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OUTPATIENT MEDICAL CENTER, INC.

NATCHITOCHEs, LOUISIANA

FINANCIAL STATEMENTS

AND

AUDITORS' REPORTS

FOR THE FISCAL YEAR ENDED

JANUARY 31, 1999

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

Release Date MAY 26 1999

OUTPATIENT MEDICAL CENTER, INC.
NATCHITOCHEE, LOUISIANA

FINANCIAL STATEMENTS AND AUDITORS' REPORTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

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DAUZAT, BEALL & DEBEVEC, CPAs

A PROFESSIONAL CORPORATION
INDEPENDENT AUDITORS' REPORT

Board of Directors
Outpatient Medical Center, Inc.
Natchitoches, Louisiana

We have audited the accompanying statement of financial position of Outpatient Medical Center, Inc. (a nonprofit organization) as of January 31, 1999, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Detailed accounts receivable records for private health insurance revenues and detailed property and equipment records were not reconcilable to control accounts and we were unable to confirm the accounts receivable amount of \$178,875 and the property and equipment amount of \$2,590,519 or to determine the amounts through alternative procedures. Therefore, we were not able to satisfy ourselves about the amounts at which private health insurance accounts receivable and the amounts at which property and equipment and the related accumulated depreciation are recorded in the accompanying Statement of Financial Position at January 31, 1999 and the amount of depreciation expense in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets for the year then ended.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Outpatient Medical Center, Inc. as of January 31, 1999, and the changes in net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 1999, on our consideration of Outpatient Medical Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Outpatient Medical Center, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Certified Public Accountants

April 21, 1999

**OUTPATIENT MEDICAL CENTER, INC.
NATCHITOCHEE, LOUISIANA**

**STATEMENT OF FINANCIAL POSITION
JANUARY 31, 1999**

	<u>Unrestricted General Fund</u>	<u>Temporarily Restricted WIC Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 25,850		\$ 25,850
Grants receivable		\$ 43,167	43,167
Patient Accounts receivable (net of estimated uncollectible amount of \$75,284)	281,054		281,054
Other Receivables	352,001		352,001
Due from WIC fund	109,466		109,466
Property and equipment Net of accumulated depreciation	<u>1,597,374</u>	_____	<u>1,597,374</u>
Total Assets	<u>\$2,365,745</u>	<u>\$ 43,167</u>	<u>\$2,408,912</u>
LIABILITIES AND NET ASSETS			
Accounts payable	\$ 63,383		\$ 63,383
Accrued payroll	91,469		91,469
Payroll taxes and withholding	9,116		9,116
Due to general fund		\$109,466	109,466
Accrued interest payable	5,774		5,774
Note Payable	300,193		300,193
Capital leases payable	<u>410,546</u>	_____	<u>410,546</u>
Total liabilities	880,481	109,466	989,947
NET ASSETS			
Unrestricted	1,485,264		1,485,264
Temporarily Restricted	_____	<u>(66,299)</u>	<u>(66,299)</u>
Total net assets	1,485,264	(66,299)	1,418,965
Total Liabilities and Net Assets	<u>\$2,365,745</u>	<u>\$ 43,167</u>	<u>\$2,408,912</u>

See Accompanying Notes to Financial Statements.

