

**JACKSON PARISH HOSPITAL
SERVICE DISTRICT NO. 1
D/B/A
JACKSON PARISH HOSPITAL
September 30, 2003**

Audits of Financial Statements

**September 30, 2003
and
September 30, 2002**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 10-2-04

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To the Board of Commissioners
Jackson Parish Hospital Service District No. 1
Jonesboro, Louisiana

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of **JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1, d/b/a JACKSON PARISH HOSPITAL (Hospital)**, a component unit of the Jackson Parish Police Jury, as of and for the years ended September 30, 2003 and 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the **Hospital's** management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 the **Hospital** as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2004, 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

A Professional Accounting Corporation

March 15, 2004

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METAIRIE, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956

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JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
BALANCE SHEETS

ASSETS

	September 30,	
	2003	2002
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 129,485	\$ 320,797
Assets Whose Use is Limited	4,283	4,192
Patient Accounts Receivable, Net of Estimated Uncollectibles of \$517,839 for 2003, and \$683,919 for 2002	791,102	683,121
Estimated Third-Party Payor Settlements	-	157,485
Inventory Supplies - at Cost	275,465	264,802
Prepaid Expenses	28,868	26,518
Other Receivables	10,257	11,316
Total Current Assets	1,239,460	1,468,231
ASSETS WHOSE USE IS LIMITED		
Under Indenture Agreement	4,283	4,192
Total Assets Whose Use is Limited	4,283	4,192
Less: Amounts Required to Meet Current Obligations	4,283	4,192
Noncurrent Assets Whose Use is Limited	-	-
PROPERTY, PLANT AND EQUIPMENT, NET	1,786,455	1,807,530
Total Assets	\$ 3,025,915	\$ 3,275,761

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND FUND BALANCE

	September 30,	
	<u>2003</u>	<u>2002</u>
CURRENT LIABILITIES		
Accounts Payable - Trade	\$ 249,823	\$ 132,425
Estimated Third-Party Payor Settlements	477,514	-
Current Maturities of Bonds Payable	221,000	204,000
Current Obligations of Capital Leases	12,944	11,641
Accrued Salaries and Employee Benefits	245,912	268,777
Accrued Interest on Long-Term Debt	<u>8,015</u>	<u>9,013</u>
 Total Current Liabilities	 <u>1,215,208</u>	 <u>625,856</u>
 LONG-TERM LIABILITIES, NET OF CURRENT MATURITIES		
Bonds Payable	1,416,000	1,637,000
Long-Term Obligations of Capital Leases	<u>-</u>	<u>11,009</u>
 Total Long-Term Liabilities	 <u>1,416,000</u>	 <u>1,648,009</u>
 COMMITMENTS AND CONTINGENCIES		
 FUND BALANCE	 <u>394,707</u>	 <u>1,001,896</u>
 Total Liabilities and Fund Balance	 <u>\$ 3,025,915</u>	 <u>\$ 3,275,761</u>

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
STATEMENTS OF OPERATIONS

	For The Years Ended	
	September 30,	
	<u>2003</u>	<u>2002</u>
NET PATIENT SERVICE REVENUE	\$ 5,540,096	\$ 6,868,995
OTHER OPERATING REVENUE	<u>1,086,902</u>	<u>1,273,415</u>
Total Revenue	<u>6,626,998</u>	<u>8,142,410</u>
OPERATING EXPENSE		
Salaries and Benefits	3,694,036	3,605,808
Medical Supplies	681,136	784,585
Professional Fees	1,209,363	1,182,593
Other Operating Expenses	1,422,327	1,312,956
Insurance	202,602	156,088
Interest	102,124	140,236
Depreciation	218,830	218,498
Provision for Bad Debts	<u>365,547</u>	<u>636,823</u>
Total Expense	<u>7,895,965</u>	<u>8,037,587</u>
(Loss) Income from Operations	<u>(1,268,967)</u>	<u>104,823</u>
NON-OPERATING REVENUES		
Ad Valorem Taxes	547,724	483,272
Office Rent	33,032	35,559
Interest Income	47,633	49,497
Other Income	<u>33,389</u>	<u>27,358</u>
Non-Operating Revenues	<u>661,778</u>	<u>595,686</u>
EXCESS OF (EXPENSES OVER REVENUES)		
REVENUES OVER EXPENSES	<u>\$ (607,189)</u>	<u>\$ 700,509</u>

The accompanying notes are an integral part of these financial statements.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
STATEMENTS OF CHANGES IN FUND BALANCE

	For The Years Ended	
	September 30,	
	<u>2003</u>	<u>2002</u>
BALANCE, Beginning of Year	\$ 1,001,896	\$ 301,387
Excess of (Expenses Over Revenues) Revenues Over Expenses	<u>(607,189)</u>	<u>700,509</u>
BALANCE, End of Year	<u>\$ 394,707</u>	<u>\$ 1,001,896</u>

The accompanying notes are an integral part of these financial statements.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
STATEMENTS OF CASH FLOWS

	For The Years Ended	
	September 30,	
	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of (Expenses Over Revenues) Revenues Over Expenses	\$ (607,189)	\$ 700,509
Adjustments to Reconcile Excess of (Expenses Over Revenues) Revenues Over Expenses to Net Cash Provided by Operating Activities		
Depreciation and Amortization	218,830	218,498
Provision for Bad Debts	365,547	636,823
Changes In:		
Accounts Receivable	(473,528)	(513,074)
Estimated Third-Party Payor Settlements	634,999	(314,789)
Inventory Supplies	(10,663)	(38,971)
Prepaid Expenses	(2,350)	34,172
Other Receivables	1,059	21,439
Accounts Payable	117,398	(293,967)
Accrued Salaries and Employee Benefits	(22,865)	52,277
Accrued Interest on Long-Term Debt	(999)	(925)
Accounts Payable - Other	-	(13,771)
	<u>220,239</u>	<u>488,221</u>
Net Cash Provided By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Invested in Assets Whose Use is Limited	(91)	(103)
Purchases of Property and Equipment	<u>(197,754)</u>	<u>(42,510)</u>
	<u>(197,845)</u>	<u>(42,613)</u>
Net Cash Used in Investing Activities		

