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**FINANCIAL STATEMENTS**  
**OF THE**  
**JENNINGS AMERICAN LEGION HOSPITAL, INC.**  
**JENNINGS, LOUISIANA**  
**AS OF NOVEMBER 30, 1998 AND NOVEMBER 30, 1997**

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 MAR 7 1999

**FREDERICK, NORTON, ROBERT & SCHULTHESS**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**(A PROFESSIONAL CORPORATION)**  
**345 E. Academy Avenue**  
**Jennings, Louisiana 70546**

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# FREDERICK, NORTON, ROBERT & SCHULTHESS

CERTIFIED PUBLIC ACCOUNTANTS  
(A PROFESSIONAL CORPORATION)

*Ronald W. Frederick, CPA*  
*Carl W. Norton, CPA*  
*James R. Robert, Jr., CPA*  
*Melvin R. Schulthess, CPA*

345 EAST ACADEMY AVENUE  
POST OFFICE DRAWER 1429  
JENNINGS, LOUISIANA 70546

(318) 824-2395 (318) 824-8028  
(318) 824-8080 FAX (318) 824-8082

*Members:*

*American Institute of Certified Public Accountants*  
*Louisiana Society of Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Jennings American Legion Hospital, Inc.  
Jennings, Louisiana

Gentlemen:

We have audited the accompanying balance sheet of the Jennings American Legion Hospital, Inc., Jennings, Louisiana as of November 30, 1998 and 1997 and the related statements of operations, changes in net assets, and cash flows for the years then ended. These 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.

We conducted our audit in accordance with generally accepted auditing standards and 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.

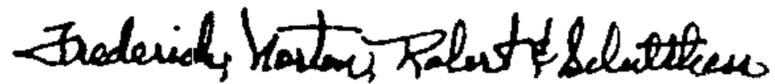
Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000-compliant;
- a general description of the year 2000 issue, including a description of the stages of work in process or completed as of the end of the reporting period to make computer systems and other electronic equipment critical to conducting operations year 2000-compliant; and
- the additional stages of work necessary for making the computer systems and other electronic equipment year 2000-compliant.

The Jennings American Legion Hospital, Inc. has omitted such disclosures. We do not provide assurance that the Hospital will be year 2000 ready, that the Hospital's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business will be year 2000 ready.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Jennings American Legion Hospital, Inc., Jennings, Louisiana as of November 30, 1998 and 1997, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated February 19, 1999, on our consideration of the District's internal control over reporting and our test of its compliance with certain provisions of laws, contracts, and grants.



Frederick, Norton, Robert & Schulthess

February 19, 1999

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

BALANCE SHEET  
AS OF NOVEMBER 30, 1998 AND 1997

ASSETS

	<u>1998</u>	<u>1997</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 146,798	\$ 147,001
Patient Accounts Receivable (net of estimated uncollectibles of \$1,519,371 in 1998 and \$1,604,225 in 1997)	2,909,037	3,058,820
Estimated Third-Party Payor Settlements - Medicare & Medicaid	207,162	145,453
Other Receivables	157,076	103,127
Inventories	196,677	191,657
Prepaid expenses	<u>47,476</u>	<u>97,769</u>
Total Current Assets	<u>3,664,226</u>	<u>3,743,827</u>
<b>ASSETS WHOSE USE IS LIMITED:</b>		
By Board of Trustees for Capital Improvements and Expansion	3,054,904	3,295,978
By Loan Agreement	<u>58,463</u>	<u>19,025</u>
	<u>3,113,367</u>	<u>3,315,003</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land and Improvements	1,034,867	833,063
Buildings and Improvements	10,920,910	10,926,655
Moveable Equipment	6,707,123	6,199,463
Construction in Progress	<u>23,741</u>	<u>7,374</u>
Total Cost	18,686,641	17,966,555
Less: Accumulated Depreciation	<u>(7,986,432)</u>	<u>(7,266,485)</u>
Total Property, Plant and Equipment	<u>10,700,209</u>	<u>10,700,070</u>
<b>TOTAL ASSETS</b>	<u>\$ 17,477,802</u>	<u>\$ 17,758,900</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>		
Current Portion of Long-Term Debt	\$ 216,169	\$ 167,208
Bank Overdraft	73,661	0
Accounts Payable	547,813	686,568
Accrued Liabilities	145,236	140,667
Estimated Third-Party Payor Settlements - Medicare & Medicaid	<u>101,897</u>	<u>419,448</u>
Total Current Liabilities	1,084,776	1,413,891
<b>LONG TERM DEBT</b>	3,748,561	3,925,976
<b>NET ASSETS - UNRESTRICTED</b>	<u>12,644,465</u>	<u>12,419,033</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u>\$ 17,477,802</u>	<u>\$ 17,758,900</u>