OUTPATIENT MEDICAL CENTER, INC.
NATCHITOCHEES, LOUISIANA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

	<u>Unrestricted</u> <u>General</u> <u>Fund</u>	<u>Temporarily</u> <u>Restricted</u> <u>WIC</u> <u>Fund</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Patient Service Revenue (net of contractual allowances)	\$ 1,087,677		\$ 1,087,677
RHI (Sect 330) Grant	1,877,043		1,877,043
WIC Grant		\$125,996	125,996
Third party cost reimbursement	110,234		110,234
Miscellaneous	<u>5,038</u>		<u>5,038</u>
Total revenues and other support	<u>3,079,992</u>	<u>125,996</u>	<u>3,205,988</u>
EXPENSES			
Salaries	1,695,856	88,604	1,784,460
Payroll taxes	126,003	6,797	132,800
Workman's compensation	9,555		9,555
Fringe benefits	22,717	1,887	24,604
Continuing medical education	15,691	402	16,093
Office supplies and expense	24,941	401	25,342
Medical drugs & supplies	112,285	1,924	114,209
Contractual services	343,707	51,041	394,748
Depreciation	108,445		108,445
Dues and subscriptions	907		907
Rent expense	58,281	3,473	61,754
Repairs and maintenance	17,810	50	17,860
Insurance	64,168		64,168
Professional services	19,184		19,184
Interest	53,523		53,523
Bad debt expense	23,588		23,588
Meals	1,478		1,478
Miscellaneous	93,859	5,421	99,280
Recruiting	3,784		3,784
Travel	24,633	1,977	26,610
Utilities and telephone	174,092		174,092
Other taxes	<u>53,336</u>		<u>53,336</u>
Total Expenses	<u>3,047,843</u>	<u>161,977</u>	<u>3,209,820</u>
INCREASE (DECREASE) IN NET ASSETS	32,149	(35,981)	(3,832)
NET ASSETS, BEGINNING OF PERIOD	1,276,006	(30,318)	1,245,688
PRIOR PERIOD ADJUSTMENTS	<u>177,109</u>		<u>177,109</u>
NET ASSETS, END OF PERIOD	<u>\$1,485,264</u>	<u>\$(66,299)</u>	<u>\$1,418,965</u>

See Accompanying Notes to Financial Statements.

**OUTPATIENT MEDICAL CENTER, INC.
NATCHITOCHEES, LOUISIANA**

**STATEMENT OF CASH FLOWS
JANUARY 31, 1999**

	<u>Unrestricted General Fund</u>	<u>Temporarily Restricted WIC Fund</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase (Decrease) in net assets	\$ 32,149	\$(35,981)	\$ (3,832)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operations			
Depreciation	108,445		108,445
Allowance for bad debt	23,588		23,588
Prior period adjustment	177,109		177,109
(Increase) Decrease in Operating Assets:			
Accounts Receivables	(184,330)	(33,650)	(217,980)
Due from Other Funds	(48,442)		(48,442)
Increase (Decrease) in Operating Liabilities:			
Accounts Payable	(84,931)		(84,931)
Accrued Payroll	52,620	(1,353)	51,267
Payroll taxes and withholding	(37,031)		(37,031)
Due to Other Funds		48,442	48,442
Accrued interest payable	<u>(8,961)</u>		<u>(8,961)</u>
Net Cash from Operating Activities	<u>30,216</u>	<u>(22,542)</u>	<u>7,674</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Equipment	<u>(74,780)</u>		<u>(74,780)</u>
Net Cash from Investing Activities	<u>(74,780)</u>		<u>(74,780)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan Proceeds - Note Payable	14,859		14,859
Loan Proceeds - Line of Credit	60,000		60,000
Principal payments on Note Payable	(18,813)		(18,813)
Principal payments on Capital Leases	<u>(48,212)</u>		<u>(48,212)</u>
Net Cash Flows from Financing Activities	<u>7,834</u>		<u>7,834</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,730)	(22,542)	(59,272)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>62,580</u>	<u>22,542</u>	<u>85,122</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 25,850</u>	<u>\$ -0-</u>	<u>\$ 25,850</u>

Supplemental Disclosure
Cash Paid for Interest

\$ 53,523

See Accompanying Notes to Financial Statements.

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) NATURE OF ACTIVITIES

Outpatient Medical Center, Inc., hereinafter referred to as the **Clinic**, was organized under the provisions of R.S. 1950, title 12, Chapter 2, as amended, State of Louisiana in December 1977, and recorded in the Non-Profit Corporations Book of the State of Louisiana.

The **Clinic** is organized to provide efficient and effective health care through the operation of a health delivery system designed to meet the medical needs of the community, i.e., early detection diagnosis, and treatment of illnesses and injuries; to facilitate an understanding of the desirability of initiating a program of preventive medicine; and to generally improve and promote the improvement of the community, civilly and socially. The **Clinic** provides comprehensive primary health care to area residents, with particular care for the socio-economically disadvantaged. The areas served are Tallulah, Leesville, Logansport and Natchitoches. The services are provided through outpatient clinics with a referral program, health education, and limited medical services for hospitalization.