The accompanying notes are an integral part of these financial statements.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
STATEMENTS OF CASH FLOWS (Continued)

	For The Years Ended	
	September 30,	
	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Bonds	(204,000)	(189,000)
Payments Made on Capital Leases	<u>(9,706)</u>	<u>(25,340)</u>
Net Cash Used in Financing Activities	<u>(213,706)</u>	<u>(214,340)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(191,312)	231,268
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>320,797</u>	<u>89,529</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 129,485</u>	<u>\$ 320,797</u>
SUPPLEMENTAL DISCLOSURES:		
Cash Paid During the Year for Interest	<u>\$ 103,123</u>	<u>\$ 141,162</u>

The accompanying notes are an integral part of these financial statements.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

d/b/a

**JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

NOTE A

**DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

REPORTING ENTITY

The Jackson Parish Hospital Service District No. 1 (Hospital) was organized under the Louisiana Revised Statutes of 1950. The Hospital's service area includes all of Jackson Parish, Louisiana.

The Hospital is a political subdivision of the Jackson Parish Police Jury, whose jurors are elected officials. The Hospital's commissioners are appointed by the Jackson Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Jackson Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Jackson Parish Police Jury based on Statement No. 14 of the Governmental Accounting Standard Board. The accompanying general purpose financial statements present information on the funds only maintained by the Hospital and do not present information on the police jury, the governmental services provided by the governmental unit, or the governmental units that comprise the general purpose financial reporting entity.

NATURE OF BUSINESS

The Hospital operates a 49-bed-acute-care facility. Additionally, the Hospital provides emergency, outpatient, and clinical services.

ACCOUNTING STANDARDS

The general purpose financial statements of the Hospital have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements. 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 and the AICPA Audit and Accounting Guide – Health Care Organizations.

GASB issued GASB Statement No. 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which establish financial reporting standards for state and local governments. These statements establish that the financial statements should consist of management's discussion and analysis (MD&A) to provide an analytical overview of the entity's financial activities, basic financial statements, and required supplementary data (RSI) as required by other GASB statements. These statements are required to be adopted effective October 1, 2003 by the Hospital.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE A

DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less, excluding amounts whose use is limited by board designation, other arrangements under trust arrangements, or with third-party payors.

INVENTORY SUPPLIES

Inventory is valued at the lower of cost or market using the first-in, first-out method.

PROPRIETARY FUND ACCOUNTING

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

ASSETS WHOSE USE IS LIMITED AND INVESTMENTS

Assets whose use is limited include funds set aside by the Board of Commissioners to satisfy deposit requirements of the Hospital's debt agreements.

Investments, when present, are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in equity securities and all investments in debt securities, including those classified as assets limited as to use, are measured at fair value in the balance sheet. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment income, including realized gains and losses on investment, interest and dividends, and changes in unrealized gains and losses are included in non-operating income.

GIFTS, GRANTS, AND BEQUESTS

Gifts, grants, and bequests not designated by donors for specific purposes are reported as non-operating revenue regardless of the use for which they might be designated by the Board.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See the disclosure regarding Net Patient Service Revenue below for further discussion of significant estimates involving the revenue recognition methods of the Hospital.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE A

DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET PATIENT SERVICE REVENUE

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

NON-DIRECT RESPONSE ADVERTISING

The Hospital expenses advertising costs as incurred.

RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Hospital is a member of two separate trust funds established by the Louisiana Hospital Association that encompasses self-insurance of (1) Hospital professional liability and comprehensive general liability and (2) Statutory workers' compensation. The Hospital continues to carry commercial insurance for all risks of loss.

STATEMENTS OF OPERATIONS

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as other income and expense.

INCOME TAXES

The Hospital is a governmental unit which has registered as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE B

NET PATIENT SERVICE REVENUE

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

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 1999.

Outpatient services and inpatient psychiatric services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blending reimbursed services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor will limit potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003. Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits performed thereof by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

Medicaid – Inpatient care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2001.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment.

The Hospital has also entered into payment agreements with certain other commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to the Hospital under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE B
NET PATIENT SERVICE REVENUE (Continued)

Since the Hospital serves a disproportionate share of low-income patients, it qualifies for Medicaid Disproportionate Share reimbursements. Medicaid Disproportionate Share reimbursements of \$921,224 and \$1,187,932 are included in Other Operating Revenue for the years ended September 30, 2003 and 2002, respectively. These amounts are subject to audit by the State of Louisiana. It is remotely possible that settlement amounts may arise as a result of such audits, but cannot be determined as of the date of these financial statements.

NOTE C
CONCENTRATIONS OF CREDIT RISK

As indicated in Note B, the Hospital generates a substantial portion of its charges from the Medicare and Medicaid programs at discounted rates. A summary of gross Medicare and Medicaid charges for the years ended September 30, 2003 and 2002 follows:

	2003	2002
Medicare Patients	\$ 6,596,843	\$ 7,908,292
Medicaid Patients	1,265,581	1,628,968
Total	\$ 7,862,424	\$ 9,537,260
Percent of All Patients	<u>79%</u>	<u>79%</u>

The Hospital grants credit to patients, substantially all of whom are local residents, under terms requiring timely repayment. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies).

