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**JACKSON PARISH HOSPITAL
SERVICE DISTRICT NO. 1
D/B/A
JACKSON PARISH HOSPITAL
September 30, 1999**

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 APR 26 2000

Audits of Financial Statements

**September 30, 1999
and
September 30, 1998**

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To the Board of Commissioners
Jackson Parish Hospital Service District No. 1
Jackson Parish, 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 year ended September 30, 1999, 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 financial statements based on our audit. The financial statements of the **Hospital**, as of September 30, 1998, were audited by other auditors whose report dated February 17, 1999, on those statements included an explanatory paragraph that described the uncertainty of the **Hospital** to continue as a going concern due to the **Hospital's** significant operating losses, reduced cash flow, and the amount of current debt.

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

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, 1999, and the results of its operations and its cash flows of its proprietary fund for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2000, 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.

Our audit was 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 financial statements of the **Hospital**. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The accompanying financial statements have been prepared assuming that the **Hospital** will continue as a going concern. As discussed in the Note Q to the financial statements, the **Hospital's** significant operating losses together with the amount of current debt raise substantial doubt about its ability as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.



A Professional Accounting Corporation

January 27, 2000

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

ASSETS

	September 30,	
	1999	1998
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 968,427	\$ 322,093
Assets Whose Use is Limited	3,756	7,394
Patient Accounts Receivable, Net of Estimated Uncollectibles of \$369,580 for 1999, and \$457,113 for 1998	486,603	819,574
Inventory Supplies - at Cost	261,791	215,062
Investments	-	1,521
Prepaid Expenses	83,522	92,896
Other Receivables	19,467	-
	<u>1,823,566</u>	<u>1,458,540</u>
 ASSETS WHOSE USE IS LIMITED		
By Agreements with Third-Party Payors for Funded Depreciation	-	3,608
Under Indenture Agreement	3,756	3,786
	<u>3,756</u>	<u>7,394</u>
 Total Assets Whose Use is Limited	 3,756	 7,394
 Less: Amounts Required to Meet Current Obligations	 3,756	 7,394
	<u>-</u>	<u>-</u>
 Noncurrent Assets Whose Use is Limited	 -	 -
 PROPERTY, PLANT AND EQUIPMENT, NET	 <u>2,273,596</u>	 <u>2,507,823</u>
 Total Assets	 <u>\$ 4,097,162</u>	 <u>\$ 3,966,363</u>

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

LIABILITIES AND FUND BALANCE

	September 30,	
	1999	1998
CURRENT LIABILITIES		
Accounts Payable - Trade	\$ 1,280,083	\$ 1,806,102
Estimated Third Party Settlements	699,228	903,079
Current Maturities of Bonds Payable	176,000	192,000
Current Maturities of Note Payable	-	140,277
Current Obligations of Capital Leases	41,691	45,332
Accrued Salaries and Employee Benefits	304,079	423,250
Accrued Interest on Long-Term Debt	2,739	5,411
Payroll Taxes Payable	10,045	43,941
	<u>2,513,865</u>	<u>3,559,392</u>
LONG-TERM LIABILITIES, NET OF CURRENT MATURITIES		
Bonds Payable	2,204,000	-
Long-Term Obligations of Capital Leases	46,901	26,383
Other Liabilities	-	1,755
	<u>2,250,901</u>	<u>28,138</u>
COMMITMENTS AND CONTINGENCIES	-	-
FUND BALANCE		
Fund Balance	<u>(667,604)</u>	<u>378,833</u>
Total Liabilities and Fund Balance	<u>\$ 4,097,162</u>	<u>\$ 3,966,363</u>

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
STATEMENTS OF REVENUES AND EXPENSES

