

**OFFICIAL  
 FILE COPY**

**DO NOT SEND OUT**

(Xerox necessary  
 copies from this  
 copy and PLACE  
 BACK in FILE)

Table of Contents

Page No.

Independent Auditors' Report on Financial Statements .....	1
General Purpose Financial Statements	
Balance Sheets - Restricted and Unrestricted Funds .....	2
Statements of Operations - Unrestricted Fund .....	3
Statements of Changes in Fund Balance - Restricted and Unrestricted Funds .....	4
Statements of Cash Flows - Restricted and Unrestricted Funds .....	5
Notes to Financial Statements .....	7
Supplemental Information	
Net Patient Service Revenue .....	20
Other Operating Revenue .....	21
Schedule of Operating Expenses .....	22
Schedule of Per Diem and Other Compensation Paid to Board Members .....	24
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with GOVERNMENT AUDITING STANDARDS .....	25

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

Release Date 2-9-00

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

Paul G. Mathews, CPA  
Melanie I. Sarver, CPA

**LESTER, MILLER & WELLS**  
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS  
3600 BAYOU RAPIDES ROAD  
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450  
Facsimile (318) 445-1184

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

Mailing Address:  
P.O. Box 8758  
Alexandria, LA 71306-1758

INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying general purpose financial statements of Hospital Service District No. 3, Parish of Allen, State of Louisiana, Allen Parish Hospital (the "District"), a component unit of the Allen Parish Police Jury, as of and for the years ended June 30, 1999, 1998 and 1997, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the District's management.

On three issues, we were unable to satisfy ourselves as to the effects they may have on the results of operations and the related effect upon the balance sheet. First, the receivable from a related party, Evangeline psychiatric Care, Inc. is in dispute. Second, we were unable to obtain sufficient information in order to support Disclosures about Year 2000 Issues required by Governmental Accounting Standards Board Technical Bulletin 98-1. Third, as more fully described in Note 17, there is substantial doubt regarding the ability of the Hospital to continue as a going concern and the related effects on financial statements.

Since we were unable to satisfy ourselves as to the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these general purpose financial statements.

*Lester, Miller & Wells*  
Certified Public Accountants

September 22, 1999

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Balance Sheets - Restricted and Unrestricted Funds  
June 30, 1999, 1998, and 1997

	1999	1998	1997
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 564,075	\$ 1,167,672	\$ 782,193
Investments	20,000	20,000	20,000
Patient accounts receivable, net of estimated uncollectibles (Note 4)	419,347	543,651	684,063
Due from related party (Note 16)	798,131	489,948	245,673
Estimated Medicare and Medicaid program settlements (Note 4)	400,923	-0-	272,735
Inventory	139,468	127,241	127,629
Prepaid expenses	17,084	24,018	16,669
Deposit	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>
<b>Total current assets</b>	<u><b>2,367,028</b></u>	<u><b>2,380,530</b></u>	<u><b>2,156,962</b></u>
Property, plant and equipment, net (Note 5)	935,020	808,455	850,216
Assets limited as to use (Note 7)	125,000	125,000	125,000
Other assets	<u>4,968</u>	<u>8,694</u>	<u>12,420</u>
<b>Total assets</b>	<u><b>\$ 3,432,016</b></u>	<u><b>\$ 3,322,679</b></u>	<u><b>\$ 3,144,598</b></u>
<b>Liabilities and Fund Balance</b>			
<b>Current liabilities:</b>			
Current maturities of long-term debt (Note 9)	\$ 65,052	\$ 44,052	\$ 22,470
Accounts payable and accrued expenses	1,686,818	1,474,871	1,386,775
Estimated Medicare and Medicaid program settlements (Note 4)	<u>-0-</u>	<u>53,226</u>	<u>-0-</u>
<b>Total current liabilities</b>	<u><b>1,751,870</b></u>	<u><b>1,572,149</b></u>	<u><b>1,409,245</b></u>
Long-term debt, net of current maturities (Note 9)	<u>304,884</u>	<u>237,728</u>	<u>81,481</u>
<b>Total liabilities</b>	<u><b>2,056,754</b></u>	<u><b>1,809,877</b></u>	<u><b>1,490,726</b></u>
<b>Fund balance:</b>			
Unrestricted	1,375,262	1,512,802	1,613,247
Temporarily restricted	<u>-0-</u>	<u>-0-</u>	<u>40,625</u>
<b>Total fund balance</b>	<u><b>1,375,262</b></u>	<u><b>1,512,802</b></u>	<u><b>1,653,872</b></u>
<b>Total liabilities and fund balance</b>	<u><b>\$ 3,432,016</b></u>	<u><b>\$ 3,322,679</b></u>	<u><b>\$ 3,144,598</b></u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Statements of Operations - Unrestricted Fund  
Years Ended June 30, 1999, 1998 and 1997

