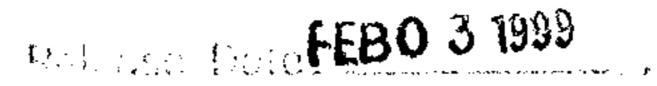


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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with GOVERNMENT AUDITING STANDARDS	3

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Marvin H. Easley, CPA Bobby G. Lester, CPA John S. Wells, CPA Robert G. Miller, CPA Paul A. Delaney, CPA

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Melissa L. Henry, CPA William C. Huddleston II, CPA Paul G. Mathews, CPA

EASLEY, LESTER AND WELLS

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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 <u>Government Auditing Standards</u>, 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 <u>Governmental Auditing Standards</u>, 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.

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

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.

Earley, Jutte of Welle

Certified Public Accountants

October 21, 1998

EASLEY, LESTER AND WELLS

A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS.

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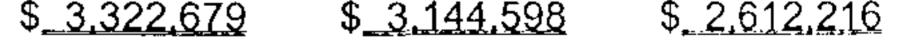
Hospital Service District No. 3 Of the Parish of Allen, State of Louisiana Allen Parish Hospital Balance Sheets - Restricted and Unrestricted Funds June 30, 1998, 1997, and 1996

Assets	<u>1998</u>	1997	1996
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	8,000	8,000	
Total current assets	_2,380,530	_2,156,962	_1.619.984

Property, plant and equipment, net (Note 5) Assets limited as to use (Note 7) Other assets	808,455 125,000 8,694	850,216 125,000 <u>12,420</u>	851,086 125,000 <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) Accounts payable and accrued expenses Estimated Medicare and Medicaid program	\$ 44,052 1,474,871	\$ 22,470 1,386,775	\$ 13,098 855,295
settlements (Note 4)	53,226	0	-0-
Total current liabilities	<u> 1,572,149</u>	1,409,245	868,393
Long-term debt, net of current maturities (Note 9)	237,728	81,481	29,703
Total liabilities	_1,809,877	1.490.726	898,096
Fund balance: Unrestricted Temporarily restricted	1,512,802 	1,613,247 40,625	1,714,120
Total fund balance	_1,512,802	<u>1,653,872</u>	1,714,120
Total liabilities and fund balance	\$ 3 300 670	¢ 2 144 508	¢ 2612216

Total liabilities and fund balance

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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

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	1998	<u>1997</u>	1996
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	242,187	187,444	31,153
Total revenue	_5,288,502	4,646,048	4,576,601
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>	_1,820,082
Total expenses	5,415,022	_4,760,150	4,589,058
Operating income (loss)	(126,520)	(114,102)	(12,457)
Nonoperating income			
Interest income	26,075	13,229	16,065
Excess of revenues over expenses	\$ <u>(100,445</u>)	\$ <u>(100.873</u>)	\$ <u>3,608</u>

See accompanying notes to financial statements.

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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

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

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See accompanying notes to financial statements.



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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

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	<u>1998</u>	<u>1997</u>	1996
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	88,096	<u>531,480</u>	(80,502)
Net cash provided by operating activities	379.848	528,489	(805,771)
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	694,000	694,000	694.000
Net cash provided by investing activities	\$ <u>26.075</u>	\$_ <u>13,229</u>	\$16.065

See accompanying notes to financial statements.



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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>	1996
Cash flows from non-capital financing activities Net proceeds from unexpended grant	\$ <u>(40,625</u>)	\$ <u>40,625</u>	\$
Net cash provided by non-capital financing activities	<u>(40,625)</u>	<u> 40,625</u>	<u>-Q-</u>
Cash flows from capital and related financing activities: Principal payments on long-term debt Interest expense on long-term debt Acquisition of capital assets Proceeds from certificates of indebtedness Capitalization of organizational cost	(22,171) (10,678) (46,970) 100,000 0-	(23,500) (8,826) (2,264) -0- _0-	(9,041) (3,492) (10,558) -0- (18,630)

Net cash used by capital and related financing activities	20,181	(34,590)	(41.721)
Net increase (decrease) in cash and cash equivalents	385,479	547,753	(831,427)
Cash and cash equivalents, beginning of year	782,193	234,440	1,065,867
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 obliga respectively.	ations for \$84,650 a	and \$27,204 in 19	97 and 1996,

See accompanying notes to financial statements.

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NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

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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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting

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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.

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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

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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.

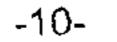
Buildings	12 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

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.