	For The Years Ended September 30,	
	1999	1998
NET PATIENT SERVICE REVENUE	\$ 5,426,616	\$ 6,197,072
OTHER OPERATING REVENUE	1,085,876	845,132
Total Revenue	6,512,492	7,042,204
OPERATING EXPENSES		
Salaries and Benefits	4,000,686	4,887,998
Medical Supplies	695,044	686,729
Professional Fees	422,408	265,255
Other Operating Expenses	1,592,189	1,254,388
Insurance	189,324	254,607
Leases and Rentals	112,580	146,894
Interest	32,112	47,851
Depreciation	284,895	344,154
Provision for Bad Debts	675,638	442,071
Total Expenses	8,004,876	8,329,947
Loss from Operations	(1,492,384)	(1,287,743)
NON-OPERATING GAINS (LOSSES)		
Ad Valorem Taxes	310,663	433,502
Office Rent	62,354	33,543
Interest Income	4,387	19,700
Other Income	11,086	-
(Loss) on Sale of Ambulance Assets	(67,704)	-
Non-Operating Gains, Net	320,786	486,745
EXPENSES AND LOSSES IN EXCESS OF REVENUES AND GAINS, BEFORE EXTRAORDINARY ITEM	(1,171,598)	(800,998)
EXTRAORDINARY ITEM - SETTLEMENTS ON PRIOR YEAR OUTSTANDING DEBT	125,161	-
EXPENSES AND LOSSES IN EXCESS OF REVENUES AND GAINS	\$ (1,046,437)	\$ (800,998)

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,	
	1999	1998
BALANCE, Beginning of Year	\$ 378,833	\$ 1,179,831
Expenses and Losses in Excess of Revenues and Gains	(1,046,437)	(800,998)
BALANCE, End of Year	\$ (667,604)	\$ 378,833

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,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS AND LOSSES		
Expenses and Losses in Excess of Revenues and Gains	\$ (1,046,437)	\$ (800,998)
Adjustments to Reconcile Revenues and Gains in Excess of Expenses and Losses to Net Cash Provided by (Used in) Operating Activities and Gains and Losses:		
Loss on Disposal of Ambulance Assets	67,704	-
Depreciation and Amortization	284,895	344,154
Provision for Bad Debts	675,638	442,071
(Increase) in Accounts Receivable	(342,667)	(226,241)
(Decrease) Increase in Estimated Third-Party Payor Settlements	(203,851)	660,892
Decrease (Increase) in Investments	1,521	(71)
(Increase) Decrease in Inventories	(46,729)	13,417
Decrease in Prepaid Expenses	9,374	28,997
(Increase) in Other Receivables	(19,467)	-
(Decrease) Increase in Accounts Payable	(526,019)	222,447
(Decrease) in Accrued Expenses and Employee Benefits	(119,173)	(17,345)
(Decrease) in Accrued Interest on Long-Term Debt	(2,672)	-
(Decrease) in Payroll Taxes Payable	(33,896)	-
(Decrease) in Other Liabilities	(1,755)	-
	(1,303,534)	667,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Withdrawn From (Invested in) Assets Whose Use is Limited	3,638	(1,179)
Purchases of Property and Equipment	(68,041)	(118,941)
	(64,403)	(120,120)

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>1999</u>	<u>1998</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Bond Issuance	2,380,000	-
Repayment of Bonds and Certificates of Indebtedness	(192,000)	(178,000)
Payments Made on Capital Leases	(33,452)	(35,149)
Proceeds of Notes Payable	-	48,638
Payments on Note Payable	<u>(140,277)</u>	<u>(181,983)</u>
Net Cash Provided by (Used in) Financing Activities	<u>2,014,271</u>	<u>(346,494)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	646,334	200,709
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>322,093</u>	<u>121,384</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 968,427</u>	<u>\$ 322,093</u>
SUPPLEMENTAL DISCLOSURES:		
Cash Paid During the Year For Interest	<u>\$ 36,784</u>	<u>\$ 47,851</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES		
Assets Acquired Through Capital Leases	\$ 50,330	\$ 19,997
Capital Lease Obligations	\$ 50,330	\$ 19,997
Construction in Progress Capitalized During the Year	\$ 36,980	\$ -

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

ORGANIZATION AND OPERATIONS

LEGAL ORGANIZATION

The Jackson Parish Hospital Service District No. 1 ("Hospital") was organized under the Louisiana Revised Statutes of 1950. The Hospital's 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 National Committee on Governmental Accounting. The accompanying general purpose financial statements present information only on the funds 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 financial reporting entity.

NATURE OF BUSINESS

The Hospital operates a 25-acute-care hospital and a 24-bed psychiatric unit. Additionally, the Hospital provides home health, emergency, outpatient, and clinic services. During the year ended September 30, 1999, the Hospital discontinued its operation of a parish ambulance service.

CHANGES IN REPORTING CLASSIFICATION

The classification of certain prior year amounts has been changed to reflect consistent reporting when compared to current year balances.

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hospital conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The accompanying general purpose financial statements of the Hospital present the financial position and changes in fund balance for the enterprise fund. The results of operations and cash flow are also presented for the enterprise fund.