The accompanying notes are an integral part of these financial statements

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

STATEMENT OF OPERATIONS  
FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>UNRESTRICTED REVENUES, GAINS and OTHER SUPPORT:</b>		
Net Patient Service Revenue	\$ 13,066,463	\$ 13,937,653
Other Revenue	<u>1,134,320</u>	<u>1,210,848</u>
Total Revenues, gains and other support	<u>14,200,783</u>	<u>15,148,501</u>
<b>EXPENSES:</b>		
Salaries and Wages	4,675,365	4,399,137
Employee Benefits	870,302	773,227
Supplies	1,344,194	1,190,399
Purchased Services	3,076,107	2,921,659
Physician Fees	580,180	793,027
Bad Debt Expense	923,546	1,054,231
Depreciation Expense	1,002,063	838,567
Interest Expense	277,656	161,231
Insurance Expense	179,142	150,321
Other Expenses	<u>1,189,262</u>	<u>1,105,126</u>
Total Expenses	<u>14,117,817</u>	<u>13,386,925</u>
Operating Income	<u>82,966</u>	<u>1,761,576</u>
<b>OTHER INCOME (EXPENSE):</b>		
Unrestricted Donated Income	2,030	23,047
Loss On Sale Of Assets	(37,596)	0
Income on Investments Whose Use is Limited by Board:		
For Capital Improvements and Expansions	<u>178,032</u>	<u>158,926</u>
Non-Operating Gains	<u>142,466</u>	<u>181,973</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS, BEFORE EXTRAORDINARY ITEMS</b>	<b>225,432</b>	<b>1,943,549</b>
<b>EXTRAORDINARY GAIN</b>	<u><b>0</b></u>	<u><b>28,898</b></u>
<b>INCREASE IN UNRESTRICTED ASSETS</b>	<b>\$ <u>225,432</u></b>	<b>\$ <u>1,972,447</u></b>

The accompanying notes are an integral part of these financial statements

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
UNRESTRICTED NET ASSETS:		
Excess of Revenues Over Expenses	\$ 225,432	\$ 1,943,549
Extraordinary Gain	<u>0</u>	<u>28,898</u>
INCREASE IN UNRESTRICTED NET ASSETS	225,432	1,972,447
NET ASSETS AT BEGINNING OF YEAR	<u>12,419,033</u>	<u>10,446,586</u>
NET ASSETS AT END OF YEAR	<u>\$ 12,644,465</u>	<u>\$ 12,419,033</u>

The accompanying notes are an integral part of these financial statements

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 225,432	\$ 1,943,549
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Extraordinary Gain	0	28,898
Depreciation	1,002,063	838,567
Loss on Sale of Fixed Assets	37,596	0
(Increase) Decrease in Patient Accounts Receivable	149,783	(650,172)
(Increase) Decrease in Net Amounts Due from Third-Party Payors	(379,260)	290,803
(Increase) Decrease in Inventory and Other Current Assets	(8,676)	(28,910)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>(11,564)</u>	<u>201,904</u>
Net Cash Provided By Operating Activities and Gains and Losses	<u>1,015,374</u>	<u>2,624,639</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sale of Fixed Assets	15,249	0
Purchases of Property and Equipment	(1,055,047)	(2,479,274)
Cash Invested in Assets Whose Use is Limited	<u>201,636</u>	<u>(163,429)</u>
Net Cash Used by Investing Activities	<u>(838,162)</u>	<u>(2,642,703)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of Long-Term Debt	(177,415)	(153,470)
Proceeds From New Debt	<u>0</u>	<u>169,301</u>
Net Cash Provided By Financing Activities	<u>(177,415)</u>	<u>15,831</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(203)	(2,233)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>147,001</u>	<u>149,234</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 146,798</u>	<u>\$ 147,001</u>