The mix of gross receivables from patients and third-party payors at September 30 was as follows:

	2003	2002
Medicare and Medicaid	53%	45%
Commercial Insurance	18%	22%
Patients	29%	33%

NOTE D
CHARITY CARE

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

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE E

CASH AND INVESTMENTS

Louisiana state statutes authorize the Hospital to invest in direct obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal office in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions and certain investments with qualifying mutual or trust fund institutions. Louisiana statutes also require that all of the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal or exceed 100% of the deposits not covered by insurance.

The Hospital's deposits are categorized as follows to give an indication of the level of risk assumed by the Hospital: (1) insured or registered, or the securities are held by the Hospital or its agent in the Hospital's name; (2) uninsured and unregistered with the securities held by the counter party's trust department or agent in the Hospital's name; and (3) uninsured and unregistered with the securities held by the counterpart or by its trust department or agent, but not in the Hospital's name.

The Hospital's carrying amount of cash and deposits, which include cash balances whose use is limited or restricted, amounted to \$133,768 and \$324,989, as of September 30, 2003 and 2002, respectively. The bank balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

NOTE F

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, if applicable. The Hospital uses straight-line depreciation for financial reporting and third party reimbursement. The following estimated useful lives are generally used:

Buildings	25 to 40 Years
Machinery and Equipment	5 to 20 Years
Furniture and Fixtures	5 to 15 Years

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

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

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE F
PROPERTY, PLANT AND EQUIPMENT (Continued)

Major classifications of property, plant and equipment are summarized below.

	September 30,	
	2003	2002
Buildings and Fixed Equipment	\$ 4,629,506	\$ 4,609,772
Major Movable Equipment	3,123,232	2,992,429
Land Improvements	182,448	182,448
	7,935,186	7,784,649
Less: Accumulated Depreciation	6,177,631	6,006,019
	1,757,555	1,778,630
Total Buildings and Equipment	1,757,555	1,778,630
Land	28,900	28,900
	1,786,455	1,807,530
Total Property, Plant and Equipment, Net of Depreciation	\$ 1,786,455	\$ 1,807,530

Depreciation and amortization expense for the years ended September 30, 2003 and 2002, totaled \$218,830 and \$218,498, respectively.

NOTE G
BONDS PAYABLE

On September 23, 1999, the Hospital issued certificates of indebtedness in the amount of \$2,380,000 with a 5.875% rate of interest, payable semi-annually on March 1st and September 1st. These Series 1999 bonds call for principal payments on March 1st with the final payment due March 1, 2009. The bonds are secured by a pledge of Ad Valorem taxes set at 9.56 mills.

Scheduled principal repayments on these bonds are as follows:

2004	\$ 221,000
2005	240,000
2006	260,000
2007	281,000
2008	305,000
Thereafter	330,000
	\$ 1,637,000

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

d/b/a

**JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS**

NOTE G

BONDS PAYABLE (Continued)

Subsequent to the Hospital's year end, the holders of the above captioned certificates of indebtedness agreed to an interest rate reduction effective October 1, 2003, which lowered the rate from 5.875% to 4.00%. The interest rate reduction is considered a refunding or reissuance under federal law but did not constitute a refunding under applicable laws of the State of Louisiana. Accordingly, the State Bond Commission approval was not required. The rate reduction is anticipated to save the Hospital approximately \$91,000 in interest expenses over the remaining life of the debt. The scheduled amounts and due dates of the principal repayments reflected above were unchanged by the rate reduction.

NOTE H

COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid vacation and holiday days. Sick days are not vested and, accordingly, no liability has been recorded in the accompanying general purpose financial statements. Vested vacation and holiday days have been recorded as a liability in the accompanying general purpose financial statements at employee earnings rates in effect at the balance sheet dates.

NOTE I

PENSION PLAN

The Hospital sponsors a defined contribution plan. The Plan Administrator is the Human Resource Director. Eligibility requirements are one year of employment and attaining the age of 21. Vesting is 25% per year for years of service 2-5. The Plan's coverage includes death, disability and retirement benefits. The Hospital may amend the Plan at any time at its sole discretion. However, no amendment may result in any participant's vested interest or any portion of the Plan's assets reverting back to the Hospital. The Hospital contributes 1% for all eligible employees. It will match up to 3% of employee salaries, if the employee also contributes 3%. The Hospital contributed \$80,587 and \$67,159 for the years ended September 30, 2003 and 2002, respectively.

NOTE J

CAPITAL LEASES

The Hospital leases equipment under a capital lease that expires in 2004. The assets and liabilities under capital lease are recorded at the lower of the present value of the minimum lease payments or fair value of the asset. The assets are depreciated over the lower of their related lease terms or their productive lives. Depreciation of assets under lease is included in depreciation expense for the years ended September 30, 2003 and 2002.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
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JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE J
CAPITAL LEASES (Continued)

Minimum future lease payments under capital lease as of September 30, 2003, during the remainder of the term are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 13,272
Total Minimum Lease Payments	13,272
Less: Amount Representing Interest	<u>328</u>
Total Obligations Under Capital Lease	12,944
Less: Current Maturities	<u>12,944</u>
 Long-Term Maturities	 <u>\$ -</u>

The interest rate on this capital lease is 5.57%. Total interest incurred on this capital lease totaled \$938 and \$1,516 for the years ended September 30, 2003 and 2002, respectively.

NOTE K
OPERATING LEASES

The Hospital leased various equipment and a building under the terms of operating leases that expired during 2001, but were renewed for an indefinite period at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Lease expense charged to operations was \$186,050 and \$199,807 for the years ended September 30, 2003 and 2002, respectively.

NOTE L
PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund (PCF) established by the State of Louisiana to provide medical professional liability coverage to health care providers. The PCF provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The PCF places no limitation on the number of occurrences covered. In connection with the establishment of the PCF's, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence.