ACCOUNTING FOR PROPRIETARY FUND TYPE

The operating accounts of the Hospital are organized into one proprietary fund type. The operation of the proprietary fund is accounted for by providing a set of self-balancing accounts, which are comprised of assets, liabilities, fund balance, revenues and expenses.

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

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCOUNTING FOR PROPRIETARY FUND TYPE (Continued)

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

METHOD OF ACCOUNTING

Hospital accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA Audit and Accounting Guide – Health Care Organizations, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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.

INCOME TAXES

The entity is a political subdivision and is therefore exempt from taxation.

CREDIT RISK

The Hospital provides medical care primarily to Jackson Parish residents and grants credit to patients, substantially all of whom are local residents.

The Hospital's estimate of collectibility is based on an evaluation of historical collections compared to gross revenues to establish an allowance for uncollectible accounts.

NET PATIENT SERVICE REVENUE

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

INVENTORIES

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

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

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STATEMENT OF REVENUE AND EXPENSES

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

ASSETS WHOSE USE IS LIMITED

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

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 are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

NOTE C

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in checking accounts and money market accounts. The market value of all cash and money market accounts are not materially different from their carrying values.

All deposits are covered by Federal deposit insurance or collateral held by the pledging financial institution's trust departments in the Hospital's name.

NOTE D

INVESTMENTS

The Hospital considers all financial instruments with original maturities in excess of 90 days to be temporary cash investments.

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

NOTE E

PATIENT SERVICE REVENUES

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 year ended September 30, 1999 and 1998 follows:

	1999	1998
Medicare Patients	\$ 4,614,726	\$ 5,109,872
Medicaid Patients	1,910,813	1,874,448
Total	\$ 6,525,539	\$ 6,984,320
Percent of All Patients	64%	66%

Since the Hospital serves a disproportionate share of low-income patients, it qualifies for Medicaid Disproportionate Share reimbursements. Medicaid Disproportionate Share reimbursements of \$941,348 and \$646,609 are included in Other Operating Revenue for 1999 and 1998, respectively.

NOTE F

PROPERTY, PLANT AND EQUIPMENT

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

	September 30,	
	1999	1998
Buildings and Fixed Equipment	\$ 4,553,707	\$ 4,499,738
Major Movable Equipment	2,825,241	3,180,125
Land Improvements	181,047	174,685
	7,559,995	7,854,548
Less: Accumulated Depreciation	5,308,799	5,369,125
Total Buildings and Equipment	2,251,196	2,485,423
Land	22,400	22,400
Total Property, Plant and Equipment, Net of Depreciation	\$ 2,273,596	\$ 2,507,823

Depreciation and amortization expense for the years ended June 30, 1999 and 1998 totaled \$284,895 and \$344,154, respectively.

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

NOTE F (Continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include fully depreciated assets, which are still in service in the approximate amount of \$3,500,000.

These assets were obtained in part with funds from a Hill-Burton program grant of \$907,482. The Hill-Burton program has the ability to recapture a portion of that grant should the facility be taken out of service or if used by an unqualified recipient.

NOTE G

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. However, vested vacation and holiday days off have been recorded as a liability in the accompanying general purpose financial statements at employee earnings rates in effect at the balance sheets date.

NOTE H

PENSION PLAN

Effective March 1, 1996, the Hospital adopted a new defined contribution plan. The Variable Life Insurance Company (VALIC) Prototype Combined Profit Sharing/Money Purchase Plan Basic Document and Adoption Agreement #001 named "Jackson Parish Hospital Retirement Plan" (the "Plan"). The Plan Administrator is the Human Resource Director. Eligibility requirements are one year of employment and attained 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 to revert 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 \$59,246 and \$63,333 for the years ended September 30, 1999 and 1998, respectively.

NOTE I

CAPITAL LEASES

The Hospital leases various equipment under capital leases that expire in various years through 2004. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or fair value of the asset. These assets are included within property, plant and equipment on the Balance Sheets. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

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

NOTE I

CAPITAL LEASES (Continued)

The following is a summary of property held under capital leases:

	1999	1998
Total Equipment Under Capital Lease	\$ 247,877	\$ 197,547
Less: Accumulated Depreciation	183,131	166,416
Net Assets Under Capital Leases	\$ 64,746	\$ 31,131

Minimum future lease payments under capital leases as of September 30, 1999 for each of the next four years and in aggregate are:

Year	Amount
2000	\$ 41,691
2001	17,499
2002	10,175
2003	10,757
2004	8,470
Total Minimum Lease Payments	88,592
Less: Current Maturities	41,691
Long-Term Maturities	\$ 46,901

Interest rates on capital leases vary from 5% to 17% and are imputed on the lessor's implicit rates of return. Total interest incurred on these capital leases totaled \$25,488 for the year ended September 30, 1999.