## SUPPLEMENTAL DISCLOSURES:

1. Accounting Policies: Cash Equivalents - the Hospital considers only unrestricted cash deposits to be cash and cash equivalents.
2. Interest Paid: During 1998 and 1997 the Hospital paid interest of \$ 277,656 and \$ 268,646 respectively.
3. Income Taxes: The Hospital is a Tax Exempt Organization under the rules of the IRC of 1954 Section 501 (c)3.
4. Acquisitions: During 1997 the Hospital capitalized interest on construction in progress in the amounts of \$ 107,415. During 1998 the Hospital received a trade in allowance of \$ 63,000 which was a non cash transaction not included above.

The accompanying notes are an integral part of these financial statements

**JENNINGS AMERICAN LEGION HOSPITAL, INC.**  
Jennings, Louisiana

**NOTES TO THE FINANCIAL STATEMENTS**

**NATURE OF OPERATIONS:**

Jennings American Legion Hospital, Inc. is a not for profit hospital which provides inpatient, outpatient, home health and emergency care services to the general public. The Hospital is located in Jennings, Louisiana and provides services primarily for residence of Southwestern Louisiana. Admitting physicians are primarily practitioners in the local area.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. **Basis of Accounting** - The records of the hospital are maintained on the accrual basis of accounting in accordance with American Hospital Association recommendations.
- B. **Allowance for uncollectibles** - Estimated uncollectible patient accounts receivable are based on the hospitals prior experience with bad debts and estimated contractual allowances and PPO discounts in account receivable balances.
- C. **Inventories** - Inventories are valued at the lower of cost or market (on the first-in, first out method).
- D. **Property, Plant and Equipment** - These assets are stated at cost. The plant and equipment are depreciated on the straight-line method over their estimated useful lives. The following is a schedule of activity in the major classifications:

	<u>11-30-97</u>		<u>Additions</u>		<u>Deletions</u>		<u>11-30-98</u>
Land	\$ 767,272	\$	0	\$	-0-	\$	767,272
Land Improvements	65,791		201,804		-0-		267,595
Buildings & Improvements	10,926,655		62,051		67,796		10,920,910
Equipment	6,199,463		837,825		330,165		6,707,123
Construction in progress	7,374		78,419		62,052		23,741

- E. **Use of estimates** - The preparation of Jennings American Legion Hospital's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. RECEIVABLES**

- A. **Patient Accounts Receivable** - Patient accounts receivable reflect total amounts due from individuals and third parties.
- B. **Estimated third-party payor settlements (Medicare and Medicaid)** - During the billing cycle Medicare and Medicaid patients are billed at normal rates. Each month an estimate is made as to the actual amounts due from the third party based on prior year cost reports and Medicare and Medicaid revenues. As payments are received patient accounts are credited and adjustments to amounts in allowance for uncollectibles are recorded. After current cost reports are completed and pay schedules updated, differences in estimates are settled. Amounts in this asset account reflect estimated settlement due to the hospital.

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. NOTES PAYABLE

Notes payable consist of the following at November 30, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Note payable due General Electric Capital Corporation, collateralized by real estate, interest at 8.375%	\$ 114,213	\$ 132,281
Note payable due The Trust Company of Louisiana collateralized by all assets and assigned revenues at 7%	2,232,500	2,342,501
Note payable due Hargroder Living Trust of 1995 collateralized by real estate, interest at 8.25 %	175,774	181,988
Note payable due Farmer's Home Administration, collateralized by real estate, interest at 5.625%	<u>1,411,331</u>	<u>1,436,414</u>
	3,933,818	4,093,184
Less: Current portion	<u>185,257</u>	<u>167,208</u>
	<u>\$ 3,748,561</u>	<u>\$ 3,925,976</u>

Aggregate annual principal payments through November 30, 2003 are as follows:

<u>YEAR</u>	
1999	185,257
2000	190,487
2001	205,321
2002	220,503
2003	198,232

4. CAPITAL

The hospital is a non-profit corporation, organized under the laws of the State of Louisiana, without any capital stock.

