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PRIMARY HEALTH SERVICES CENTER, INC.

MONROE, LOUISIANA

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2003

WITH SUMMARIZED COMPARATIVE INFORMATION

FOR 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 8-4-04

PRIMARY HEALTH SERVICES CENTER, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.



JULIAN B. JOHNSTON, CPA
ROWLAND H. PERRY, CPA, APC
CHARLES L. JOHNSON, JR., CPA
VIOLET M. ROUSSEL, CPA
PAM BATTAGLIA, CPA
JAY CUTHBERT, CPA

"The CPA Never Underestimate The Value"
Certified Public Accountants
3007 Armand Street
Monroe, Louisiana 71201
Telephone (318) 322-5156 or (318) 323-1411
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- Bookkeeping & Payroll Services

July 6, 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

We have audited the accompanying statements of financial position of Primary Health Services Center, Inc. (PHSC) as of December 31, 2003, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of PHSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Primary Health Services Center, Inc. as of December 31, 2003, and the changes in its net assets, its functional expenses, and its cash flows for the year 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 July 6, 2004 on our consideration of PHSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of PHSC taken as a whole. The accompanying information on pages 12, 13, and 14 are presented for additional analysis, and are not required parts of the basic financial statements. Such information has been subjected to the 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.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2003 WITH SUMMARIZED COMPARATIVE TOTALS FOR 2002

ASSETS

(Memo Only)
2002

CURRENT ASSETS

Cash	89,543	69,787
Accounts Receivable, Net	285,081	318,499
Prepaid Assets	<u>12,511</u>	<u>8,114</u>

<u>TOTAL CURRENT ASSETS</u>	<u>387,135</u>	<u>396,400</u>
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FIXED ASSETS

Property and Equipment	<u>157,841</u>	<u>183,397</u>
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<u>NET FIXED ASSETS</u>	<u>157,841</u>	<u>183,397</u>
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OTHER ASSETS

Deposits	<u>6,210</u>	<u>1,210</u>
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<u>TOTAL OTHER ASSETS</u>	<u>6,210</u>	<u>1,210</u>
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<u>TOTAL ASSETS</u>	<u>551,186</u>	<u>581,007</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	52,365	129,897
Payroll Taxes Due	<u>256</u>	<u>-</u>

<u>TOTAL CURRENT LIABILITIES</u>	<u>52,621</u>	<u>129,897</u>
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<u>TOTAL LIABILITIES</u>	<u>52,621</u>	<u>129,897</u>
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NET ASSETS

Unrestricted	340,724	267,713
Temporarily Restricted	<u>157,841</u>	<u>183,397</u>

<u>TOTAL NET ASSETS</u>	<u>498,565</u>	<u>451,110</u>
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<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>551,186</u>	<u>581,007</u>
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The accompanying notes are an integrated part of these financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2003 AND WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR 2002

	UNRESTRICTED	TEMPORARILY RESTRICTED FIXED ASSETS	2002 TOTALS	(Memo Only) 2001 TOTALS
<u>REVENUE AND SUPPORT</u>				
Federal Grants	324,414	23,586	348,000	328,000
Public Housing	138,631	-	138,631	205,991
Rural Health Outreach	235,181	-	235,181	248,531
Louisiana Dept. Of Health and Hospitals	1,414,186	-	1,414,186	883,175
Medicaid/Medicare/Patient	257,004	-	257,004	510,469
Donations	16,933	-	16,933	20,780
Other	-	-	-	(938)
Loss on Disposition of Asset	49,142	(49,142)	-	-
Net Assets Released from Restriction	-	-	-	-
	<u>2,435,491</u>	<u>(25,556)</u>	<u>2,409,935</u>	<u>2,196,008</u>
<u>TOTAL REVENUE AND SUPPORT</u>				
<u>EXPENSES</u>				
Program Expenses	1,877,420	-	1,877,420	1,562,411
Management and General	485,060	-	485,060	425,625
Fund Raising	-	-	-	-
	<u>2,362,480</u>	<u>-0-</u>	<u>2,362,480</u>	<u>1,988,036</u>
<u>TOTAL EXPENSES</u>				
<u>CHANGE IN NET ASSETS</u>	73,011	(25,556)	47,455	207,972
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>267,713</u>	<u>183,397</u>	<u>451,110</u>	<u>243,138</u>
<u>NET ASSETS - END OF YEAR</u>	<u>340,724</u>	<u>157,841</u>	<u>498,565</u>	<u>451,110</u>