NOTE J

OPERATING LEASES

The Hospital leases various equipment and a building under operating leases expiring in various years through 2001. Lease expense charged to operations totaled \$112,580 and \$146,894 for the years ended September 30, 1999 and 1998, respectively.

Certain operating leases provide for renewal options 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.

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

NOTE K

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 8.2 mills to be levied on taxable property from 1999 through 2008.

Scheduled principal repayments on these bonds are as follows:

2000	\$ 176,000
2001	174,000
2002	189,000
2003	204,000
2004	221,000
Thereafter	<u>1,416,000</u>
	<u>\$ 2,380,000</u>

As of September 30, 1998, the Hospital had an outstanding balance of \$192,000 payable on a 1992 Series Bond. This liability was settled on March 1, 1999. Interest incurred on this debt totaled \$6,624 for the year ended September 30, 1999.

NOTE L

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. Certain outpatient services 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. Home health is reimbursed based upon a cost reimbursement methodology, which is subject to limits on a cost per visit or beneficiary basis. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 1997.

Medicaid – Medicaid inpatient services are reimbursed based on a prospectively determined per diem rate. Medicaid outpatient services are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate for cost based services 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, 1994.

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

NOTE L

NET PATIENT SERVICE REVENUE (Continued)

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 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.

NOTE M

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 fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence.

The constitutionality of this legislation has not been tested by the courts, 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 redetermined utilizing actual losses of the Hospital.

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 financial statements. Equity reported by the Fund in the amounts of \$22,257 and \$22,257 were reported by the Hospital for the years ended September 30, 1999 and 1998, respectively. These amounts are included within prepaid insurance on the balance sheets.

NOTE N

BUSINESS AND CREDIT CONCENTRATIONS

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).

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

NOTE N

BUSINESS AND CREDIT CONCENTRATIONS (Continued)

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

	<u>1999</u>	<u>1998</u>
Medicare and Medicaid	53%	70%
Commercial Insurance	28%	17%
Patients	19%	13%

NOTE O

COMMITMENTS

The Hospital has employment/independent contractor contracts with three physicians that expire at various terms through January 2002. As of September 30, 1999, the Hospital's commitment for the next fiscal year totals \$250,000. These physicians work in hospital clinics and the emergency room. As of September 30, 1998, total annual salaries under these contracts were approximately \$794,000.

The Hospital has contracted with outside parties for management services that include providing for the Hospital's administrator, CFO, and Director of Patient Care Services. Subsequent to year-end, the Hospital extended this contract through November 2002. The annual commitment totals \$250,000, plus benefits not to exceed 30% of the \$250,000.

Also, subsequent to year-end, the Hospital has entered into a Facilities Management Agreement for an initial term of three years. This obligation calls for payments of \$76,296, \$77,632, and \$78,991, for the years ended September 2000, 2001, and 2002, respectively.

NOTE P

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.

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

NOTE P
CONTINGENCIES (Continued)

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical reports for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims, which have already been paid to the Hospital. The amount of such adjustments cannot reasonably be determined.

Professional Liability Risk (Note M) – 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 1997 and 1996. 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 financial statements. Equity reported by the Fund in the amount of \$18,715 was reported by the Hospital for both years ended September 30, 1999 and 1998. These amounts are included within prepaid insurance on the September 30, 1999 and 1998 balance sheets.

Hill-Burton Uncompensated Service and Community Service Obligations – As a result of the Police Jury receiving a Federal Hill-Burton program grant, the Hospital is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. As of September 30, 1998, the Hospital had a deficit in the level of free care provided. This deficit must be reduced through providing uncompensated services to indigent patients in fiscal year 1999 and subsequent years. Additionally, the grant requires the Hospital to provide certain community services. During the year ended September 30, 1999, the Hospital received notification that it had fulfilled all the uncompensated care requirements.