5. INCOME TAXES

The hospital is exempt from Federal Income Tax under Section 501(c)3 of the 1954 Internal Revenue Code.

6. DEPOSIT AND INVESTMENT RISK

	<u>1998</u>	<u>1997</u>
Deposits insured by the FDIC	\$ 114,234	\$ 106,719
Uninsured uncollateralized deposits	\$ 221,947	\$ 711,770
Repurchase agreements which are uninsured and unregistered, with securities held by counterparty, not in hospital's name	\$ 2,422,615	\$ 639,494
Treasury Notes	\$ 500,719	\$ 2,004,021

Investments are carried at their cost or amortized cost when appropriate. Carrying value of investments at November 30, 1998 and 1997 approximate market value. All securities are available for sale.

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. COMPENSATED ABSENCES

The hospital does not record a provision for accrued sick pay. Accordingly the financial statements do not reflect an expense or the related liability. Vested vacation time is accrued at current pay rates. The amount accrued at 11/30/98 and 11/30/97 respectively was \$ 145,236 and \$ 140,667.

8. NET PATIENT REVENUE

Patient revenues on the financial statements at 11/30/98 and 11/30/97 are stated net of estimated third party contractual adjustments.

9. EMPLOYEE BENEFITS

The hospital offers its employees a cafeteria plan under IRC section 125 and purchased annuities under reduced salary agreements under IRC section 403B.

10. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS  
MEDICARE & MEDICAID

Estimated third-party payor settlements (Medicare and Medicaid) - During the billing cycle Medicare and Medicaid patients are billed at normal rates. Each month an estimate is made as to the actual amounts due from the third party based on prior year cost reports and Medicare and Medicaid revenues. As payments are received patient accounts are credited and adjustments to amounts in allowance for uncollectibles are recorded. After current cost reports are completed and pay schedules updated, differences in estimates are settled. Amounts in this liability account reflect estimated settlement due from the hospital.

11. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Jennings, Louisiana. The Hospital grants credits without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

As disclosed in note 6 the Hospital had deposits in major financial institutions which exceeded Federal Depository Insurance limits. This financial institutions have a strong credit rating and management believes that credit risk related to these deposits is minimal.

12. RECLASSIFICATIONS

Certain 1997 amounts have been reclassified to conform to the 1998 presentation.

13. SCHOLARSHIPS

At November 30, 1998 the hospital projected its scholarship commitment for future years as follows:

Year Ended	
<u>November 30</u>	
1999	\$ 11,280
Total	<u>\$ 11,280</u>

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. FUTURE INCOME GUARANTEES

As part of its physician recruiting practice, the hospital sometimes offers certain physicians incentives in the form of guaranteed minimum income for such physicians for a period of time. The amounts of such payments are not determinable because they are directly effected by the physicians medical practice receipts. The maximum amounts which may be paid in the future under such contracts was calculated at November 30, 1998 to be:

Year Ended <u>November 30</u>	
1999	\$ 262,500
2000	<u>77,500</u>
 Total	 <u>\$ 340,000</u>

15. EXTRAORDINARY GAIN AND LOSS

Rural hospitals with less than 60 beds that have a service area of less than twenty thousand in population are considered to be exempt from the TEFRA Medicaid limitations. As of 11/30/95 the Health Care Finance Administration had not yet approved such exemption. Funds received through 11/30/95 were recorded correctly in a liability account since the funds were not hospital assets until the Health Care Finance Administration approved such exemption. During the fiscal year ended 11/30/96 the Health Care Finance Administration approved the exemption from the TEFRA Medicaid limitations. The amount included as extraordinary gains during fiscal year ended was limited to cash received. The hospital requested the opening of 1991 cost report to obtain Medicaid TEFRA funds which if opened, would have been paid to them. During the fiscal year ended November 30, 1997 the 1991 cost report was opened and the final payment of TEFRA funds was made and recorded as an extraordinary gain of \$ 178,898.

During 1997 the hospital sustained an extraordinary loss in the amount of \$ 150,000 which related to a settlement which was outside of the business insurance coverage.