	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Revenue:</b>			
Net patient service revenue	\$ 3,856,841	\$ 4,961,568	\$ 4,458,516
Maintenance taxes	82,743	84,247	88
Donations	-0-	500	-0-
Other	<u>246,919</u>	<u>242,187</u>	<u>187,444</u>
Total revenue	<u>4,186,503</u>	<u>5,288,502</u>	<u>4,646,048</u>
<b>Expenses:</b>			
Salaries and benefits	1,892,595	1,750,227	1,765,564
Medical supplies and drugs	177,249	173,830	221,894
Insurance	88,487	98,272	103,812
Provision for bad debts	245,623	751,543	112,241
Depreciation and amortization	104,570	92,457	91,510
Interest expense	25,859	10,678	8,826
Other expenses	<u>1,816,176</u>	<u>2,538,015</u>	<u>2,456,303</u>
Total expenses	<u>4,350,559</u>	<u>5,415,022</u>	<u>4,760,150</u>
Operating income (loss)	(164,056)	(126,520)	(114,102)
<b>Nonoperating income</b>			
Interest income	<u>26,516</u>	<u>26,075</u>	<u>13,229</u>
Excess of revenues over expenses	<u>\$ (137,540)</u>	<u>\$ (100,445)</u>	<u>\$ (100,873)</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
 Of the Parish of Allen, State of Louisiana  
 Allen Parish Hospital  
 Statements of Changes in Fund Balance  
 Years Ended June 30, 1999, 1998 and 1997

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>
Fund balance, June 30, 1996	\$ 1,714,120	\$ -0-
Excess of revenues over expenses	(100,873)	-0-
Unexpended Rural Health Care Transition Grant	<u>-0-</u>	<u>40,625</u>
Fund balance, June 30, 1997	1,613,247	40,625
Excess of revenues over expenses	(100,445)	-0-
Amounts released from restrictions	<u>-0-</u>	<u>(40,625)</u>
Fund balance, June 30, 1998	1,512,802	-0-
Excess of revenues over expenses	<u>(137,540)</u>	<u>-0-</u>
Fund balance, June 30, 1999	\$ <u>1,375,262</u>	\$ <u>-0-</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Statements of Cash Flows - Restricted and Unrestricted Funds  
Years Ended June 30, 1999, 1998 and 1997

	1999	1998	1997
Cash flows from operating activities			
Operating income (loss)	\$ (164,056)	\$ (126,520)	\$ (114,102)
Interest expense considered capital financing activity	25,859	10,678	8,826
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	104,570	92,457	91,510
Provision for bad debts	245,623	751,543	112,241
Malpractice losses	-0-	100,000	-0-
Changes in			
Patient accounts receivable	(121,319)	(611,131)	120,508
Due from related party	(308,183)	(244,275)	(232,940)
Estimated Medicare and Medicaid program settlements	(454,149)	325,961	(652)
Inventory	(12,227)	388	10,323
Prepaid expenses	6,934	(7,349)	1,295
Accounts payable and accrued expenses	<u>211,947</u>	<u>88,096</u>	<u>531,480</u>
Net cash used by operating activities	<u>(465,001)</u>	<u>379,848</u>	<u>528,489</u>
Cash flows from investing activities			
Interest on investments	<u>26,516</u>	<u>26,075</u>	<u>13,229</u>
Net cash provided by investing activities	<u>26,516</u>	<u>26,075</u>	<u>13,229</u>
Cash flows from non-capital financing activities			
Net proceeds from unexpended grant	<u>-0-</u>	<u>(40,625)</u>	<u>40,625</u>
Net cash provided by non-capital financing activities	\$ <u>-0-</u>	\$ <u>(40,625)</u>	\$ <u>40,625</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Statements of Cash Flows - Restricted and Unrestricted Funds (Continued)  
Years Ended June 30, 1999, 1998 and 1997