The courts have not tested the constitutionality of this legislation, although the Louisiana Supreme Court has decided that this limit does not apply in cases of strict liability. The Hospital's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability. The trust fund bills members in advance based upon an estimate of their exposure. At policy year-end, premiums are re-determined utilizing actual losses of the Hospital.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

d/b/a

JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE M

COMMITMENTS

The Hospital has an employment/independent contractor contract with a physician that expires during the fiscal year ended September 30, 2005. As of September 30, 2003, the Hospital's commitment for the next fiscal year totals \$180,000. This physician works in hospital clinics and the emergency room.

The Hospital has a contract with outside parties for management services that include providing the Hospital with its administrator, CFO, and Director of Patient Care Services. This agreement is through November 2005. The annual commitment totals \$287,500, plus benefits not to exceed 30% of the \$287,500.

NOTE N

CONTINGENCIES

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

The principal contingencies are described below:

Third Party Cost-Based Charges – The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Professional Liability Risk (Note L) – The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

Workmen's Compensation Risk – The Hospital participated in the Louisiana Hospital Association Self-Insurance Workmen's Compensation Trust Fund in 2003 and 2002. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The Hospital has included these allocations of equity in the trust in its general purpose financial statements.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
NOTES TO FINANCIAL STATEMENTS

NOTE N
CONTINGENCIES (Continued)

Employee Health Benefits - Currently, the Hospital has elected to provide discounted healthcare services to employees and their dependents, as an alternative to a former self insured plan maintained in previous years. Additionally, a supplemental health insurance benefit is available to employees who purchase private insurance in their name. This benefit is limited to the lesser of \$169 per month or the cost of the policy.

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

SUPPLEMENTARY FINANCIAL INFORMATION



To the Board of Commissioners
Jackson Parish Hospital Service District No. 1
Jonesboro, Louisiana

Our report on our audits of **JACKSON PARISH HOSPITAL SERVICE DISTRICT NO.1, d/b/a JACKSON PARISH HOSPITAL (Hospital)** for the years ended September 30, 2003 and 2002, appears on page 1. These audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the **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 stated in all material respects in relation to the general purpose financial statements taken as a whole.

Laporte, Sehrt, Romig & Hand
A Professional Accounting Corporation

March 15, 2004

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
SCHEDULE OF NET PATIENT SERVICE REVENUES

	For The Years Ended	
	September 30,	
	2003	2002
DAILY PATIENT SERVICE REVENUES		
Adult and Pediatric	\$ 1,711,448	\$ 2,206,837
PCAU Room Revenue	-	48,784
 Total Daily Patient Services	 1,711,448	 2,255,621
 OTHER PROFESSIONAL SERVICES		
Pharmacy/IV Therapy	1,836,336	2,498,286
Laboratory	1,274,042	1,367,934
Respiratory Care, EKG and EEG	1,241,433	1,374,705
Radiology	1,239,113	1,343,183
Emergency Room	1,030,082	967,255
Dr. Overby	647,900	570,808
Specialty Clinics	357,858	661,866
Surgery	152,040	204,028
Walk-In Clinics	109,765	149,279
Anesthesia	89,953	134,166
Dr. Ize-Iyamu	63,343	17,255
Blood Bank	44,066	38,400
JP Family Care Clinic	36,771	-
Dr. Marzan	35,068	242,837
Kid Med	33,177	34,234
Nursing Services	26,992	72,194
Dr. Garcia	13,073	209,801
Jonesboro Rural Health Clinic	7,267	-
Diabetes Education	5,815	4,790
Mobile Health Clinic	3,087	-
PCAU	-	7,919
 Total Other Professional Services	 8,247,181	 9,898,940
 Gross Patient Service Revenue	 9,958,629	 12,154,561
 Less: Contractual Adjustments	 4,418,533	 5,285,566
 Net Patient Service Revenue	 \$ 5,540,096	 \$ 6,868,995

See independent auditor's report on supplementary information.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
SCHEDULE OF OTHER OPERATING REVENUE

	For The Years Ended	
	September 30,	
	2003	2002
Disproportionate Share Revenue	\$ 921,224	\$ 1,187,932
School-Based Health Center Grant Proceeds	132,967	34,654
Cafeteria Revenue	14,451	15,486
Drugs Sold to Employees	13,599	30,416
Supplies Sold to Employees	3,865	2,063
Medical Records	796	2,864
 Total Other Operating Revenue	 \$ 1,086,902	 \$ 1,273,415

See independent auditor's report on supplementary information.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

d/b/a

**JACKSON PARISH HOSPITAL
SCHEDULE OF SALARIES AND BENEFITS**

	For The Years Ended	
	September 30,	
	<u>2003</u>	<u>2002</u>
Nursing Services and Administration	\$ 714,123	\$ 788,381
Laboratory	261,941	228,250
Emergency Room	260,650	277,910
Dr. Overby	226,026	158,974
Radiology	215,719	161,716
Respiratory Therapy	145,338	122,593
Business Office	141,643	94,214
School Based Health Center	124,313	46,510
Housekeeping	123,403	122,953
Jonesboro Rural Health Clinic	122,248	-
Pharmacy	116,821	96,455
Dietary and Cafeteria	106,780	101,243
Medical Records	94,488	87,037
Dr. Ize-Iyamu	86,761	41,385
Surgery	75,543	69,080
Admitting	71,425	66,920
Infection Control	65,223	25,177
Dr. Marzan	45,337	194,553
Central Supply	37,579	35,947
Walk-In Clinic	36,816	45,244
Kid Med	32,889	34,265
Administrative	29,990	28,556
Diabetes Education	28,206	14,487
Plant Operations and Maintenance	26,109	24,688
Dr. Garcia	20,929	179,643
Accounting	20,374	44,264
JP Family Care Clinic	16,868	-
Data Processing	11,712	12,286
Mobile Health Clinic	4,637	-
PCAU	-	40,422
Total Salaries	<u>3,263,891</u>	<u>3,143,153</u>
FICA	236,066	229,262
Health and Life Insurance	87,237	90,118
Retirement	80,587	67,159
Workers' Compensation Insurance	38,305	34,950
Unemployment Taxes	7,465	5,993
Other Benefits	<u>(19,515)</u>	<u>35,173</u>
Total Benefits	<u>430,145</u>	<u>462,655</u>
Total Salaries and Benefits	<u>\$ 3,694,036</u>	<u>\$ 3,605,808</u>