The corporation is organized on a non-stock membership basis. Fifty-one (51%) percent of the members of the board are chosen by the population served. After the election of Board Members in December, the officers are seated at the next regularly scheduled meeting in January.

In December 1977, Congress passed the Rural Health clinic Services Act of 1977 (Public Law 95-210) to provide financial support for facilities using physician extenders to provide primary health care services in rural, medically underserved areas. The law authorized Medicare and Medicaid payments to qualified rural health clinics for covered health care services furnished by or under the direction of nurse practitioners and physician assistants. In order to qualify as a rural health clinic under Medicare and Medicaid, a facility must be under the general direction of a physician, be located in a rural area and operate in an area designated by the Department of Health and Human Services as having a shortage of personal health services, be engaged essentially in providing outpatient primary medical care, and *meet health and safety requirements prescribed by Medicare and Medicaid regulations.*

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the year ended January 31, 1999, the **Clinic's** operations were funded by a Community Health Service Rural Health Initiative (RHI) Grant awarded under Section 330 of the Public Health Services Act, as amended. Various restrictions are placed on expenditures of these funds. Reconciliations of used and unused funds are prepared at the end of the program year and the propriety of such funds is determined by the Department of Health and Human Services.

(B) REPORTING ENTITY

The accompanying financial statements of the **Clinic** presents the financial position and changes in net assets of the unrestricted fund and temporarily restricted fund. All activities of the **Clinic** are included in these financial statements.

Basis of Accounting

The financial statements of the **Clinic** have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

(C) FUND ACCOUNTING

The accounts of the **Clinic** are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. In accordance with SFAS No. 117, fund balances are classified on the statement of financial position as unrestricted and temporarily restricted net assets based on the absence or existence and type of donor-imposed restrictions.

Unrestricted

Accounts for resources that can be expended currently. This fund represents the part of net assets that have not been restricted for identified purposes by donors and grantors. Unrestricted net assets also include assets whose use is contractually limited.

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily Restricted

Accounts for the WIC Grant funds that can be expended currently, but only for a specified purpose designated by the grantor.

(D) BUDGETS

A budget outlining grant awards, program revenues and expenses is submitted prior to the start of each fiscal year for approval by the Department of Health and Human Services. Budget amendments and changes are allowed by prior approval from the Department of Health and Human Services.

(E) PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. Depreciation is provided in the financial statements over the estimated useful lives of the depreciable assets on the straight-line basis. The following estimated useful lives are generally used:

Building	40 years
Furniture and fixtures	5 - 20 years
Equipment	5 - 15 years

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

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

(F) COMPENSATED ABSENCES

Outpatient Medical Center's employee benefits for vacation and sick pay do not vest. Accordingly, no amounts are recorded in the financial statements.

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) TOTAL COLUMNS

Total columns on the financial statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

(H) UNCOLLECTIBLE ACCOUNTS

The **Clinic** estimates an allowance for uncollectible accounts receivable based on prior experience of management.

(I) CASH AND CASH EQUIVALENTS

For the purpose of the financial statements, the **Clinic** considers all demand deposits and time deposits with an initial maturity of three months or less to be cash equivalents.

(J) INCOME TAX STATUS

The **Clinic** is exempt from federal income tax under Section 501(C) (3) of the Internal Revenue code. However, income from certain activities not directly related to the **Clinic's** tax-exempt purpose is subject to taxation as unrelated business income. In addition, the **Clinic** qualifies for the charitable contribution deduction under Section 190(b) (1) (A) and has been classified as an organization that is not a private foundation under Section 509(a) (2).

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 2 CASH

All deposits were held in local banks and insured by the FDIC and secured by a pledge of securities owned by the fiscal agent bank on January 31, 1999, as follows:

Total deposits	\$ <u>91,634</u>
Total covered by FDIC insurance	\$ <u>91,634</u>

NOTE 3 PROPERTY AND EQUIPMENT

A summary of property and equipment and accumulated depreciation at January 31, 1999, is provided:

	Property and Equipment			Ending Balance
	Beginning Balance	Additions	Disposals	
Land	\$ 110,000			\$ 110,000
Building	1,597,820			1,597,820
Furniture & Equip.	793,669	\$54,921		848,590
Vehicles	<u>14,250</u>	<u>19,859</u>	<u> </u>	<u>34,109</u>
Totals	<u>\$2,515,739</u>	<u>\$74,780</u>	<u> </u>	<u>\$2,590,519</u>