Medical Benefits Trust – The Hospital maintains a medical benefits trust. The Hospital contributes \$99 per employee per month and the employee contributes the balance of any premium required to cover the health benefits cost of the employees. All full time employees are eligible to participate. The trust pays all claims from funds provided from the Hospital. The trust agreement provides that should it not have sufficient funds to cover its obligations, the Hospital is obligated to fund the shortfall. The Hospital purchases "excess" insurance coverage that provides for payment of individual claims in excess of \$15,000 or aggregate annual claims in excess of \$162,680. The Hospital had a liability for incurred but not reported claims of \$90,587 and \$18,027 at September 30, 1999 and 1998, respectively. This liability is included within Accounts Payable on the balance sheets.

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

NOTE P

CONTINGENCIES (Continued)

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.

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

Environmental Liability -- The Hospital's management has determined, that as a potentially responsible party, it is likely that it has incurred a liability for environmental remediation costs resulting from an underground fuel tank. Although no claim against the Hospital has yet been asserted, it is believed that such a claim will be brought against the Hospital in the future.

NOTE Q

GOING CONCERN ISSUE

The financial statements have been prepared on the assumption that the Hospital is a going concern. The Hospital has experienced substantial operating losses for the last three years. The Hospital's significant operating losses during the last three years and its continued high level of current debt flow have contributed to the present going concern issue. The Hospital was successful in floating bonds in the amount of \$2,380,000 to assist in restructuring its debt. Management has also significantly reduced operating expenses during the year ended September 30, 1999. Management is also negotiating with vendors to accept a reduced amount in settlement of its trade payables. During the year ended September 30, 1999, Management successfully negotiated discounts totaling \$125,161, which is presented in the statements of revenues and expenses as an extraordinary item.

NOTE R

YEAR 2000 COMPLIANCE (UNAUDITED)

Time and space saving programming decisions made in prior years resulted in two-digit codes that may not correctly recognize "00" as the year 2000. Serious processing errors or system failure could result. To prevent this error, computer systems and equipment must be reprogrammed or replaced to make them year 2000 compliant.

The Hospital is significantly dependent on computerized systems for essential operations and to provide services to its patients. As a continuing process, the Hospital is actively engaged in making necessary changes to its systems and equipment to achieve year 2000 compliance. These changes include system upgrades and equipment replacements.

The Hospital has tested its systems and is in the process of upgrading its system. The completion of testing is not a guarantee, unto itself, that the systems will be year 2000 compliant.

SUPPLEMENTARY FINANCIAL INFORMATION

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,	
	1999	1998
DAILY PATIENT SERVICE REVENUES		
Adult and Pediatric	\$ 693,888	\$ 619,731
PCAU Room Revenue	1,843,474	1,764,699
Total Daily Patient Services	2,537,362	2,384,430
OTHER PROFESSIONAL SERVICES		
Operating Room	143,668	130,314
Recovery Room	6,695	4,223
Anesthesia	44,352	45,534
Radiology	832,249	778,877
Laboratory	681,322	706,658
Blood	26,776	41,658
IV Therapy	632,555	679,861
Respiratory Care	602,348	576,805
EKG and EEG	119,298	127,252
Medical Supply	432,543	506,526
Pharmacy	1,666,777	1,515,506
PCAU	81,677	70,307
Brain and Wellness Center	-	327,230
Emergency Room	527,955	652,382
Ambulance	173,234	644,863
Home Health	354,325	840,019
Clinics	322,650	507,167
Total Other Professional Services	6,648,424	8,155,182
Gross Patient Service Revenue	9,185,786	10,539,612
Less: Contractual Adjustments	3,759,170	4,342,540
Net Patient Service Revenue	\$ 5,426,616	\$ 6,197,072

See independent auditor's report.

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
SCHEDULE OF SALARIES AND BENEFITS

	For The Years Ended September 30,	
	1999	1998
PCAU	\$ 896,518	\$ 724,470
Nursing Services and Administration	451,337	434,302
Clinics	359,133	554,149
Emergency Room	351,471	530,015
Home Health	201,340	350,162
Laboratory	178,317	175,947
Radiology	134,082	122,167
General and Administrative	116,199	303,131
Anesthesiology	100,744	101,245
Housekeeping	98,971	106,422
Dietary and Cafeteria	92,233	86,446
Operating Room	82,688	78,520
Ambulance	80,722	280,732
Pharmacy	75,643	76,381
Respiratory Therapy	71,906	70,795
Medical Records	63,021	73,438
Central Supply	31,003	30,261
Plant Operations and Maintenance	24,516	19,022
Brain and Wellness Center	-	85,835
	3,409,844	4,203,440
Total Salaries		
	248,270	308,208
FICA	298,942	152,538
Hospital Insurance	37,828	92,410
Workers' Compensation Insurance	59,246	46,506
Retirement	28,119	22,593
Unemployment Taxes	(81,563)	62,303
Vacation and Holidays	590,842	684,558
Total Benefits		
	\$ 4,000,686	\$ 4,887,998
Total Salaries and Benefits		

See independent auditor's report.