16. RELATED PARTY TRANSACTIONS

The hospital purchased services from a closely held corporation whose owner is also a director of the hospital in the amount of \$ 135,363 and \$ 125,956 in 1998 and 1997 respectively. During the fiscal year ended 11/30/98 and 11/30/97 the hospital purchased insurance from two closely held corporations whose owners are members of the board of directors in the amount of \$ 611,638 and \$611,447, respectively and paid \$ 6,600 rent in each fiscal years for office space to an individual who is a member of the board of directors.

17. LEASES

Operating equipment lease expense for the year ended November 30, 1998 and 1997 was \$ 141,328 and \$ 101,422. Future minimum lease payments on noncancelable equipment leases are as follows:

For the Fiscal Year Ended November 30, 1999	\$ 67,059
2000	-0-

The hospital entered into a capital lease agreement with Alcon Laboratories January 27, 1997 for the lease purchase of surgical equipment in the amount of \$ 53,948 containing an annual interest rate of 9.25 % for a term of 3 years. The payments are based on number of procedures performed. At November 30, 1997 the total minimum future lease payments including interest of \$ 6,552 is \$ 50,508. During the year ended November 30, 1998 the Hospital agreed to purchase such equipment and Alcon Laboratories canceled the lease and transferred title.

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. ASSETS WHOSE USE IS LIMITED:

	<u>1998</u>	<u>1997</u>
Cash Accounts	\$ 190,033	\$ 671,488
Repurchase Agreements	2,422,615	639,494
Treasury Notes	<u>500,719</u>	<u>2,004,021</u>
Total	<u>\$ 3,113,367</u>	<u>\$ 3,315,003</u>

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

On December 1, 1995, the Jennings American Legion Hospital, Inc. adopted SFAS no. 107, "Disclosure about Fair Value of Financial Instruments" which requires the disclosure of the fair market value of off- and on-balance sheet financial instruments. The following summarizes the carrying amounts and estimated fair value of the hospital's financial instruments for which it is practicable to estimate that value as of November 30, 1998.

	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Cash	146,798	146,798
Assets whose use is limited	3,113,367	3,113,367
Long term debt	3,933,818	3,546,672

The following methods and assumptions were used to estimate the fair value of the above financial instruments included above:

Cash and Assets Whose Use is Limited

The carrying amount is assumed to approximate fair value because of the short maturities of those instruments.

Long-Term Debt

The fair value of the hospital's long-term debt is estimated based on the local current rates offered to the hospital for debt of the same maturities.

20. FUNCTIONAL EXPENSES

	<u>11/30/98</u>	<u>11/30/97</u>
Health care services	\$ 7,810,884	\$ 7,825,673
General and administrative	<u>6,306,933</u>	<u>5,561,252</u>
Total	<u>\$ 14,117,817</u>	<u>\$ 13,386,925</u>

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
Jennings, Louisiana

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. OTHER OFF BALANCE SHEET RISK

The hospital purchases commercial insurance to reduce the risk of loss due to liability claims and loss due to physical damage to fixed assets should they occur.

22. LITIGATION

The Jennings American Legion Hospital, Inc. has been sued by an employee over an attack committed by a third person on the grounds of the hospital. This matter is covered by the hospital's liability insurance. The Hospital's general liability carrier has referred such suit to attorneys who are currently representing the Hospital on this matter. Attorneys representing the Hospital have represented that the judgment value of this claim is quite high and that the outcome of litigation is unknown.

Jennings American Legion Hospital, Inc. is involved in several malpractice claims. Management believes that these claims, if found to be valid, will fall completely under the coverage of their insurance carrier.

**ADDITIONAL REPORTS**

# **FREDERICK, NORTON, ROBERT & SCHULTHESS**

CERTIFIED PUBLIC ACCOUNTANTS  
(A PROFESSIONAL CORPORATION)

*Ronald W. Frederick, CPA  
Carl W. Norton, CPA  
James R. Robert, Jr., CPA  
Melvin R. Schulthess, CPA*

345 EAST ACADEMY AVENUE-  
POST OFFICE DRAWER 1429  
JENNINGS, LOUISIANA 70546

(318) 824-2395 (318) 824-8028  
(318) 824-8080 FAX (318) 824-8082

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

The Board of Directors  
Jennings American Legion Hospital, Inc.