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash flows from capital and related financing activities			
Principal payments on long-term debt	\$ (60,114)	\$ (22,171)	\$ (23,500)
Interest expense on long-term debt	(25,859)	(10,678)	(8,826)
Acquisition of capital assets	(79,139)	(46,970)	(2,264)
Proceeds from certificates of indebtedness	<u>-0-</u>	<u>100,000</u>	<u>-0-</u>
Net cash used by capital and related financing activities	<u>(165,112)</u>	<u>20,181</u>	<u>(34,590)</u>
Net increase (decrease) in cash and cash equivalents	(603,597)	385,479	547,753
Cash and cash equivalents, beginning of year	<u>1,167,672</u>	<u>782,193</u>	<u>234,440</u>
Cash and cash equivalents, end of year	<u>\$ 564,075</u>	<u>\$ 1,167,672</u>	<u>\$ 782,193</u>

The Hospital entered into various capital lease obligations for \$148,270 and \$84,650 in 1999 and 1998, respectively.

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

The Allen Parish Hospital Service District No. 3 (the "Hospital" or the "District") was created by an ordinance of the Allen Parish Police Jury.

The Hospital is a political subdivision of the Allen Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Allen Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Allen Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Allen Parish Police Jury based on statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), acute inpatient and psychiatric hospital services. The District began offering home health services during the year ended June 30, 1996.

Hospital Land

The land on which the Hospital was built was donated by Powell Lumber Company to Allen Parish Hospital Service District No. 3. The donation was made with the restriction that the land is to be used primarily as a site for a public hospital and should the donee or their successors or assignees fail to use the land for a public hospital, the title shall revert to Powell Lumber Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting

The Hospital uses the accrual method of accounting. Revenue is recorded when earned and expenses are recorded when incurred. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Patient Service Revenue

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

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking, money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities of more than 90 days are classified as investments. Cash and cash equivalents are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Allen Parish residents and grants credit to patients substantially all of whom are local residents.

The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the hospital's patients.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Third Party Cost-Based Revenues

Contractual agreements with governmental agencies provide for reimbursement based on a fixed price per patient stay based upon the patient's primary diagnosis for Medicare inpatient services and on a fixed price per patient day for Medicaid inpatient services. Medicare and Medicaid outpatient and home health services are reimbursed based upon the lesser of reasonable cost (subject to certain limits) or charges to patients. These reimbursements are subject to audit and retroactive adjustments by each payor.

Inventory

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

Income Taxes

The entity is a political subdivision and exempt from taxation.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line depreciation for financial reporting and third party reimbursement. The following estimated useful lives are generally used.

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

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

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

Changes in Reporting Classification

The classification of certain prior year amounts have been changed to reflect consistent reporting when compared to current year balances. The financial statement format has been changed to reflect changes in the AICPA Audit and Accounting Guide - Health Care Organizations, issued May 1, 1998.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 3 - DEPOSITS

Included in cash and cash equivalents, investments and assets whose use is limited are cash on hand, deposits with the depository banks for money market accounts, checking accounts and certificates of deposit. For all deposits, the market value and carrying value are the same. The deposits are insured by the FDIC and collateral held by the pledging financial institution's trust departments in the District's name.

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net patient accounts receivable	\$ 563,345	\$ 774,696	\$ 896,429
Other receivables	<u>3,509</u>	<u>4,897</u>	<u>3,164</u>
	566,854	779,593	899,593
Estimated uncollectibles	<u>(147,507)</u>	<u>(235,942)</u>	<u>(215,530)</u>
Total	<u>\$ 419,347</u>	<u>\$ 543,651</u>	<u>\$ 684,063</u>