See independent auditor's report on supplementary information.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
SCHEDULE OF MEDICAL SUPPLIES

	For The Years Ended	
	September 30,	
	2003	2002
Pharmacy	\$ 272,310	\$ 338,352
Laboratory	160,774	176,967
Nursing Services	81,591	87,437
Radiology	38,664	44,677
Respiratory Therapy	29,930	48,926
Blood Bank	25,032	24,299
Emergency Room	24,677	7,720
Surgery	18,307	28,777
Dr. Overby	11,774	9,516
Walk-In Clinic	6,756	4,692
Central Supply	3,865	-
Jonesboro Rural Health Clinic	1,756	-
JP Family Care Clinic	1,476	-
Dr. Ize-Iyamu	1,229	-
School Based Health Center	1,162	2,607
Kid Med	837	2,273
Mobile Health Clinic	473	-
Diabetes Education	232	-
Dr. Marzan	189	4,061
Specialty Clinics	61	2,516
Dr. Garcia	41	458
Anesthesia	-	867
PCAU	-	440
	\$ 681,136	\$ 784,585
Total Medical Supplies		

See independent auditor's report on supplementary information.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
SCHEDULE OF PROFESSIONAL FEES

	For The Years Ended	
	September 30,	
	2003	2002
Emergency Room	\$ 410,585	\$ 338,254
General and Administrative	271,168	299,697
Plant Operations	145,465	146,221
JP Family Care Clinic	116,056	-
Laboratory	71,635	86,825
Nursing Services	55,486	42,168
Anesthesiology	54,340	63,389
Radiology	27,775	57,728
Specialty Clinics	20,680	115,470
Respiratory	13,206	14,832
SBHC	9,632	-
Dietary	5,826	3,920
Pharmacy	5,545	4,033
Diabetes Education	1,035	-
Medical Records	929	3,211
PCAU	-	5,200
Dr. Marzan	-	750
Walk-In Clinic	-	520
Dr. Garcia	-	375
	\$ 1,209,363	\$ 1,182,593
Total Professional Fees		

See independent auditor's report on supplementary information.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
SCHEDULE OF OTHER OPERATING EXPENSES

	For The Years Ended	
	September 30,	
	2003	2002
Plant Operations	\$ 454,157	\$ 332,609
General and Administrative	282,881	337,570
Radiology	157,361	154,053
Dr. Overby	74,244	80,338
Laboratory	63,748	64,283
Business Office	59,532	51,171
Dietary	53,488	55,959
Housekeeping	49,713	59,400
Nursing Services	42,025	27,524
Data Processing	39,664	33,073
Emergency Room	30,665	7,523
Medical Records	26,932	30,374
JP Family Care Clinic	16,476	-
School Based Health Center	16,129	10,448
Pharmacy	10,334	13,155
Walk-In Clinic	8,247	2,753
Dr. Ize-Iyamu	6,708	4,441
Respiratory	6,603	13,373
Mobile Health Clinic	5,881	-
Admitting	5,213	3,536
Kid Med	4,640	(356)
Jonesboro Rural Health	3,712	-
Accounting	2,223	1,891
Surgery	1,567	2,955
Diabetes Education	1,555	2,234
Special Clinics	1,501	883
Central Supply	1,350	1,183
PCAU	-	211
Dr. Garcia	(1,979)	20,918
Dr. Marzan	(2,243)	1,454
Total Other Operating Expense	<u>\$ 1,422,327</u>	<u>\$ 1,312,956</u>

See independent auditor's report on supplementary information.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL

SCHEDULE OF
GOVERNING BOARD EXPENSES

GOVERNING BOARD EXPENSES	For The Years Ended	
	September 30,	
	2003	2002
Barbara Johns	\$ 440	\$ 1,760
Henry Kimp	440	1,240
Larry Avery	360	80
Harold Thomas	440	80
Fannie Williams	360	80
Lonnie Menzina	240	-
Sharron Mosley	280	-
	\$ 2,560	\$ 3,240

See independent auditor's report on supplementary information.



**INDEPENDENT AUDITOR'S 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
Jackson Parish Hospital Service District No. 1
Jonesboro, Louisiana

We have audited the general purpose financial statements of **JACKSON PARISH HOSPITAL SERVICE DISTRICT No. 1 (Hospital)** as of and for the year ended September 30, 2003, and have issued our report thereon dated March 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's general purpose financial statements are free of material misstatements, 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 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 Hospital'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 Hospital, in a separate letter dated March 15, 2004.

This report is intended solely for the information and use of the Board of Commissioners, Management and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the legislative auditor as a public document.

Salute, Debit, Roy & Nash

A Professional Accounting Corporation

March 15, 2004

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
STATUS OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended September 30, 2003

COMPLIANCE WITH LAWS AND REGULATIONS

Finding 2002-1

Condition: The hospital lacked sufficient controls in its payroll system regarding the monitoring of time worked by salaried employees and specific procedures related to the disclosure of other full-time employment for employees at time of hiring.

Criteria: Louisiana R.S. 42:63(E) provides, in part, that no person holding full-time employment in the government of this state or of a political subdivision thereof shall at the same time hold another full-time employment in the government of the State of Louisiana, in the government of political subdivision thereof, or in a combination of these. An investigative audit conducted by the Office of the Legislative Auditor of the State of Louisiana disclosed that a full-time employee of the Hospital was simultaneously engaged and paid as a full-time employee of Grambling State University (GSU) in an apparent violation of R.S. 42:63(E).