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

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2003 AND WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR 2002

ITEM	PUBLIC HEALTH MANAGEMENT & GENERAL		FUND RAISING	(Memo Only)	
	SERVICE			2003 TOTALS	2002 TOTALS
Personnel	1,152,463	202,334	-	1,354,797	1,156,236
Fringe Benefits/Insurance	122,247	22,785	-	145,032	137,868
Educational & Dues	31,778	3,790	-	35,568	41,061
Telephone	36,656	8,936	-	45,592	30,239
Interest	827	-	-	827	327
Office	44,459	6,339	-	50,798	40,882
Bad Debts	62,640	-	-	62,640	30,984
Professional Fees	11,440	13,885	-	25,325	27,488
Supplies & Services - Medical	39,396	23,238	-	62,634	58,937
Travel	6,951	9,149	-	16,100	32,336
Technical Assistance	23,462	38,129	-	61,591	52,410
Occupancy Cost	230,896	135,380	-	366,276	300,839
Other Costs	69,063	17,095	-	86,158	51,045
Depreciation	45,142	4,000	-	49,142	27,384
TOTALS	1,877,420	485,060	-0-	2,362,480	1,988,036

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

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003
AND WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR 2002

	<u>2003</u>	(Memo Only) <u>2002</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Changes in Net Assets	47,455	207,972
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	49,142	27,384
(Increase) Decrease in Accounts Receivable	33,418	(50,050)
(Increase) Decrease in Prepaid Expenses	(4,397)	(6,307)
(Increase) Decrease in Other Assets	(5,000)	(1,210)
Increase (Decrease) in Accounts Payable	(77,532)	46,599
Increase (Decrease) in Accrued Payroll and Related Expenses	<u>256</u>	<u>(22,985)</u>
Net Cash Provided (Used) by Operating Activities	<u>43,342</u>	<u>201,403</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Acquisition of Capital Items	(23,586)	(188,404)
Disposition of Capital Items	<u>-</u>	<u>1,013</u>
Net Cash Provided (Used) by Investing Activities	<u>(23,586)</u>	<u>(187,391)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Decrease in Notes Payable	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-0-</u>	<u>-0-</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	19,756	14,012
<u>CASH AT BEGINNING OF YEAR</u>	<u>69,787</u>	<u>55,775</u>
<u>CASH AT END OF YEAR</u>	<u>89,543</u>	<u>69,787</u>
Supplemental Information		
Interest Paid	827	327

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

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 ORGANIZATION

Primary Health Services Center, Inc. (PHSC) was incorporated in the State of Louisiana as a community-based health program, primarily composed of adult and children medical treatment service in Monroe, Louisiana and north Louisiana.

PHSC 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 and 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. PHSC provides comprehensive primary health care to area residents, with particular care for the economically disadvantaged. The services are provided through an outpatient clinic with a referral program and health education.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Major Funding Source

PHSC receives funds from the United States Department of Health and Human Services (HHS) under Section 330 of the Public Health Service Act (42 U.S.C. 254c). In accordance with HHS policies, all funds disbursed must be in compliance with the specific terms of the grant agreement. HHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the Corporation with the terms of the grant. In addition, if PHSC terminates its HHS grant activities, all unexpended funds must be returned to the Department of Health and Human Services. Loss of these funds would have a material adverse effect on operations.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property And Equipment

Property and equipment are recorded at acquisition cost or fair market value if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. A summary of property and equipment is contained in Note 5.

Repairs and maintenance are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

Income Taxes

PHSC is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes. Accordingly, no provision for federal and state income taxes is included in the financial statements.

Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2002, from which the summarized information was derived.

Cash And Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

The organization has determined that fund raising costs are not material.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions that expire in the same period are recorded as unrestricted income in the current period.

NOTE 3 TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2003, temporarily restricted net assets represent the book value of fixed assets. The restriction on fixed assets is fully explained in Note 5.