NOTE 3 - DEPOSITS

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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:

1996

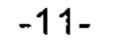
Net patient accounts receivable Other receivables	\$ 774,696 <u>4,897</u> 779,593	\$896,429 <u>3,164</u> 899,593	\$ 1,180,617 <u>3,195</u> 1,183,812
Estimated uncollectibles	<u>(235,942</u>)	<u>(215,530</u>)	(267,000)
Total	\$ <u>543,651</u>	\$ <u>684,063</u>	\$ <u>916.812</u>

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>	1997	1996
Medicare patients Medicaid patients	\$ 4,114,686 	\$ 3,922,748 _ <u>1,605,182</u>	\$ 2,715,052 _ <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.



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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.

		ASSET	COST	
	June 30, _ <u>1997</u> _	Additions	Deductions	June 30, <u>1998</u>
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	-0-	<u> </u>	-0-	5,738

Total

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\$<u>2.468.044</u> \$<u>46.970</u> \$<u>-0-</u> \$<u>2.515.014</u>

	E			
	June 30, _ <u>1997</u> _	Additions	Deductions	June 30, _ <u>1998</u> _
Land improvements Buildings Fixed equipment Major movable equipment	\$25,558 679,890 38,897 <u>873,483</u>	\$ 1,026 33,388 2,670 51,647	\$-0- -0- -0- -0-	\$26,584 713,278 41,567 <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.

	ASSET COST			
	June 30, _ <u>1996</u> _	Additions	Deductions	June 30, _ <u>1997_</u>
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	973,826	86,914	-0-	_1,060,740
Total	\$ <u>2,381,130</u>	\$ <u>86,914</u>	\$ <u>-0-</u>	\$ <u>2,468,044</u>



NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

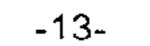
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	ACCUMULATED DEPRECIATION			
	June 30, _ <u>1996</u> _	Additions	Deductions	June 30, _ <u>1997_</u>
Land improvements Buildings Fixed equipment Major movable equipment	\$23,985 646,502 36,227 <u>823,330</u>	\$ 1,573 33,388 2,670 <u>50,153</u>	\$-0- -0- -0- 0-	\$25,558 679,890 38,897 <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.

		ASSET	COST	
	June 30, _ <u>1995_</u>	Additions	Deductions	June 30, _ <u>1996</u> _
Land Land improvements Buildings Fixed equipment Major movable equipment	\$ 19,550 29,002 1,298,930 58,519 <u>937,367</u>	\$-0- -0- 1,303 -0- <u>36,459</u>	\$-0- -0- -0- -0- -0-	\$ 19,550 29,002 1,300,233 58,519 <u>973,826</u>
Total	\$ <u>2.343.368</u>	\$ <u>37.762</u>	\$ <u>-0-</u>	\$ <u>2.381.130</u>
	A June 30,	CCUMULATED	DEPRECIATION	June 30,
	1995	Additions	Deductions	_1996_
Land improvements Buildings Fixed equipment Major movable equipment	\$22,411 613,129 33,557 <u>775,691</u>	\$ 1,574 33,373 2,670 <u>47,639</u>	\$-0- -0- -0- -0-	\$23,985 646,502 36,227 823,330
Total	\$ <u>1,444,788</u>	\$ <u>85,256</u>	\$ <u>-0-</u>	\$ <u>1,530,044</u>



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

NOTE 6 - ORGANIZATIONAL COSTS

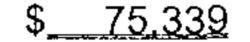
Organizational costs represent expenditures, less amortization, related to the start-up of the home health services. Straight-line amortization over 60 months began in November 1995, upon inception of the new services.

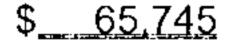
NOTE 7 - ASSETS LIMITED AS TO USE

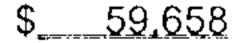
Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited is summarized in the following table. Investments are stated at cost that approximates market.

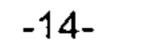
	1998	<u>1997</u>	1996
Under malpractice funding arrangement - held by trustee: Certificates of deposit	\$ <u>125,000</u>	\$ <u>125,000</u>	\$ <u>125.000</u>
NOTE 8 - ACCRUED EXPENSES			
A summary of accrued expenses follows:			
	<u>1998</u>	<u>1997</u>	1996
Salaries Payroll taxes Other	\$ 72,516 2,503 <u> </u>	\$ 64,675 846 224	\$











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NOTE 9 - LONG-TERM DEBT

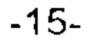
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A summary of long-term debt, including capital lease obligations, at June 30, 1998, 1997 and 1996, follows:

	<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	100,000	-0-	<u>-0-</u>
Total long-term debt	200,000	-0-	-0-
Less current maturities of long-term debt	20,122	-0-	<u>-0-</u>
Long-term debt, net of current maturities	\$ <u>179.878</u>	\$	\$ <u>0-</u>
	<u>1998</u>	<u>1997</u>	1996
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	23,930	22.470	13,098
Capital lease obligations, excluding current portion	\$ <u>57,850</u>	\$ <u>81,481</u>	\$ <u>29,703</u>



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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:

Year Ending	Long-Term Debt	Capital Lease Obligations	
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	120,701	Q-	
	\$ <u>200,000</u>	95,749	

Total

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\$<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.