The Hospital generated a substantial portion of its charges from Medicare and Medicaid programs at discounted rates. The following is a summary of gross Medicare and Medicaid patient charges:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Medicare patients	\$ 2,533,652	\$ 4,114,686	\$ 3,922,748
Medicaid patients	<u>1,935,600</u>	<u>2,299,925</u>	<u>1,605,182</u>
Total	<u>\$ 4,469,252</u>	<u>\$ 6,414,611</u>	<u>\$ 5,527,930</u>
Percent of all patients	<u>73%</u>	<u>78%</u>	<u>79%</u>

Medicaid disproportionate share payments in the amount of \$290,199, \$176,562, and \$92,598 have been included in net revenues for the periods ended June 30, 1999, 1998 and 1997, respectively. Calculations are based upon oral interpretations by Louisiana Medicaid officials of existing Medicaid regulations. Final interpretations and audit determinations could result in changes.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 1999.

	June 30, 1998	ASSET COST		June 30, 1999
		Additions	Deductions	
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	29,002	1,615	-0-	30,617
Buildings	1,300,233	82,487	-0-	1,382,720
Fixed equipment	58,519	-0-	-0-	58,519
Major movable equipment	1,101,972	149,045	-0-	1,251,017
Construction in progress	<u>5,738</u>	<u>-0-</u>	<u>5,738</u>	<u>-0-</u>
Total	<u>\$ 2,515,014</u>	<u>\$ 233,147</u>	<u>\$ 5,738</u>	<u>\$ 2,742,423</u>

	June 30, 1998	ACCUMULATED DEPRECIATION		June 30, 1999
		Additions	Deductions	
Land improvements	\$ 26,584	\$ 838	\$ -0-	\$ 27,422
Buildings	713,278	35,407	-0-	748,685
Fixed equipment	41,567	2,670	-0-	44,237
Major movable equipment	<u>925,130</u>	<u>61,929</u>	<u>-0-</u>	<u>987,059</u>
Total	<u>\$ 1,706,559</u>	<u>\$ 100,844</u>	<u>\$ -0-</u>	<u>\$ 1,807,403</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 1998.

	June 30, 1997	ASSET COST		June 30, 1998
		Additions	Deductions	
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	29,002	-0-	-0-	29,002
Buildings	1,300,233	-0-	-0-	1,300,233
Fixed equipment	58,519	-0-	-0-	58,519
Major movable equipment	1,060,740	41,232	-0-	1,101,972
Construction in progress	<u>-0-</u>	<u>5,738</u>	<u>-0-</u>	<u>5,738</u>
Total	<u>\$ 2,468,044</u>	<u>\$ 46,970</u>	<u>\$ -0-</u>	<u>\$ 2,515,014</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>ACCUMULATED DEPRECIATION</u>			June 30, 1998
	June 30, 1997	Additions	Deductions	
Land improvements	\$ 25,558	\$ 1,026	\$ -0-	\$ 26,584
Buildings	679,890	33,388	-0-	713,278
Fixed equipment	38,897	2,670	-0-	41,567
Major movable equipment	<u>873,483</u>	<u>51,647</u>	<u>-0-</u>	<u>925,130</u>
Total	<u>\$ 1,617,828</u>	<u>\$ 88,731</u>	<u>\$ -0-</u>	<u>\$ 1,706,559</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 1997.

	<u>ASSET COST</u>			June 30, 1997
	June 30, 1996	Additions	Deductions	
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	29,002	-0-	-0-	29,002
Buildings	1,300,233	-0-	-0-	1,300,233
Fixed equipment	58,519	-0-	-0-	58,519
Major movable equipment	<u>973,826</u>	<u>86,914</u>	<u>-0-</u>	<u>1,060,740</u>
Total	<u>\$ 2,381,130</u>	<u>\$ 86,914</u>	<u>\$ -0-</u>	<u>\$ 2,468,044</u>

	<u>ACCUMULATED DEPRECIATION</u>			June 30, 1997
	June 30, 1996	Additions	Deductions	
Land improvements	\$ 23,985	\$ 1,573	\$ -0-	\$ 25,558
Buildings	646,502	33,388	-0-	679,890
Fixed equipment	36,227	2,670	-0-	38,897
Major movable equipment	<u>823,330</u>	<u>50,153</u>	<u>-0-</u>	<u>873,483</u>
Total	<u>\$ 1,530,044</u>	<u>\$ 87,784</u>	<u>\$ -0-</u>	<u>\$ 1,617,828</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