NOTE 4 ACCOUNTS RECEIVABLE

The Corporation extends credit to patients, as well as third-party intermediaries responsible for medical services provided to patients. In most cases, the amount collected is less than the amount billed. Therefore, the receivable balance has been reduced to the amount considered collectible. The reserve for bad debts is \$196,740. A summary of accounts receivable is presented below:

<u>Source</u>	<u>2003</u>
City of Ruston	9,448
Medicare	40,283
Medicaid	266,543
Private Third Party Insurance	88,958
State of Louisiana	1,983

PRIMARY HEALTH SERVICES CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2003

NOTE 4 ACCOUNTS RECEIVABLE (Continued)

<u>Source</u> (Continued)	<u>2003</u>
Other	1,882
Self Pay - Patients	72,196
St. Francis Medical Center	528
Less: Reserve for Bad Debts	<u>(196,740)</u>
<u>TOTAL</u>	<u>285,081</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and certain equipment acquired with federal government funds are considered to be owned by PHSC while used in the program or in future authorized programs. However, the federal government retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale or disposal. Accordingly, PHSC may not transfer, mortgage, assign, lease, or in any other manner encumber these restricted items without prior approval of the federal government.

Major categories of property and equipment are as follows:

	<u>2003</u>
Computers	172,576
Office Fixtures/Equipment	74,312
Vehicle	<u>3,955</u>
Total	250,843
Less: Accumulated Depreciation	<u>(93,002)</u>
Net Property and Equipment	<u>157,841</u>

NOTE 6 RELATED PARTY TRANSACTIONS

PHSC occupies a building owned by an employee of the corporation. The employee donates the space and equipment as an in-kind contribution. The donation was valued at \$65,000, and is recorded both as revenue and expense.

NOTE 7 DONATIONS

Donations include the following:

In-Kind Rent	257,004
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The expenditures of the donations are included in the appropriate category on the financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 8 LEASES

The Corporation has entered into several leases for space to provide medical services and administration. Amounts due for the next five years are as follows:

2004	61,104
2005	61,104
2006	-
2007	-
2008	-

NOTE 9 CONCENTRATION OF CREDIT RISK

The Corporation's bank account balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 by each bank. At various times during the year the bank account balances exceeded \$100,000.

NOTE 10 SUBSEQUENT EVENT

In June 2004 the Corporation purchased a building located on DeSiard Street in Monroe, Louisiana for \$272,500. A loan was obtained from Enterprise Corporation of the Delta in Jackson, Mississippi for \$289,000 to fund the purchase and related costs. The loan is to be amortized over fifteen years. The building will be used to deliver medical services and for administration offices.

SUPPLEMENTAL INFORMATION

PRIMARY HEALTH SERVICES CENTER, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2003

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>EXPENDITURES</u>
U.S. Department of Health and Human Services			
<u>Bureau of Primary Health Care</u>			
Public Housing *	93.927	1HIB 05 00075-01	348,000
Rural Health - Pass- Through From City of Ruston, Louisiana	93.912	1004RH 00188-01	138,631
<u>Total Expenditures of Federal Awards</u>			<u>486,631</u>

* Major Program

The accompanying notes are an integral part of this schedule.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Primary Health Services Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE B SUBRECIPIENTS

During 2003, the Corporation did not have any subrecipients.

PRIMARY HEALTH SERVICES CENTER, INC.
 SCHEDULE OF EXPENDITURES (INCLUDING IN-KIND EXPENDITURES) BY GRANTS/CONTRACTS
 FOR THE YEAR ENDED DECEMBER 31, 2003

<u>EXPENDITURES</u>	<u>PUBLIC HOUSING</u>	<u>RURAL OUTREACH</u>	<u>DEPT. OF HEALTH & HOSPITALS - LOUISIANA</u>	<u>TOTALS</u>
Personnel	666,846	104,584	583,367	1,354,797
Fringe Benefits	80,624	9,653	54,755	145,032
Educational & Dues	17,024	9,933	8,611	35,568
Telephone	34,082	3,116	8,394	45,592
Interest Paid	568	3	256	827
Office	23,736	2,005	25,057	50,798
Bad Debts	62,640	-	-	62,640
Professional Fees	10,541	899	13,885	25,325
Supplies	24,619	47	37,968	62,634
Travel	10,759	680	4,661	16,100
Outside Consultation	31,277	527	29,787	61,591
Occupancy	179,804	36,538	149,934	366,276
Other Costs	53,815	4,598	27,745	86,158
Fixed Assets Purchased	<u>20,646</u>	<u>2,940</u>	<u>-</u>	<u>23,586</u>
<u>TOTALS</u>	<u>1,216,981</u>	<u>175,523</u>	<u>944,420</u>	<u>2,336,924</u>

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July 6, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

We have audited the financial statements of Primary Health Services Center, Inc. as of and for the year ended December 31, 2003, and have issued our report thereon dated July 6, 2004. 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 PHSC'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as item 2003-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PHSC'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 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 judgment, could adversely affect PHSC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-01 and 2003-02. As of July 6, 2004, management had implemented corrective actions for these findings.