	Accumulated Depreciation			Ending Balance
	Beginning Balance	Additions	Disposals	
Building	\$ 214,338	\$ 53,261		\$ 267,599
Furniture & Equip.	665,137	50,348		715,485
Vehicles	<u>5,225</u>	<u>4,836</u>	<u> </u>	<u>10,061</u>
Totals	<u>\$ 884,700</u>	<u>\$108,445</u>	<u> </u>	<u>\$ 993,145</u>

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 4 OTHER RECEIVABLES

Other receivables at January 31, 1999, consisted of the following:

Third party cost reimbursement	\$ 475,614
Miscellaneous receivables	138
Less: Allowance for disputed cost	<u>(123,751)</u>
Total	<u>\$ 352,001</u>

In accordance with Omnibus Budget Reconciliation Act of 1989 (OBRA 89) and 1990 (OMBRA 90), reimbursement policies for reasonable cost reimbursement were established for a certain set of Federally-Qualified Health Centers (FQHC) such as the **Clinic**, rather than reimbursement based upon allowable charges for each service provided. Medicaid reimbursement became effective April 1, 1990 and Medicare, October 1, 1991.

At January 31, 1999, amounts due from Medicare and Medicaid fiscal intermediaries were \$17,480 and \$458,134 respectively. These settlement amounts are subject to audit and adjustment by the fiscal intermediaries. The amounts have been reflected in the financial statements as receivables and revenues, net of an allowance for disputed costs.

NOTE 5 BOARD OF DIRECTORS

Each of the following directors served the **Clinic** without compensation:

Ms. Marylene Johnson	President
Mr. Bobby McIntosh	Vice President
Mr. Justice Mallard	Secretary
Ms. Diane Jones	Treasurer
Ms. Gertha Bolden	
Ms. Sharon Harris	
Ms. Rosia Humphrey	
Ms. Lue Kennedy	
Mr. James Calhoun	
Ms. Dawn Warren	
Mr. Dennis McGaskey	

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 6 CONTINGENCIES

The Outpatient Medical Center, Inc. evaluates contingencies based upon the best available evidence. The **Clinic** believes that no allowance for loss contingencies is considered necessary.

The principal contingencies are described below:

Grant Awards

The ability of the **Clinic's** continued operations is contingent upon continued funding from the Public Health Service.

Unobligated Federal Funds

The **Clinic's** grant funds, including amounts awarded for the current budget period, and estimated or actual unobligated federal funds carried over from prior budget periods are authorized for the **Clinic's** use only in the current budget period in the amount specified by the PHS awarding office in an approved budget on a Notice of Grant Award. As a result of carryovers of unobligated grant funds, the total amount of funds available in the grant account may exceed the federal share of the approved budget. Those funds are not automatically available to the **Clinic**. The PHS awarding office exercises sole discretion as to the use of those funds.

Grantor Agencies

Amounts received from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed expenses, including amounts already collected, may constitute a liability. The amount, if any, of expenses which may be disallowed cannot be determined at this time.

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 6 CONTINGENCIES (continued)

Capital Lease

The Clinic was in default on the Chemistry Analyzer lease as of January 31, 1999. The last monthly payment made was in June of 1997. The company that the Clinic signed the lease with, Anderson Funding Group, assigned its rights to First Texas Bank. On January 22, 1998, First Texas Bank filed a motion for judgment against the Clinic for breach of contract. The motion for judgement states that First Texas Bank demands judgement against the Clinic in the amount of \$49,391.71 plus interest at the daily rate of 12.3723% from December 4, 1997 until paid, plus the costs of this motion for judgement, plus attorney's fees of 33 1/3% of the total amount due. The lease balance is recorded in these financial statements.