A summary of assets held under capital leases, which are included in property, plant and equipment, at June 30 follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Equipment	\$ 271,603	\$ 123,333	\$ 128,433
Accumulated depreciation	<u>(72,126)</u>	<u>(39,673)</u>	<u>(21,379)</u>
Total	<u>\$ 199,477</u>	<u>\$ 83,660</u>	<u>\$ 107,054</u>

NOTE 6 - ORGANIZATIONAL COSTS

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

NOTE 7 - ASSETS LIMITED AS TO USE

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

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Under malpractice funding arrangement - held by trustee:			
Certificates of deposit	<u>\$ 125,000</u>	<u>\$ 125,000</u>	<u>\$ 125,000</u>

NOTE 8 - ACCRUED EXPENSES

A summary of accrued expenses follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Salaries	\$ 73,346	\$ 72,516	\$ 64,675
Payroll taxes	611	2,503	846
Other	<u>444</u>	<u>320</u>	<u>224</u>
Total	<u>\$ 74,401</u>	<u>\$ 75,339</u>	<u>\$ 65,745</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 9 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30, 1999, 1998 and 1997, follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
5.05 percent Certificates of Indebtedness, Series 1998, due March 1, 2007, collateralized by a pledge of tax revenues	\$ 91,000	\$ 100,000	\$ -0-
9.00 percent note payable due September 30, 2011, unsecured	<u>89,209</u>	<u>100,000</u>	<u>-0-</u>
Total long-term debt	180,209	200,000	-0-
Less current maturities of long-term debt	<u>13,139</u>	<u>20,122</u>	<u>-0-</u>
Long-term debt, net of current maturities	<u>\$ 167,070</u>	<u>\$ 179,878</u>	<u>\$ -0-</u>
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Capital lease obligations, at varying rates of imputed interest from 9.25 percent to 24.60 percent collateralized by leased equipment with a book value of \$89,684 at June 30, 1998	\$ 189,727	\$ 81,780	\$ 103,951
Less current portion of capital lease obligations	<u>51,913</u>	<u>23,930</u>	<u>22,470</u>
Capital lease obligations, excluding current portion	<u>\$ 137,814</u>	<u>\$ 57,850</u>	<u>\$ 81,481</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 9 - LONG-TERM DEBT (Continued)

Scheduled principal repayments on long-term and payments on capital obligations for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2000	\$ 13,139	\$ 70,240
2001	14,527	64,733
2002	14,952	43,433
2003	16,417	36,712
2004	17,925	15,556
Thereafter	<u>103,249</u>	<u>-0-</u>
	<u>\$ 180,209</u>	230,674
		<u>40,947</u>
		<u>\$ 189,727</u>

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

NOTE 10 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 1998, that have initial or remaining lease terms in excess of one year.

<u>Year Ending June 30</u>	<u>Amount</u>
2000	\$ 15,430
Total minimum lease payments	<u>\$ 15,430</u>

NOTE 11 - COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital charged operations for accrued paid days off and vested sick pay of \$34,964, \$33,912 and \$39,555 in 1999, 1998 and 1997, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 12 - PROFESSIONAL LIABILITY RISK

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

The District has acquired additional coverage for professional medical malpractice liability through a private insurance carrier by purchasing a claims-made policy.

NOTE 13 - CONTINGENCIES

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

The principal contingencies are described below:

Governmental Third Party Reimbursement Programs (Note 4) - The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. Of particular significance are large Medicaid disproportionate payments which have been received, but are subject to change based upon audit results and regulatory interpretations. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare programs, the District entered into an agreement with a government agent allowing the agent access to the District Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the District.

Professional Liability Risk (Note 12) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

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

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 14 - CHARITY CARE

The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The following information measures the level of charity care provided.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Charges foregone, based on established rates	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Equivalent percentage of charity care patients to all patients served	<u>-0-%</u>	<u>-0-%</u>	<u>-0-%</u>

NOTE 15 - GRANTS

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

NOTE 16 - RELATED PARTY (JOINT VENTURE)

On April 1, 1995, the District entered into a joint venture with Evangeline Psychiatric Care, Inc. (EPC). As an equity interest, the District contributed the use of all of its assets and related liabilities as of March 31, 1995. EPC agreed to establish a line of credit for \$375,000 for its equity interest in the joint venture. The net profits and losses will be split 60/40 to EPC and the District, respectively.