Effect: During the five year period from September 1996 to September 2001, the employee was compensated as a full-time professor at GSU where she was paid \$242,597. During that same period the employee was paid \$420,134 as a full-time psychiatric nurse specialist.

Cause: The lack of requirements for salaried employees to provide the Hospital's administration with a record of specific time worked. Because of this deficiency management was unaware of the employee's conflicting or overlapping hours at the Hospital or GSU.

Recommendation: It was recommended by the Legislative Auditor of the State of Louisiana, that management of the Hospital establish policies and procedures requiring all employees to prepare timesheets appropriately documenting specific time and attendance. It was recommended that the dual employment cease immediately. It was noted that the above-mentioned employee had already resigned her position with the Hospital.

Management's Response: The management of the Hospital indicated that it was unaware of the employee's conflicting employment and would not have condoned it. The management of the Hospital has indicated that to prevent a similar incident from recurring, the Hospital has implemented new policies requiring each full-time employee to disclose outside employment, and all salaried employees (including physicians) to provide the administration with a time sheet ("record of time worked form").

Current Status: Management of the Hospital has implemented the above mentioned procedures. The Hospital's psychiatric unit, where the employee in question was employed, was closed prior to the effective date of her resignation.

JACKSON PARISH HOSPITAL

**AUDIT OBSERVATIONS AND
RECOMMENDATIONS**

YEAR ENDED SEPTEMBER 30, 2003



March 15, 2004

Board of Commissioners
Jackson Parish Hospital

In planning and performing our audit of the financial statements of Jackson Parish Hospital (the Hospital) for the year ended September 30, 2003, we considered the Hospital's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated March 15, 2003 on the financial statements of the Hospital. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Comment 03-01 Compliance with Public Bid Law

Observation:

Each year we must conduct testing to substantiate compliance with the State of Louisiana's Public Bid Law. During the course of our audit we had to spend a large considerable amount of time to determine that the bid law provisions had been complied with on certain equipment purchases.

The bid law generally requires the purchaser of materials (including equipment) and supplies equal to \$10,000 but less than \$20,000 to obtain three telephone quotes or faxes, obtain written confirmation of the accepted offer, and if the lowest quote is not accepted, the reasons for rejection of that offer must be documented and maintained.

For purchases of materials and supplies greater than \$20,000 a formal sealed bid process is required, which includes advertisement and agreement by contract to the lowest bidder according to specifications.

There is no statutory requirement for purchase procedures under \$10,000 but obtaining at least three quotes is recommended.

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Jackson Parish Hospital

March 15, 2004

Page 2

Public Works defined by R.S. 38:2211 as "the erection, construction, alteration, improvement, or repair, of any public facility or immovable property owned, used, or leased by a public entity. R.S. 38:2212(A) provides that public work includes labor and materials. Public works over \$100,000 including labor and materials by a public entity shall also be subject to the formal bid process.

There are exceptions to the bid law in the case of emergencies but care must again be taken to document the justification of the emergency exception as defined by laws (R.S. 38:2212(D) and 2212.1(K).

Other considerations specifically relevant to hospitals:

- Political subdivisions are authorized to adopt all or any part of the Louisiana Procurement Code and its accompanying regulations for the procurement of supplies, services, major repairs, and construction. Rather than going out for bid under the state procurement code a list of accepted vendors is maintained with the State Purchasing office.
- A Hospital Service District may acquire, construct and maintain medical office buildings without the application of public bid law and lease law.
- Any Hospital operated by a Hospital Service District may enter into an agreement with one or more qualified group purchasing organizations for the purpose of obtaining bids for the purchase of materials and supplies. Such agreements provide that the qualified group purchasing organization shall submit a price list for those materials and supplies offered by it and guarantee that the prices will remain in effect for at least three months.
- Hospital Maintenance and Cleaning Contracts are contractual services and do not have to be bid.
- Contracts between a Hospital Service District and corporation for Laundry Services need not be bid.
- Hospital Service Districts may contract for management services without the use of public process.

Recommendation

While the above is a summary of the relevant factors regarding the Public Bid Law, it does not necessarily include all the considerations that are involved in significant purchases made by the Hospital. Indeed many of the Hospital's purchases of equipment or supplies are made through group purchasing organizations or by use of State accepted vendors, which often makes the process less cumbersome. We recommend that the Hospital make additional efforts to maintain the required documentation on file both to increase audit efficiency and demonstrate compliance with State laws and regulations. We further recommend that the Legislative Auditor's Office be contacted if there are questions surrounding what requirements are applicable to an individual purchase.

Comment 03-02 Maintenance of Property and Equipment Subsidiary Ledger

Observation:

We noted during the course of the audit that two vehicles that were disposed (sold/traded) during the course of the fiscal year were not removed from the Hospital's property ledger. After further review, it was noted that there were other items in the vehicle section of the ledger that the Hospital no longer owned that were included in the listing. While all of these items were fully depreciated and the journal entry we proposed had no affect on net income, the lack of an annual update of the listing does represent an internal control weakness as well as a conflict with Louisiana's asset management laws. These laws require amongst other things that a master file of the movable inventory should be maintained and shall contain the following information:

- Description of the property
- Manufacturer's serial number, if any
- Description and Location of the Identification Mark
- Original Cost of the Property
- Principal place where the property is located/used.

We also noted that included on the subsidiary ledger are other fully depreciated equipment, which judging by the dates acquired, are likely no longer owned by the Hospital or are likely no longer in service. Because of the volume and types of assets and equipment that a Hospital Service District has, it is a time consuming job to annually inventory and maintain this listing. Additionally, some items are generally included as a group with vague descriptions such as "lab equipment" which make the removal of individual disposed assets difficult because of the problems with specific identification.