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

	For The Years Ended	
	September 30,	
	1999	1998
Pharmacy	\$ 343,107	\$ 308,424
Laboratory and Blood	119,722	150,922
Nursing Services	69,158	55,154
Radiology	47,227	40,250
Respiratory Therapy	24,586	20,882
Emergency Room	19,491	16,299
Operating Room	17,216	12,042
Central Supply	14,831	17,829
Clinics	14,430	23,177
Ambulance	11,870	19,458
PCAU	8,978	8,685
Home Health	4,428	12,517
Brain and Wellness Center	-	1,090
	\$ 695,044	\$ 686,729
Total Medical Supplies		

See independent auditor's report.

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

	For The Years Ended September 30,	
	1999	1998
Emergency Room	\$ 164,067	\$ 68,574
Radiology	132,257	67,245
Laboratory	50,500	68,053
PCAU	30,353	1,449
EKG and EEG	25,571	24,843
Anesthesiology	13,572	25,254
Respiratory	3,865	9,837
Pharmacy	2,223	-
	\$ 422,408	\$ 265,255
Total Professional Fees		

See independent auditor's report.

**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 Hospital No. 1
Jonesboro, Louisiana

We have audited the general purpose financial statements of **JACKSON PARISH HOSPITAL SERVICE DISTRICT No. 1 (Hospital)** for the year ended September 30, 1999, and have issued our report thereon dated January 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Hospital's** 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 would be required to be reported herein 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 internal control. However, we noted certain matters involving 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 the **Hospital's** ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of 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 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. 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* disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described is not considered to be a material weakness.

This report is intended for the information 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.



A Professional Accounting Corporation

January 27, 2000

JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
d/b/a
JACKSON PARISH HOSPITAL
REPORTABLE CONDITIONS
For the Year Ended September 30, 1999

Maintenance of Payroll Files/Verifying Payroll Registers

In testing the internal controls over the payroll function, we noted instances where the personnel files were not consistently updated so that the file contained the current wage rate. We also noted that there were slight discrepancies between the time card and the actual pay per the pay register. Examples include paying an individual for 80 hours when their time card indicated 76.43 hours, with no time allocated to vacation and a time card for 77.87 hours with the pay register at 77.67 hours. The cause of the discrepancies is the lack of someone having the availability to check the register to the time cards prior to the release of the payroll.

We recommend that the Hospital consider having an individual assigned to the review of time cards against the payroll register prior to the release of the payroll to the employees.

The Hospital's management has concurred with this finding and has appointed one individual to organize and update all payroll files. Also, an individual, independent of the payroll function, will review time cards and the payroll register for accuracy.

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, 1998

1. **Clinic Accounts Receivable**
Condition: Clinic revenues were not fully recorded on the general ledger.

Resolution: Has been resolved.
2. **Physician Performance Controls**
Condition: The Hospital employed several new physicians during 1996 and 1997. These physicians were guaranteed certain salaries which were not contingent on meeting any performance standards.

Resolution: Has been resolved.
3. **Medical Denials**
Condition: The Medicaid Program denied a large number of psychiatric unit claims during fiscal year 1997. At year-end, the Medicare/Medicaid allowance for contractual adjustments included approximately \$830,000 for uncollectible Medicaid psychiatric receivables. These accounts were written off subsequent to September 30, 1997.

Resolution: Has been resolved.
4. **Home Health Receivable**
Condition: Home Health accounts receivable are recorded at a net value on the balance sheet without detailing the allowances which reduced these receivables to net value.

Resolution: Has been resolved.
5. **Routine Revenues**
Condition: Routine revenue was not reconciled to medical record days.

Resolution: Has been resolved.
6. **Capital Asset System**
Condition: A lotus spreadsheet is being utilized to record and depreciate assets. With personnel turnover, the assets were not being depreciated consistently each year.