The Hospital had the following transactions and balances with EPC.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Beginning amount due from (to) EPC	\$ 489,948	\$ 245,673	\$ 12,733
EPC's 60% share of (profits) or losses	206,309	150,665	151,309
Direct expenses incurred by EPC and payable by the District	(138,126)	(156,390)	(158,369)
Payments by the District to EPC	<u>240,000</u>	<u>250,000</u>	<u>240,000</u>
Ending amount due from (to) EPC	\$ <u>798,131</u>	\$ <u>489,948</u>	\$ <u>245,673</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 1999, 1998 and 1997

NOTE 17 - GOING CONCERN

There are conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the District's ability to continue as a going concern for a reasonable period of time. These conditions or events include, but are not limited to the following: (1) losses from operations of \$137,540, \$126,520 and \$114,102 in 1999, 1998 and 1997 respectively (2) low patient utilization of the Hospital (3) future possible reductions in Medicare reimbursement due to the Balanced Budget Act of 1997 and (4) excess denials of claims by Medicare and Medicaid intermediaries.

Management's plans for dealing with the adverse effects of the conditions or events identified in the previous paragraph include, but are not limited to, the continued efforts to attract physicians to increase patient utilization of the hospital, expansion of the healthcare services, such as an outpatient rehabilitation program, wound management care and various procedures, and increased efforts to obtain grants for current and new programs.

**SUPPLEMENTAL INFORMATION**

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Net Patient Service Revenue  
Years Ended June 30, 1999, 1998 and 1997

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Routine services			
Adult and pediatric	\$ 134,850	\$ 124,925	\$ 173,665
Psychiatric	3,156,549	3,422,047	2,689,239
Swing-bed	<u>4,570</u>	<u>6,885</u>	<u>1,755</u>
Total routine services	<u>3,295,969</u>	<u>3,553,857</u>	<u>2,864,659</u>
Other professional services			
Radiology	188,393	268,797	289,661
Nuclear medicine	136,112	25,551	28,019
Laboratory	499,998	676,999	597,775
Blood	5,008	17,933	15,288
Respiratory therapy	55,902	51,644	73,246
Electrocardiology	65,140	58,580	64,640
Central supply	158,230	229,903	259,700
Intravenous therapy	60,050	58,550	64,270
Pharmacy	497,493	388,463	301,612
Partial day psychiatric	614,227	1,257,299	437,139
Emergency room	-0-	-0-	5,400
Emergency room physician	-0-	-0-	5,700
Hyperbaric	52,350	-0-	-0-
Observation room	8,620	4,230	11,510
Contract physician	189,954	216,063	341,959
Home health visits	330,040	1,408,200	1,631,080
Kid med	<u>2,403</u>	<u>3,677</u>	<u>1,645</u>
Total other professional services	<u>2,863,920</u>	<u>4,665,889</u>	<u>4,128,684</u>
Gross patient service revenues	<u>6,159,889</u>	<u>8,219,746</u>	<u>6,993,343</u>
Contractual adjustments	2,513,064	3,372,198	2,594,307
Medicaid disproportionate share payments	(290,199)	(176,562)	(92,598)
Discounts	<u>80,183</u>	<u>62,542</u>	<u>33,118</u>
Total deductions from revenue	<u>2,303,048</u>	<u>3,258,178</u>	<u>2,534,827</u>
Net patient service revenue	<u>\$ 3,856,841</u>	<u>\$ 4,961,568</u>	<u>\$ 4,458,516</u>

Hospital Service District No. 3  
 Of the Parish of Allen, State of Louisiana  
 Allen Parish Hospital  
 Other Operating Revenue  
 Years Ended June 30, 1999, 1998 and 1997