Recommendation:

We recommend that the Hospital consider taking an annual inventory of movable equipment each year that specifically identifies the equipment on hand. We also recommend that this listing be reconciled to the actual property and equipment subsidiary ledger to the extent possible. Finally, the financial staff should review the subsidiary ledger for any equipment known have been disposed yet still on the listing as a fully depreciated asset and propose the appropriate journal entries to management to remove these items. Management may have to make assumptions regarding some of the older items of equipment in the subsidiary ledger based on the known age of the items as to whether or not they should be written off.

Comment 03-03 Segregation of Duties, Contingency Planning, And Staffing

Observation:

The Hospital, like any other business entity, is often compelled to reduce staffing and administrative costs to remain fiscally sound in a competitive market. Accordingly, the natural tendency is to consolidate many functions relative to transaction processing and financial record keeping to a relatively small group of individuals. A good system of internal control requires an appropriate segregation of duties. The theory being that no one person should have access to all aspects of transaction processing.

In conjunction with the "separation of duties" issues discussed above it is clear that many of the Hospital's financial recordkeeping responsibilities remain extremely concentrated in a single individual. The concern here is, should the services of the Hospital's financial administrator suddenly become unavailable, there may not be adequate staffing immediately available to fulfill the recordkeeping and bookkeeping functions, that he performs. In short, questions that should be asked include: If the current financial administrator were not available, how quickly could we locate at least a temporary replacement? Would there be someone available to handle important functions such as bill paying and maintenance of receivable balances in this situation? How and by whom would payroll and related tax filings be handled? What would be the short-term costs to the Hospital if it suddenly found itself in this situation?

Recommendation:

We recommend that the Hospital's management consider reviewing the assignment of duties involved in the Hospital's financial administration and also develop a contingency plan addressing this area. One possible solution to this problem could involve adding an accountant or experienced bookkeeper to the finance department that could assume some of the more routine bookkeeping and reconciliation functions on a periodic basis. The Hospital may also want to consider cross-training of existing office personnel in some of the critical functions performed on a daily basis. The latter would provide the benefit of having additional employees familiar with certain critical functions and the added benefit of being able to provide assistance to the financial administrator during busy periods.

Comment 03-04 Approval of Accounts Payable Invoices for Payment

Observation:

During the course of the audit we look at numerous bills that have been submitted to the Hospital for payment. We noted that while a copy of the signed check was attached to each paid invoice, several invoices lacked any clear evidence of approval on the face of the invoice. This represents a potential weakness in internal control.

Recommendation:

All invoices after receipt should be dated as of the date received, matched with appropriate receiving documentation, and in the case of purchases made via purchase orders, to the approved purchase order. Finally the invoices should be reviewed by management or other responsible parties and approved prior to being input into the accounts payable system. If the accounts payable processor is, in all cases, instructed to look for this approval before the invoice may be input into the accounts payable system, the likelihood of unauthorized purchases are greatly reduced.

We recommend that the Hospital institute a policy that requires that all vendor invoices and supporting documents be stamped during the disbursement process using a rubber stamp. The stamp should contain designated areas applicable to each of the control procedures in the disbursements cycle and an indication of the date paid and check number. This stamp would include spaces for invoice approval, date or input, general ledger account\department coding, date paid and check number.

Jackson Parish Hospital
March 15, 2004
Page 5

Each area should be initialed by the employee performing the applicable procedure as evidence that the procedure was performed. When all areas are initialed and the date paid and check number indicated, there will exist, for review by the check signer, documentary evidence that all of the control procedures have been performed, an indication of which employees performed the applicable procedures, and an indication that the invoices and supporting documents were canceled to prevent reuse, e.g., duplicate payments.

We believe that the implementation of these recommendations will provide the Hospital with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

We would also like to thank the Board and management for allowing us to serve as your auditors. We would also like to give special acknowledgement to David Sanders and his staff both for their efforts to bring the audit to a successful conclusion and to recognize their efforts on behalf of the Hospital throughout the year. Their assistance and dedication is greatly appreciated.

This report is intended solely for the information and use of Management, the Finance Committee, Members of the Board of Commissioners, and others within the organization, and the office of the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert J. Smith".

A Professional Accounting Corporation



Jackson Parish Hospital "Partners for Life"
165 Beech Springs Road . Jonesboro, Louisiana 71251 . Telephone 318-259-4435
An Affiliate of St. Francis Medical Center *www.jacksonparishhospital.com*

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March 31, 2004

Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70802

Attention: Suzanne Elliott,
Engagement Manager
Division of Quality and Policy Assurance

Legislative Auditor:

CORRECTIVE ACTION PLAN

The Jackson Parish Hospital Service District No. 1 respectfully submits the following Corrective Action Plan for the year ended September 30, 2003 for the comments made in the letter to management dated February 15, 2004.

Audit Comment 03-01 Compliance with Public Bid Law

Summary of Comment and Recommendations:

It was noted during the Audit that difficulty was encountered in obtaining the documentation of compliance with the requirements of the Public Bid Law provisions on certain equipment purchases. While no specific compliance finding was noted, it was recommended that the Hospital make additional efforts to maintain the required documentation on file both to increase audit efficiency and demonstrate compliance with State laws and regulations. It was further recommended that the Legislative Auditor's Office be contacted if there are questions surrounding what requirements are applicable to an individual purchase.

Corrective Action Plan: Management concurs with the recommendation and is currently working with purchasing personnel in the Hospital to centralize the filing and retention of documentation of all purchases that fall within the applicable bid law thresholds.

Audit Comment 03-02 Maintenance of Property and Equipment Subsidiary Ledger

Summary of Comment and Recommendations:

It was noted during the course of the audit that two vehicles that were disposed (sold/traded) during the fiscal year were not removed from the Hospital's property ledger. After further review, it was noted that there were other items in the vehicle section of the ledger that the Hospital no longer owned that were included in the listing. It was also noted that included on the subsidiary ledger are other fully depreciated equipment, which judging by the dates acquired, are likely no longer owned by the Hospital or are likely no longer in service.