We have audited the financial statements of Jennings American Legion Hospital, Inc. as of and for the year ended November 30, 1998, and have issued our report thereon dated February 19, 1998, which was qualified due to the omission of the year 2000 disclosures that are required by Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues. We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance:

As part of obtaining reasonable assurance about whether Jennings American Legion Hospital, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 Jennings American Legion Hospital, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 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.

This report is intended for the information of the Board of Directors, Management and the Legislative Auditor. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

*Frederick, Norton, Robert & Schulthess*

Frederick, Norton, Robert & Schulthess

February 19, 1999

**FREDERICK, NORTON,  
ROBERT & SCHULTHESS**

CERTIFIED PUBLIC ACCOUNTANTS  
(A PROFESSIONAL CORPORATION)

*Ronald W. Frederick, CPA  
Carl W. Norton, CPA  
James R. Robert, Jr., CPA  
Melvin R. Schulthess, CPA*

345 EAST ACADEMY AVENUE  
POST OFFICE DRAWER 1429  
JENNINGS, LOUISIANA 70546

(318) 824-2395 (318) 824-8028  
(318) 824-8080 FAX (318) 824-8082

*Members:*

*American Institute of Certified Public Accountants  
Louisiana Society of Certified Public Accountants*

REPORT ON ADDITIONAL INFORMATION

Board of Directors  
Jennings American Legion Hospital, Inc.  
Jennings, Louisiana

Our report on our audit of the basic financial statements of Jennings American Legion Hospital, Inc. for November 30, 1998 and 1997 appear on page one and two. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Frederick, Norton, Robert & Schulthess*

Frederick, Norton, Robert & Schulthess

February 19, 1999

**JENNINGS AMERICAN LEGION HOSPITAL, INC.  
 SCHEDULE OF ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS  
 FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
<b>THIRD-PARTY PAYOR RECEIVABLES:</b>		
Medicare	\$ 0	\$ 0
Medicaid	<u>207,162</u>	<u>145,453</u>
<b>Total Third-Party Payor Receivables</b>	<u>207,162</u>	<u>145,453</u>
 <b>THIRD-PARTY PAYOR LIABILITIES:</b>		
Medicare	<u>(101,897)</u>	<u>(419,448)</u>
<b>Total Third-Party Payor Liabilities</b>	<u>(101,897)</u>	<u>(419,448)</u>
 <b>NET ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS</b>	 <u>\$ (105,265)</u>	 <u>\$ (273,995)</u>

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
 SCHEDULE OF ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS  
 FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>THIRD-PARTY PAYOR RECEIVABLES:</b>		
Medicare	\$ 0	\$ 0
Medicaid	<u>207,162</u>	<u>145,453</u>
Total Third-Party Payor Receivables	<u>207,162</u>	<u>145,453</u>
 <b>THIRD-PARTY PAYOR LIABILITIES:</b>		
Medicare	<u>(101,897)</u>	<u>(419,448)</u>
Total Third-Party Payor Liabilities	<u>(101,897)</u>	<u>(419,448)</u>
 <b>NET ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS</b>	 <u>\$ (105,265)</u>	 <u>\$ (273,995)</u>

**JENNINGS AMERICAN LEGION HOSPITAL, INC.  
 SCHEDULE OF ASSETS WHOSE USE IS LIMITED  
 FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
<b>ASSETS WHOSE USE IS LIMITED:</b>		
Restricted by Board of Trustees For Capital Improvements and Expansions:		
Funded Depreciation - Savings	\$ 58,329	\$ 103,038
Funded Depreciation - Asset Aquisitions Account	68,240	544,424
Funded Depreciation - Repurchase Agreements	2,422,615	639,494
MOB Construction Checking	5,001	5,001
Funded Depreciation - Treasury Note	<u>500,719</u>	<u>2,004,021</u>
Total	3,054,904	3,295,978
Restricted by Loan Agreement:		
Restricted - Capital Improvements Reserve	19,499	19,025
Restricted - 1993 FMHA Reserve	19,482	0
Restricted - 1993 Depreciation & Contingency Reserve	<u>19,482</u>	<u>0</u>
<b>TOTAL ASSETS WHOSE USE IS LIMITED</b>	<b>\$ <u>3,113,367</u></b>	<b>\$ <u>3,315,003</u></b>