Year Ending June 30	Amount
1999 2000	\$ 18,516 _ <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.

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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

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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 logal determinations in these eaces where a lightitus can be massured.

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.

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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>	1996
Charges foregone, based on established rates	\$\$	\$ <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>

all patients served

NOTE 15 - GRANTS

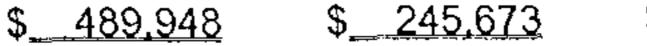
The District received a federal grant for \$50,000 commencing September 1996 and ending September 1997. The grant was for the Partial Hospitalization Program.

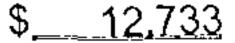
NOTE 16 - RELATED PARTY (JOINT VENTURE)

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.

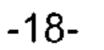
The Hospital had the following transactions and balances with EPC.

	<u>1998</u>	<u>1997</u>	1996
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	250,000	240.000	160,000





Ending amount due from (to) EPC



NOTE 17 - GOING CONCERN

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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.



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SUPPLEMENTAL INFORMATION

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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

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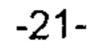
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	<u>1998</u>	<u>1997</u>	<u>1996</u>
Routine services:			A AAAAAAAAAAAAA
Adult and pediatric	\$ 124,925	\$ 173,665	\$ 229,215
Psychiatric	3,422,047	2,689,239	4,194,180
Swing-bed	<u> 6,885</u>	<u> </u>	14,850
Total routine services	3,553,857	<u>2,864,659</u>	<u>4,438,245</u>
Other professional services		000.004	267 000
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	3,677	<u> 1,645</u>	<u> </u>
Total other professional services	4,665,889	4,128,684	<u>2,903,518</u>
Gross patient service revenues	<u>8,219,746</u>	<u>6,993,343</u>	7,341,763
Orntractual adjustments	3,372,198	2,594,307	2,860,382
Contractual adjustments Medicaid disproportionate share payments	(176,562)	(92,598)	(236,113)
	62,542	33,118	30,165
Discounts Uncompensated services - Hill Burton program	-0-	-0-	15,948
Uncompensated services - Free Care plan	-0-	-0-	201,245
Total deductions from revenue	<u>3,258,178</u>	2,534,827	<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

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	<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		73,175		15,112		14,675
Total other operating revenue	\$	<u>242,187</u>	\$	<u>187,444</u>	\$ <u>.</u>	<u>31,153</u>



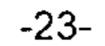
Hospital Service District No. 3 Of the Parish of Allen, State of Louisiana Allen Parish Hospital Schedule of Operating Expenses - Salaries and Benefits Years Ended June 30, 1998, 1997 and 1996

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	<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	220,469	242,399	<u> </u>	
Total salaries	<u>1,629,408</u>	1,642,169	2,000,305	
Payroll taxes	120,819	<u> 123,395</u>	156,305	
Total salaries and benefits	\$ <u>1,750,227</u>	\$ <u>1,765,564</u>	\$ <u>2,156,610</u>	



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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
Rentais	76,941	69,207		87,374
Dues and subscriptions	16,131	14,216		13,145
Governing board	1,920	2,280		2,280
Miscellaneous	136,455	16,003	_ ,	21,179

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Total revenue

\$<u>2,538,015</u> \$<u>2,456,303</u> \$<u>1,820,082</u>

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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

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	<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>	\$	1.800



Marvin H. Easley, CPA Bobby G. Lester, CPA John S. Wells, CPA Robert G. Miller, CPA Paul A. Delaney, CPA

``

Melissa L. Henry, CPA William C. Huddleston II, CPA Paul G. Mathews, CPA

EASLEY, LESTER AND WELLS

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American Institute of CPA's Society of Louisiana CPA's

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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 <u>Government Auditing Standards</u>, 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 mataerial 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.

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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, Justu & Wills Certified Public Accountants

October 21, 1998

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EASLEY, LESTER AND WELLS

A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

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

1997 Internal Control Findings and Recommendations

1. <u>Finding</u>: 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.

 Einding: 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. <u>Einding</u>: Over half of the Medicare partial day psychiatric claims filed as of year end have been denied by the Medicare intermediary.

<u>Recommendation</u>: 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. <u>Finding</u>: 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.

<u>Response</u>: 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.

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

1998 Internal Control Findings and Recommendations

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

<u>Recommendation</u>: 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 renegotiate the terms of the joint venture.

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

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