NOTE 7 CAPITAL LEASES

The Clinic leases a modular building at the Tallullah site. Because the lease contains a bargain purchase option, the substance of the lease is that the Outpatient Medical Center, Inc. is financing the acquisition of the building through the lease, and, accordingly, it is recorded in the Clinic's assets and liabilities. The original cost of the property under capital lease at January 31, 1999 is as follows:

Modular Building	\$736,350
------------------	-----------

The following is a schedule of future minimum lease payments under capital lease, together with the present value of the net minimum lease payments, as of January 31, 1999:

YEAR ENDING JANUARY 31,	
2000	\$106,243
2001	106,243
2002	106,243
2003	106,243
2004	<u>53,123</u>
Total Minimum lease payments	478,095
Less - Amount representing interest	<u>(115,085)</u>
Present Value of Minimum lease payments	<u>\$363,010</u>

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 8 OPERATING LEASES

The **Clinic** provides health services in leased facilities located in Leesville and Logansport, Louisiana. The facilities are leased from two unrelated parties. The Leesville lease is a ten year lease, which began in November of 1997. The Logansport lease is a one year lease renewable by written notice. Rental expense for those leases was \$40,560 for the year ended January 31, 1999.

The required minimum future rental payments for the Leesville facility lease are as follows:

YEAR ENDING JANUARY 31,	
2000	\$ 28,800
2001	29,100
2002	30,000
2003	30,000
2004	30,300
After 2004	<u>118,200</u>
Total minimum future rental payments	<u>\$266,400</u>

NOTE 9 NOTES PAYABLE

The note payable obligations of the **Clinic** at January 31, 1999 are as follows:

8.50%, ten year note payable with the Exchange Bank and Trust Co.; payments of \$3,206 are due on the third of each month. The principal balance at January 31, 1999 is \$225,334.

10.4%, four year note payable with GMAC; payments of \$5219.86 are due on May 20 of each year. The principal balance at January 31, 1999 is \$14,859.

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 10 REVENUES

The **Clinic** operates principally from grants awarded by federal and state government and generates revenues through patient fee charges. The patient fee charges consisted of the following:

Medicare	\$ 114,281
Medicaid	568,498
Sliding Fee	842,319
Private Insurance	469,528
Other	21,876
Less: contractual adjustment	<u>(928,825)</u>
	<u>\$1,087,677</u>

NOTE 11 THIRD PARTY REIMBURSEMENT

In accordance with Omnibus Budget Reconciliation Act of 1989 (OBRA 89) and 1990 (OBRA 90), reimbursement policies for reasonable cost reimbursement were established for a certain set of Federally Qualified Health Centers (FQHC) such as the **Clinic**, rather than reimbursement based upon allowable charges for each service provided.

Settlement costs reports completed at year end are subject to audit and adjustment by intermediaries, in particular, United Government Services and Tri-Span.

NOTE 12 PRIOR PERIOD ADJUSTMENTS

Certain errors, resulting in both the overstatement and understatement of previously reported assets, liabilities and expenses of the prior year were corrected this year, resulting in the following changes to net assets as of January 31, 1998:

<u>Net Assets</u>	
As previously reported	\$1,276,006
Correction	<u>177,109</u>
As adjusted	<u>\$1,453,115</u>

OUTPATIENT MEDICAL CENTER, INC.
Natchitoches, Louisiana

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

NOTE 13 **FUNCTIONAL EXPENSE CLASSIFICATION**

In accordance with (FASB) NO. 117, the following table depicts all the expenses for the year ended January 31, 1999 in their functional categories.

	<u>GENERAL FUND</u>	<u>WIC FUND</u>	<u>TOTAL</u>
Program Services	\$ 826,633	\$ 83,969	\$ 910,602
Administrative	<u>2,221,210</u>	<u>78,008</u>	<u>2,299,218</u>
	<u>\$3,047,843</u>	<u>\$161,977</u>	<u>\$3,209,820</u>