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 necessarily disclosed all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the management of PHSC, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, under Louisiana R.S. 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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July 6, 2004

AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

Compliance

We have audited the compliance of Primary Health Services Center, Inc. (PHSC) 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 December 31, 2003. PHSC'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 PHSC's management. Our responsibility is to express an opinion on PHSC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 PHSC'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 of PHSC's compliance with those requirements.

In our opinion, PHSC 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 December 31, 2003. However, the

results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2003-03.

Internal Control Over Compliance

The management of PHSC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PHSC'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 the 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 judgment, could adversely affect PHSC's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-01 and 2003-02. As of July 6, 2004, management had implemented corrective actions for these findings.

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 none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana R.S. 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? ___ yes X no

* Reportable condition(s) identified that
are not considered to be material
weaknesses? X yes ___ none reported

Noncompliance material to financial
statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? ___ yes X no

* Reportable condition(s) identified that
are not considered to be material
weaknesses? X yes ___ none reported

Type of auditors' report issued on compliance for major programs:
Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? ___ yes X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.927	Public Housing Community Health Center

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

Auditee qualified as low-risk auditee? ___ yes X no

PRIMARY HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003

SECTION II - FINDINGS AND RECOMMENDATIONS

FINDING 2003-01

Condition: The accounts receivable policy for individual accounts needs to be updated to incorporate collection procedures and to set procedures and a time line for action on the accounts.

Criteria: Collection procedures and a suggested collection time line to write-off uncollectible accounts will provide a more accurate account of revenue.

Effect: This finding has no material effect on the financial statements.

Recommendation: We recommend that management implement procedures that will update the accounts receivable policy to incorporate formal collection letters when an individual account is 60 to 90 days old, to require a cut off of non-emergency services, and turning the account receivable over for collection after 120 to 150 days.

Management Response: Management agrees with this finding.

Auditors' Comments: As of July 6, 2004, management agrees to update the accounts receivable policy.

FINDING 2003-02

Condition: The Board of Directors have addressed a conflict of interest concerning a medical professional at one of Primary Health Service Center, Inc.'s locations.

Criteria: A private practice conducted by the professional should not be located at Primary Health Service Center, Inc. as it has an appearance of a conflict of interest.

Effect: This finding has no material effect on the financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003

SECTION II - FINDINGS AND RECOMMENDATIONS (Continued)

FINDING 2003-02 (Continued)

Recommendation: We recommend that the Board of Directors resolve this conflict of interest as quickly as possible.

Management Response: Management agrees with this finding.

Auditors' Comments: As of July 6, 2004, management agrees that the Board of Directors should resolve this conflict of interest as quickly as possible.

FINDING 2003-03

Condition: The audit report was not submitted in a timely manner due to the relocation of the Corporation's offices and the difficulty of locating needed data to complete the audit.

Criteria: The audit should be submitted in a timely manner as per state law.

Effect: This finding has no material effect on the financial statements. The audit report will be timely filed per federal rules.

Recommendation: We recommend that the audit be submitted in a timely manner.

Management Response: Management agrees with this finding.

Auditors' Comments: Management agrees to submit the audit in a timely manner.

PRIMARY HEALTH SERVICES CENTER, INC.
PRIOR YEAR FINDINGS—CORRECTIVE ACTION
FOR THE YEAR ENDED DECEMBER 31, 2003

FINDING 2002-01

Condition: No appraisal was done on the building and equipment at the Orange Street office to ensure that the in-kind rental value is accurately stated.

Recommendation: We recommend that an appraisal be done on the building and equipment at the Orange Street office to ensure that in-kind rental value is correctly stated.

Result: An appraisal was done on the building at the Orange Street office. However, an appraisal of the equipment was not done. Management is in the process of having an appraisal of the equipment done to ensure that in-kind rental value is correctly stated.