**JENNINGS AMERICAN LEGION HOSPITAL, INC.**  
**SCHEDULE OF PATIENT SERVICES REVENUES BY PATIENT TYPE AND PAYOR**  
**FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997**

	1998			1997	
	MEDICARE	MEDICAID	OTHER	TOTAL	TOTAL
<b>INPATIENT:</b>					
Room & Board - ICU	\$ 286,330	\$ 36,305	\$ 130,835	\$ 453,470	\$ 429,495
Room & Board - Med. &	1,046,512	219,025	403,246	1,668,783	1,658,525
Room & Board - OB/GYN	15,950	131,580	124,850	272,380	336,600
Room & Board - Nursery	0	70,465	51,185	121,650	139,309
Diabetes Education	610	60	390	1,060	0
Delivery Room	100	113,690	98,655	212,445	195,525
Operating Room	235,776	74,556	286,726	597,058	561,468
Recovery Room	57,543	36,081	166,109	259,733	230,738
Anesthesia	78,164	19,475	88,326	185,965	245,788
Orthopedics	417,092	340	111,160	528,592	348,065
Emergency Room	195,438	40,429	118,712	354,579	602,771
Central Supply	1,133,596	371,149	803,849	2,308,594	2,252,488
Equipment	595,103	115,871	266,562	977,536	877,344
Laboratory	943,667	223,984	477,801	1,645,452	1,623,687
EKG	98,475	7,670	43,745	149,890	130,767
Treadmill	275	0	825	1,100	2,475
EEG	1,225	650	675	2,550	4,800
Radiology	238,409	40,657	115,032	394,098	377,627
Nuclear Medicine	28,664	3,465	14,303	46,432	34,365
CAT Scan	160,721	13,460	93,440	267,621	259,687
Ultrasound	145,450	17,153	74,567	237,170	211,614
M.R.I.	11,550	0	12,040	23,590	4,630
Pharmacy	1,195,691	258,433	628,931	2,083,055	2,045,977
Respiratory Therapy	456,429	163,875	187,489	807,793	803,312
Physical Therapy	68,667	5,366	14,014	88,047	69,089
<b>Total Inpatient</b>	<u>7,411,437</u>	<u>1,963,739</u>	<u>4,313,467</u>	<u>13,688,643</u>	<u>13,446,146</u>
<b>SKILLED NURSING:</b>					
Medical/Surgical Unit	202,800	0	10,800	213,600	268,560
Surgery	2,758	0	0	2,758	4,089
Recovery Room	496	0	0	496	1,189
Anesthesia	825	0	0	825	2,617
Orthopedics	0	0	0	0	2,082
Emergency Room	230	0	0	230	
Materials Management	57,795	0	2,351	60,146	110,119
Equipment	35,887	0	398	36,285	37,039
Laboratory	49,804	0	2,693	52,497	62,741
EKG	780	0	65	845	455
Radiology	9,113	0	400	9,513	12,254
Nuclear Medicine	865	0	0	865	2,190
CAT Scan	5,125	0	0	5,125	12,145
Ultrasound	2,530	0	505	3,035	3,032
Pharmacy	117,497	0	6,782	124,279	189,545
Respiratory Therapy	62,202	0	3,604	65,806	57,504
Physical Therapy	34,878	0	2,820	37,698	48,102
<b>Total Skilled Nursing</b>	<u>583,585</u>	<u>0</u>	<u>30,418</u>	<u>614,003</u>	<u>813,663</u>
<b>OUTPATIENT:</b>					
Medical/Surgical Unit	30,614	10,824	32,060	73,498	110,752
Diabetes Education	350	30	465	845	
Delivery Room	0	1,265	1,435	2,700	3,607
Operating Room	194,359	63,408	313,382	571,149	561,291
Recovery Room	42,470	25,799	119,505	187,774	153,662
Anesthesia	50,974	18,526	108,488	177,988	231,224
Orthopedics	43,243	1,948	116,070	161,261	152,963
Emergency Room	148,227	167,865	506,336	822,428	1,450,163
Observation	44,886	13,080	57,652	115,618	109,281
Central Supply	208,292	79,748	444,933	732,973	603,292
Equipment	78,148	22,446	111,034	211,628	187,023
Laboratory	584,109	223,016	496,796	1,303,921	1,382,239
EKG	43,095	8,775	48,165	100,035	88,656
Treadmill	4,125	1,100	16,775	22,000	57,475
EEG	2,650	4,750	4,825	12,225	13,800
Radiology	358,547	128,738	606,014	1,093,299	991,728
Nuclear Medicine	59,967	6,446	60,993	127,406	110,354
CAT Scan	3,635	0	2,685	6,320	11,060
Ultrasound	1,113	1,267	3,451	5,831	6,590
M.R.I.	87,255	20,755	169,805	277,815	351,615
Pharmacy	272,843	63,452	306,521	642,816	483,455
Respiratory Therapy	20,908	8,640	28,692	58,240	46,976
Physical Therapy	162	0	30	192	1,038
Dietary	0	0	1,080	1,080	655
<b>Total Outpatient</b>	<u>2,279,972</u>	<u>871,878</u>	<u>3,557,192</u>	<u>6,709,042</u>	<u>7,108,899</u>
<b>HOME HEALTH:</b>	<u>594,127</u>	<u>9,024</u>	<u>25,622</u>	<u>628,772</u>	<u>1,334,572</u>
<b>Total Patient Service Revenues</b>	<u>\$ 10,869,121</u>	<u>\$ 2,844,641</u>	<u>\$ 7,926,699</u>	<u>21,640,460</u>	<u>22,703,280</u>
<b>Adjustments and Allowances:</b>					
Contractual Adjustments				(6,411,768)	(7,326,106)
Other Allowances				(2,162,229)	(1,439,521)
<b>NET PATIENT SERVICE</b>				<u>\$ 13,066,463</u>	<u>\$ 13,937,653</u>

