 |
| Drugs sold to employees | 701 | 844 | 716 |
| Other income | <u>73,175</u> | <u>15,112</u> | <u>14,675</u> |
| Total other operating revenue | <u>\$ 242,187</u> | <u>\$ 187,444</u> | <u>\$ 31,153</u> |

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital
Schedule of Operating Expenses - Salaries and Benefits
Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|----------------------------------|-------------------------|-------------------------|-------------------------|
| Administration | \$ 179,691 | \$ 181,212 | \$ 182,048 |
| Plant operations and maintenance | 50,001 | 51,034 | 59,293 |
| Housekeeping | 36,420 | 35,965 | 36,598 |
| Dietary and cafeteria | 77,835 | 77,531 | 83,162 |
| Central supply | 13,507 | 16,846 | 8,812 |
| Pharmacy | 11,728 | 11,143 | 11,982 |
| Medical records | 30,826 | 33,200 | 35,636 |
| Nursing services, acute care | 231,770 | 275,028 | 328,697 |
| Psychiatric unit | 561,319 | 591,811 | 715,300 |
| Radiology | 57,458 | 59,509 | 61,457 |
| Laboratory | -0- | 23,424 | 111,607 |
| Partial day psychiatric | 86,979 | 43,067 | -0- |
| Home health | 71,405 | -0- | -0- |
| Contract physician | <u>220,469</u> | <u>242,399</u> | <u>365,713</u> |
| Total salaries | <u>1,629,408</u> | <u>1,642,169</u> | <u>2,000,305</u> |
| Payroll taxes | <u>120,819</u> | <u>123,395</u> | <u>156,305</u> |
| Total salaries and benefits | <u>\$ 1,750,227</u> | <u>\$ 1,765,564</u> | <u>\$ 2,156,610</u> |

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 Allen Parish Hospital
 Schedule of Operating Expenses - Other Expenses
 Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|----------------------------|-------------------------|-------------------------|-------------------------|
| Professional fees | \$ 1,243,934 | \$ 1,419,202 | \$ 895,785 |
| Management fees | 401,318 | 302,293 | 138,957 |
| Miscellaneous service fees | 44,559 | 30,567 | 23,410 |
| Legal and accounting | 71,267 | 77,176 | 88,384 |
| Supplies | 334,051 | 334,358 | 348,664 |
| Repairs and maintenance | 36,227 | 34,343 | 41,914 |
| Telephone | 56,147 | 53,925 | 58,186 |
| Utilities | 65,254 | 70,587 | 70,066 |
| Travel | 53,811 | 32,146 | 30,738 |
| Rentals | 76,941 | 69,207 | 87,374 |
| Dues and subscriptions | 16,131 | 14,216 | 13,145 |
| Governing board | 1,920 | 2,280 | 2,280 |
| Miscellaneous | <u>136,455</u> | <u>16,003</u> | <u>21,179</u> |
| Total revenue | <u>\$ 2,538,015</u> | <u>\$ 2,456,303</u> | <u>\$ 1,820,082</u> |

Hospital Service District No. 3
 Of the Parish of Allen, State of Louisiana
 Allen Parish Hospital
 Schedule of Per Diem and
 Other Compensation Paid to Board Members
 Years Ended June 30, 1998, 1997 and 1996

| | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|---------------------|---------------------|---------------------|---------------------|
| Board Members: | | | |
| Mr. E. O. Alexander | \$ 360 | \$ 440 | \$ 440 |
| Mr. Jimmy Savoie | 320 | 320 | 400 |
| Mr. Alvin Klein | N/A | 360 | 280 |
| Ms. Francis Cannon | N/A | N/A | 160 |
| Mr. Cecil Ashford | 360 | 360 | 440 |
| Mr. Johnny Savant | 280 | 320 | 80 |
| Mr. Charles Buck | <u>200</u> | <u>40</u> | <u>N/A</u> |
| Total | <u>\$ 1,520</u> | <u>\$ 1,840</u> | <u>\$ 1,800</u> |

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

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

We have audited the general purpose financial statements of the Allen Parish Hospital Service District No. 3 (the "District"), as of and for the years ended June 30, 1998, 1997 and 1996, and have issued our report thereon dated October 21, 1998. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District, in a separate letter dated October 21, 1998.

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Page Two

This report is intended for the information of the Board of Commissioners, management and the office of the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Easley, Lester & Wells
Certified Public Accountants

October 21, 1998

Allen Parish Hospital
Auditor's Comments and Recommendations
Year ended June 30, 1998

1997 Internal Control Findings and Recommendations

1. Finding: The District's deposits with one financial institution exceeded the FDIC insurance limit and the securities pledged in the name of the District during various times of the year because the deposits were not being monitored.

Recommendation: We recommend the District monitor the deposits on a monthly basis as part of the bank reconciliation task.

Response: The District will monitor the bank deposits and balances on a monthly basis and take the appropriate action regarding securities pledged in the name of the District.

Resolution: This matter has been resolved.

2. Finding: During last year's audit, we recommended entering into negotiations to revise the existing home health contract to have more definite payment terms and duties which are auditable by the District's management. While the hospital has entered into negotiations, no agreement has been reached to finalize the contract.

Recommendation: We recommend continued efforts in finalizing a new home health contract.

Response: The Hospital expects a signed agreement by December 31, 1997.

Resolution: This matter has been resolved.

3. Finding: Over half of the Medicare partial day psychiatric claims filed as of year end have been denied by the Medicare intermediary.

Recommendation: We recommend the District establish an effective utilization review to reduce future denials. We also recommend contacting legal counsel about management company services and the partial day psychiatric program operation.

Response: Consultants have been hired to establish an effective utilization program for the partial day program. The hospital has notified the management company of intent to explore options in the contract regarding denials.

Resolution: This matter has not been resolved.

Allen Parish Hospital
Auditor's Comments and Recommendations (Continued)
Year Ended June 30, 1998

4. Finding: For the past two years we have recommended the appeal of Medicaid denied claims based on medical inappropriateness. We have also recommended establishing an effective utilization review to reduce future claims from becoming denied. The District is still experiencing a material number of claims being denied based on medical inappropriateness.

Recommendation: We recommend continued efforts on the appeals and establishing an effective utilization review.

Response: The facility's attorney is pursuing the appeals process regarding denied claims. Facility employees have been trained on more effective utilization review and will continue to follow the appropriate procedures for the review and appeal process.

Resolution: This matter has not been resolved.

Allen Parish Hospital
Auditor's Comments and Recommendations
Year Ended June 30, 1998

1998 Internal Control Findings and Recommendations

1. **Finding:** During our test of expenses, we requested various contracts in which management was unable to provide.

Recommendation: We recommend that management review all contracts to insure that the amounts paid by the District agree with the contractual terms.

Response: The District is working to obtain current copies of all existing contracts.

2. **Finding:** Medicare and Medicaid denied charges are listed as covered charges on the District's logs which are used in accumulating data for Medicare and Medicaid cost reporting.

Recommendation: We recommend the District report denied charges as noncovered charges by department on the logs.

Response: Facility employees have been instructed to report denied charges from as noncovered charges on the logs.

3. **Finding:** The District is making excessive payments to Evangeline Psychiatric Care, Inc. ("EPC") based on the joint venture agreement as presented in Note 16.

Recommendation: We recommend the District decrease payments to EPC to agree with the history of direct expenses incurred by EPC and collect the amount due to the District and/or re-negotiate the terms of the joint venture.

Response: Due to unresolved issues in the joint venture agreement, management will negotiate an addendum to the agreement between the two parties.