The audit recommendation was made that the Hospital consider taking an annual inventory of movable equipment each year that specifically identifies the equipment on hand. It was also recommended that this listing be reconciled to the actual property and equipment subsidiary ledger to the extent possible. Finally, the recommendation was made that the financial staff review the subsidiary ledger for any equipment known to have been disposed yet still on the listing as a fully depreciated asset and propose the appropriate journal entries to management to remove these items. Management may have to make assumptions regarding some of the older items of equipment in the subsidiary ledger based on the known age of the items as to whether or not they should be written off.

Corrective Action Plan: Management concurs with the recommendation to update the fixed asset ledger at the time of disposal for all fixed assets whether or not fully depreciated. Management also agrees to take steps to monitor the overall accuracy of the ledger and will evaluate the feasibility of performing an annual physical inventory of all movable equipment.

Audit Comment 03-03 Segregation of Duties, Contingency Planning, And Staffing

Summary of Comment and Recommendations:

It was recommended that the Hospital's management consider reviewing the assignment of duties involved in the Hospital's financial administration and also develop a contingency plan addressing this area. One possible solution recommended in this area could involve adding an accountant or experienced bookkeeper to the finance department that could assume some of the more routine bookkeeping and reconciliation functions on a periodic basis. The Hospital may also want to consider cross training of existing office personnel in some of the critical functions performed on a daily basis. The latter would provide the benefit of having additional employees familiar with certain critical functions and the added benefit of being able to provide assistance to the financial administrator during busy periods.

Corrective Action Plan: Management will continue to examine the assignment of duties in the financial and accounting areas for opportunities to expand the segregation of duties to the fullest extent possible with the existing staff. Management recognizes the need to both minimize the incidence of incompatible duties vested in a single or relatively small group of individuals, and will work to

cross-train staff to provide contingency support in critical financial areas. Management does have a goal of supplementing the existing financial staff, but must monitor the viability of such measures in light of current budgetary and cash flow restraints.

Audit Comment 03-04 Approval of Accounts Payable Invoices for Payment

Summary of Comment and Recommendations:

It was noted during the audit that a copy of the signed check was attached to each paid invoice examined, that several invoices lacked any clear evidence of approval on the face of the invoice itself, representing a potential weakness in internal control. It was recommended that all invoices after receipt should be dated as of the date received, matched with appropriate receiving documentation, and in the case of purchases made via purchase orders, to the approved purchase order. The invoices should be reviewed by management or other responsible parties and approved prior to being input into the accounts payable system. If the accounts payable processor is, in all cases, instructed to look for this approval before the invoice may be input into the accounts payable system, the likelihood of unauthorized purchases are greatly reduced.

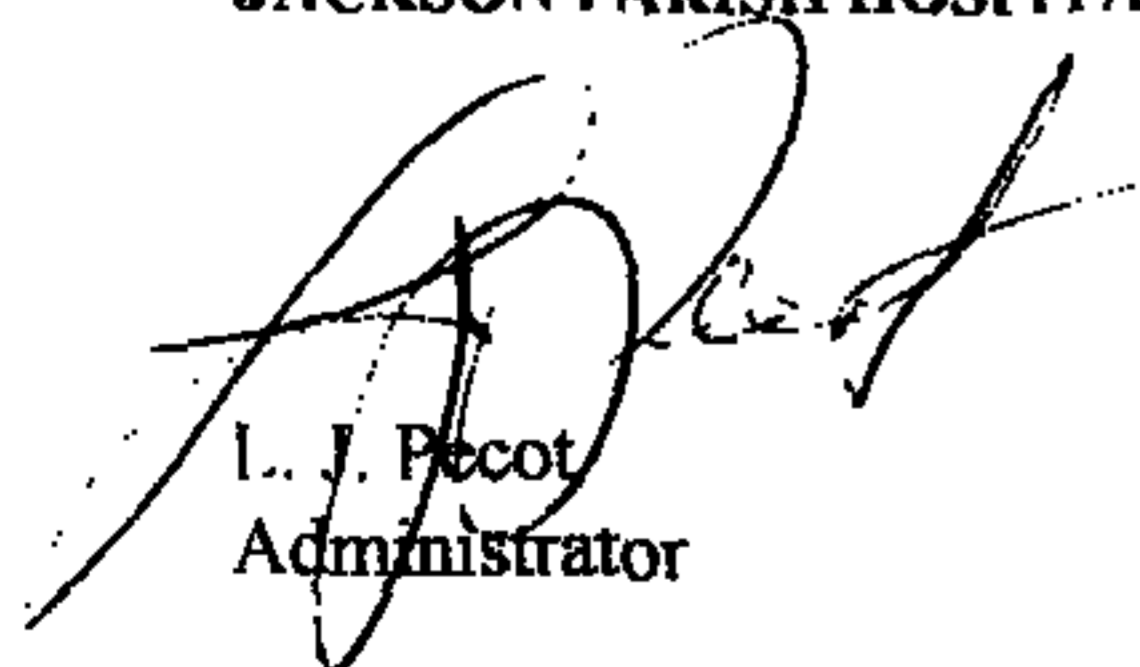
Corrective Action Plan: Management emphasizes that efforts are made to review all invoices prior to, or at the time of, payment but concurs with the recommendations as a method of strengthening existing controls over the procurement and disbursement functions. Management will implement these recommendations as a supplement to existing controls such as the dual signatures currently required on all checks.

Contact Person: David Sanders, Financial Administrator

Anticipated Completion Date: Corrective Action will begin in May 2004.

Sincerely,

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1



L. J. Pecot
Administrator