Resolution: The spreadsheet is still being utilized; however, the continuity of staff has ensured that all assets are depreciated on a consistent. Matter is considered resolved.
7. **Segregation of Duties**
Condition: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Resolution: Management recognizes that it is not practicable or cost effective to achieve total segregation of duties with the total number of available employees. To minimize its risk, management supervises and reviews activities on a regular basis. Matter is considered resolved.

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, 1998

8. **Consistency in Recording**

Condition: Numerous reclassification entries were needed to correct the general ledger. Medical supply charges were not being consistently recorded.

Resolution: This matter has been resolved.

9. **Medicare and Medicaid Logs**

Condition: Medicare and Medicaid logs were not maintained.

Resolution: This matter has been resolved.

10. **Accounting Policies and Procedures Manual**

Condition: An Accounting Policies and Procedures manual did not exist.

Recommendation: A complete and current accounting policies and procedures manual and chart of accounts needs to be established and maintained.

Response: The Hospital has established the chart of accounts and is updating it regularly. The Hospital is still in the process of completing its policies and procedures manual.

11. **Capital Leases**

Condition: In 1995, the Hospital had five capital leases which had no documentation in the board minutes of approval by the state bond commission. During 1996, the Hospital entered into two new capital leases. The Louisiana Revised Statutes require that any incurrence of debt over 90 days must be approved by the commission if certain non-appropriation clauses are not met.

Resolution: All new leases include the appropriate non-appropriation clauses.

12. **Corporate Compliance Plan**

Condition: In an open letter to Medicare and Medicaid providers in numerous public statements, the U.S. Health and Human Services Inspector General and others in her office have made it clear that such providers should (but are not required to) establish corporate compliance programs.

Resolution: The Hospital has developed and implemented its compliance plan.

January 24, 2000

Board of Directors
Jackson Parish Hospital Service District No. 1
d/b/a Jackson Parish Hospital

In planning and performing our audit of the financial statements of **JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A JACKSON PARISH HOSPITAL** for the year ended September 30, 1999, we considered its internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, as we noted in the prior year, there were certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

PAYROLL

Maintenance of Payroll Files/Verifying Time Cards to Payroll Registers

In testing the internal controls over the payroll function, we noted instances where the personnel files were not consistently updated so that the file contained the current wage rate. We also noted that there were slight discrepancies between the time card and the actual pay per the pay register. Examples include paying an individual for 80 hours when their time card indicated 76.43 hours, with no time allocated to vacation and a time card for 77.87 hours with the pay register at 77.67 hours. The cause of the discrepancies is the lack of someone having the availability to check the register to the time cards prior to the release of the payroll.

We recommend that the Hospital consider having an individual assigned to the review of time cards against the payroll register prior to the release of the payroll to the employees.

The Hospital's management has concurred with this finding and has appointed one individual to organize and update all payroll files. Also, an individual, independent of the payroll function, will review time cards and the payroll register for accuracy.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

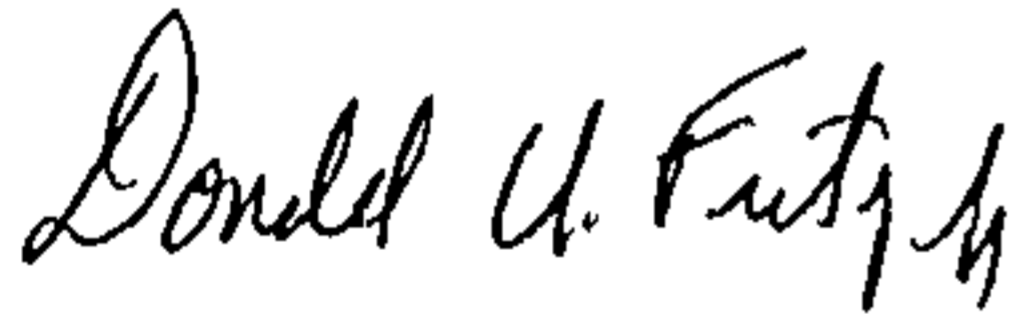
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, and others within the organization.

We appreciate the confidence you have placed in us by allowing us to serve **JACKSON PARISH HOSPITAL SERVICE DISTRICT NO. 1, D/B/A JAKSON PARISH HOSPITAL**. If we can assist you in any way with the above, please do not hesitate to contact us.

Very truly yours,

LaPORTE, SEHRT, ROMIG & HAND



Donald U. Frutiger, Jr.
Certified Public Accountant