NOTE 14 **PATIENT ACCOUNTS RECEIVABLE**

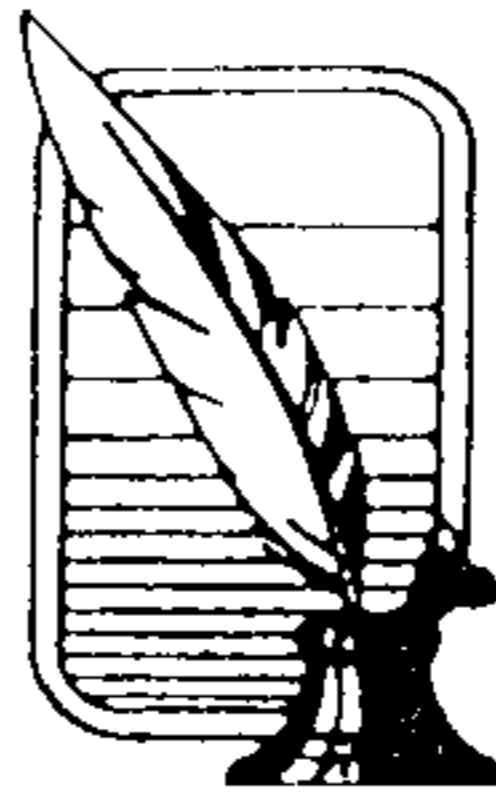
Accounts receivable at January 31, 1999 consisted of the following:

Medicare	\$ 27,983
Sliding Fee	88,569
Medicaid	60,911
Private Insurance	178,875
Less: Allowance for Uncollectibles	<u>(75,284)</u>
Total	<u>\$ 281,054</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*

Outpatient Medical Center, Inc.
Natchitoches, Louisiana

We have audited the financial statements of the Outpatient Medical Center, Inc. as of and for the year ended January 31, 1999, and have issued our report thereon dated April 21, 1999. We conducted our audit 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 Outpatient Medical Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned costs as items 99-1 and 99-2.

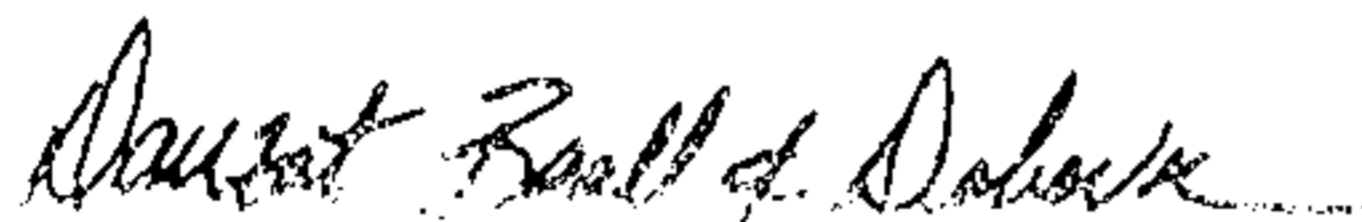
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Outpatient Medical Center, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Outpatient Medical Center, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition described in the accompanying Schedule of Findings and

Questioned Costs are items 99-3 and 99-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

This report is intended for the information of the Outpatient Medical Center, Inc.'s management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Dauzat, Beall & Debevec, CPA's, APC
Certified Public Accountants
April 21, 1999

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS



MEMBER
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

DAUZAT, BEALL & DEBEVEC, CPAs

A PROFESSIONAL CORPORATION

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Outpatient Medical Center, Inc.
Natchitoches, L.A.

Compliance

We have audited the compliance of the Outpatient Medical Center, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended January 31, 1999. The Outpatient Medical Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Outpatient Medical Center, Inc.'s management. Our responsibility is to express an opinion on the Outpatient Medical Center, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Outpatient Medical Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Outpatient Medical Center, Inc.'s compliance with those requirements.

In our opinion, the Outpatient Medical Center, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended January 31, 1999.

Internal Control Over Compliance

The management of the Outpatient Medical Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Outpatient Medical Center, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the Outpatient Medical Center, Inc.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 through 99-3.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

This report is intended for the information of the Outpatient Medical Center, Inc.'s management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Dauzat, Beall & Debevec, CPA's, APC
Certified Public Accountants
April 21, 1999

**OUTPATIENT MEDICAL CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JANUARY 31, 1999**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____yes <input checked="" type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes _____none reported
Noncompliance material to financial statements noted?	_____yes <input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____yes <input checked="" type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes _____no
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<input checked="" type="checkbox"/> yes _____no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.224	Community Health Center Rural Health Initiative Grant (RHI)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

Reportable Conditions

99-2 CONTRACT VIOLATIONS

Condition: We noted that the organization was in default under one of their capital leases.

Criteria: The lease contracts require that the organization make monthly payments under the terms of the agreement.