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Meals	\$ 8,709	\$ 7,648	\$ 9,606
Medical records transcript fees	1,646	2,198	2,409
Miscellaneous rental	10,255	7,800	7,800
Related party 60% loss (income) share	206,309	150,665	151,309
Supplies sold to employees	-0-	-0-	364
Drugs sold to employees	50	701	844
Other income	<u>19,950</u>	<u>73,175</u>	<u>15,112</u>
 Total other operating revenue	 <u>\$ 246,919</u>	 <u>\$ 242,187</u>	 <u>\$ 187,444</u>

Hospital Service District No. 3  
 Of the Parish of Allen, State of Louisiana  
 Allen Parish Hospital  
 Schedule of Operating Expenses - Salaries and Benefits  
 Years Ended June 30, 1999, 1998 and 1997

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Administration	\$ 171,546	\$ 179,691	\$ 181,212
Plant operations and maintenance	49,557	50,001	51,034
Housekeeping	38,763	36,420	35,965
Dietary and cafeteria	85,574	77,835	77,531
Central supply	8,856	13,507	16,846
Pharmacy	14,052	11,728	11,143
Medical records	29,093	30,826	33,200
Nursing services, acute care	254,985	231,770	275,028
Psychiatric unit	539,552	561,319	591,811
Radiology	63,641	57,458	59,509
Laboratory	-0-	-0-	23,424
Partial day psychiatric	74,795	86,979	43,067
Home health	199,610	71,405	-0-
Contract physician	<u>234,688</u>	<u>220,469</u>	<u>242,399</u>
 Total salaries	 <u>1,764,712</u>	 <u>1,629,408</u>	 <u>1,642,169</u>
 Payroll taxes	 <u>127,883</u>	 <u>120,819</u>	 <u>123,395</u>
 Total salaries and benefits	 <u>\$ 1,892,595</u>	 <u>\$ 1,750,227</u>	 <u>\$ 1,765,564</u>

Hospital Service District No. 3  
 Of the Parish of Allen, State of Louisiana  
 Allen Parish Hospital  
 Schedule of Operating Expenses - Other Expenses  
 Years Ended June 30, 1999, 1998 and 1997

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Professional fees	\$ 464,394	\$ 1,243,934	\$ 1,419,202
Management fees	513,014	401,318	302,293
Miscellaneous service fees	52,657	44,559	30,567
Legal and accounting	73,496	71,267	77,176
Supplies	325,717	334,051	334,358
Repairs and maintenance	41,713	36,227	34,343
Telephone	55,162	56,147	53,925
Utilities	67,637	65,254	70,587
Travel	59,170	53,811	32,146
Rentals	78,315	76,941	69,207
Dues and subscriptions	29,387	16,131	14,216
Governing board	1,480	1,920	2,280
Miscellaneous	<u>54,034</u>	<u>136,455</u>	<u>16,003</u>
 Total other expenses	 \$ <u>1,816,176</u>	 \$ <u>2,538,015</u>	 \$ <u>2,456,303</u>

Hospital Service District No. 3  
 Of the Parish of Allen, State of Louisiana  
 Allen Parish Hospital  
 Schedule of Per Diem and  
 Other Compensation Paid to Board Members  
 Years Ended June 30, 1999, 1998 and 1997

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Board Members:			
Mr. E. O. Alexander	\$ 360	\$ 360	\$ 440
Mr. Jimmy Savoie	360	320	320
Mr. Cecil Ashford	360	360	360
Mr. Johnny Savant	N/A	280	320
Mr. Charles Buck	40	200	40
Mr. Danny Taylor	-0-	-0-	-0-
Mr. Alvin Klein	<u>-0-</u>	<u>-0-</u>	<u>360</u>
 Total	 \$ <u>1,120</u>	 \$ <u>1,520</u>	 \$ <u>1,840</u>

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

Paul G. Mathews, CPA  
Melanie I. Sarver, CPA

**LESTER, MILLER & WELLS**  
*A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*  
3600 BAYOU RAPIDES ROAD  
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450  
Facsimile (318) 445-1184

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

Mailing Address:  
P.O. Box 8758  
Alexandria, LA 71306-1758

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We were engaged to audit the general purpose financial statements of the Allen parish Hospital Service District No. 3 (the "District"), as of and for the years ended June 30, 1999, 1998 and 1997, and we were not able to express, and do not express an opinion.

Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District, in a separate letter dated September 22, 1999.

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

This report is intended for the information of the Board of Commissioners, management and the office of the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

*Lester, Miller & Wells*

Certified Public Accountants

September 22, 1999

Allen Parish Hospital  
Auditors' Comments and Recommendations  
Year ended June 30, 1999

1997 Internal Control Findings and Recommendations

1. **Finding:** Over half of the Medicare partial day psychiatric claims filed as of year end have been denied by the Medicare intermediary.

**Recommendation:** We recommend the District establish an effective utilization review to reduce future denials. We also recommend contacting legal counsel about management company services and the partial day psychiatric program operation.

**Response:** Consultants have been hired to establish an effective utilization program for the partial day program. The hospital has notified the management company of intent to explore options in the contract regarding denials.

**Resolution:** This matter has been resolved.

2. **Finding:** For the past two years we have recommended the appeal of Medicaid denied claims based on medical inappropriateness. We have also recommended establishing an effective utilization review to reduce future claims from becoming denied. The District is still experiencing a material number of claims being denied based on medical inappropriateness.

**Recommendation:** We recommend continued efforts on the appeals and establishing an effective utilization review.

**Response:** The facility's attorney is pursuing the appeals process regarding denied claims. Facility employees have been trained on more effective utilization review and will continue to follow the appropriate procedures for the review and appeal process.

**Resolution:** This matter has been partially resolved. The denied claims have been appealed and collected. The Hospital is still incurring a huge amount of denied Medicaid claims.

Allen Parish Hospital  
Auditors' Comments and Recommendations (Continued)  
Year Ended June 30, 1999

1998 Internal Control Findings and Recommendations

1. **Finding:** During our test of expenses, we requested various contracts in which management was unable to provide.

**Recommendation:** We recommend that management review all contracts to insure that the amounts paid by the District agree with the contractual terms.

**Response:** The District is working to obtain current copies of all existing contracts.

**Resolution:** This matter has been resolved.

2. **Finding:** Medicare and Medicaid denied charges are listed as covered charges on the District's logs which are used in accumulating data for Medicare and Medicaid cost reporting.

**Recommendation:** We recommend the District report denied charges as noncovered charges by department on the logs.

**Response:** Facility employees have been instructed to report denied charges as noncovered charges on the logs.

**Resolution:** This matter has not been resolved.

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

**Recommendation:** We recommend the District decrease payments to EPC to agree with the history of direct expenses incurred by EPC and collect the amount due to the District and/or re-negotiate the terms of the joint venture.

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

**Resolution:** This matter has not been resolved.

Allen Parish Hospital  
Auditors' Comments and Recommendations  
Year Ended June 30, 1999

1999 Internal Control Findings and Recommendations

1. Finding: Allen Parish Hospital reimburses Evangeline Psychiatric Care, Inc. for the administrator's salary. The agreement to reimburse the administrator's salary did not specify any time keeping requirements.

Recommendation: We recommend that time records be maintained to support the expenditure

Response: An activity log will be maintained.

2. Finding: The District entered into a capital lease agreement without obtaining either a non-appropriation clause or State Bond Commission approval.

Recommendation: We recommend obtaining a non-appropriation clause on all new capital lease agreements or State Bond Commission approval.

Response: Management will obtain a non-appropriation clause for the capital lease agreement and monitor new agreements to ensure the clause is present.

3. Finding: Medicare requires vendor payables to be liquidated within one year of the balance sheet date, unless the provider can obtain an exception from the intermediary. During the year ended June 30, 1999, we noticed that the District has delayed payments to some vendor accounts.

Recommendation: We recommend paying vendors timely or obtain a written exception for payables that cannot be paid within one year of the balance sheet date.

Response: The balances owed to vendors are being negotiated for timely settlement.

4. Finding: As more fully described in Note 17 of the financial statements, there is substantial doubt regarding the ability of the hospital to continue as a going concern.

Recommendation: We recommend continued efforts in increasing patient utilization and expanding services that contribute to a profit margin. If this is not obtainable, we suggest further reductions in cost.

Response: Management will continue its efforts to attract physicians to increase patient utilization of the Hospital, expansion of healthcare services and increased efforts to obtain grants.