Questioned Costs: None

Effect: Defaulting on contract obligations will impair the organization's ability to obtain credit.

Recommendation: We recommend that the organization adhere to all requirements under contractual agreement.

99-3 MEDICAL SUPPLIES INVENTORY

Condition: The organization does not assign costs to the medical supplies inventory.

Criteria: Generally Accepted Accounting Principles require that inventory be disclosed in the financial statements at cost.

Questioned Costs: None

Effect: Assets are understated and expenses are overstated.

Recommendation: We recommend that the organization develop procedures to ensure that medical supplies are accurately recorded in the financial statements.

99-4 PRIVATE HEALTH INSURANCE ACCOUNTS RECEIVABLE

Condition: The private health insurance accounts receivable subsidiary journal was not maintained and did not agree to the general ledger.

Criteria: In accordance with OMB Circular A-110, the financial management system should provide for current and accurate disclosure of the financial activities.

Effect: The organization was not able to properly analyze their financial position.

Recommendation: Steps should be taken to ensure that private health insurance accounts receivable outstanding are recorded on the books and are listed in the subsidiary journal by vendor and amount.

Section III - Federal Award Findings and Questioned Costs

Reportable Conditions

99-1 SLIDING FEES

Federal Program: Community Health Center Rural Health Initiative Grant. CFDA: 93.224

Condition: At one location, the Outpatient Medical Center, Inc., did not consistently obtain income verification from patients.

Criteria: The grant agreement requires that all eligible patients to provide verification of income to ensure they are being charged according to a sliding fee schedule.

Questioned Costs: None

Effect: The organization is not in compliance with the grant agreement.

Recommendation: We recommend that the organization develop procedures to ensure all patient income is verified and include the documentation in the patient file.

OUTPATIENT MEDICAL CENTER, INC.
NATCHITOCHE, LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM NAME	FEDERAL CFDA NUMBER	AGENCY PASS-THROUGH NUMBER	DISBURSEMENTS/ EXPENDITURES
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICE			
Direct Assistance:			
Community Health Center Rural Health Initiative Grant (RHI)	93.224	CSH600-53-110	\$ 1,877,043
UNITED STATES DEPARTMENT OF AGRICULTURE			
Passed through Louisiana Department of Health and Hospitals:			
Special Supplement Food Program for Women, Infant and Children	10.557	N/A	<u>161,977</u>
Total Federal Financial Assistance			<u>\$ 2,039,020</u>

Notes to Schedule:

1. The organization follows the accrual basis of accounting in preparing this schedule. This method is consistent with the preparation of the organization's financial statements.
2. The organization did not have any non-cash awards during the fiscal year.

OUTPATIENT MEDICAL CENTER, INC.
NATCHITOCHE, LOUISIANA

Summary Schedule of Prior Audit Findings and Questioned Costs

Auditor Reference

Number

- 98-1 Partially corrected this fiscal year; all locations will have developed and implemented patient income verification procedures during the next fiscal year.
- 98-2 Partially corrected this fiscal year; one delinquent capital lease was still in default and the Organization is pursuing legal remedies.
- 98-3 Corrected this fiscal year.
- 98-4 This was not corrected, and no partial correction was accomplished during the fiscal year. This will be corrected during the next fiscal year.
- 98-5 Corrected this fiscal year.



OUTPATIENT MEDICAL CENTER, INC.
NATCHITOCHES, LOUISIANA

Corrective Action Plan

Financial Statement Findings

Number

- 99-2 We will develop a checklist to monitor the payment of all lease obligations on a monthly basis. This will help to verify that all lease payments have been made properly and on a timely basis to prevent defaulting on the lease.
- 99-3 We will conduct semi-annual physical inventories to insure that the financial records properly reflect the value of the items we have in inventory. This will also serve as a monitor to prevent misappropriations of inventory.
- 99-4 We will maintain a private health insurance accounts receivable subsidiary journal which will agree to the general ledger.

Federal Award Findings and Questioned Costs

- 99-1 Verification of income will be obtained on all eligible patients and such verification will become part of the patient file. Periodic internal reviews will insure that this procedure is being followed.

Name of Contact Person: James B. Juneau, Chief Financial Officer

Date: April 21, 1999