JENNINGS AMERICAN LEGION HOSPITAL, INC.  
 SCHEDULE OF OTHER OPERATING REVENUE  
 FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>OTHER OPERATING REVENUE:</b>		
Sale of Medical Records	\$ 1,577	\$ 2,871
Telephone & Television	47	172
Employee Meals	24,616	21,392
Visitor Meals	7,579	3,144
Office Rental	67,945	27,195
Lab Service Revenue	38,648	36,013
Agency Billing	7,996	22,658
Sale of Scrap	5,100	520
Miscellaneous Revenue	5,218	1,269
Disproportionate Share Payment	252,266	504,697
Operating Interest Income	2,118	723
V. A. Clinic Revenue	527,297	487,135
Emergency Room Grants	0	25,000
Medical Office Building Rental	<u>193,913</u>	<u>78,059</u>
<b>TOTAL OTHER OPERATING REVENUE</b>	<b>\$ <u><u>1,134,320</u></u></b>	<b>\$ <u><u>1,210,848</u></u></b>

**JENNINGS AMERICAN LEGION HOSPITAL, INC.**  
**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT AND CATEGORY**  
**FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997**

	1998				1997	
	SALARIES	SUPPLIES	PURCHASE SERVICE	OTHER	TOTAL	TOTAL
<b>PATIENT SERVICES:</b>						
Nursing Administration	\$ 110,466	\$ 842	\$ 976	\$ 5,624	\$ 117,908	\$ 116,954
Intensive Care Unit	303,876	14,283	1,947	2,428	322,534	337,162
Medical/Surgical	805,539	33,108	11,255	9,051	858,953	757,107
OB/GYN	297,560	12,384	2,079	697	312,720	323,014
Nursery	105,254	6,456	0	673	112,383	107,697
Delivery Room	0	0	0	0	0	0
Operating Room	259,477	109,749	1,270	47,918	418,414	402,804
Recovery Room	19,470	2,720	0	0	22,190	21,633
Orthopedics	0	274,281	0	20,425	294,706	168,327
Emergency Room	377,036	91,109	514,673	3,266	986,084	1,138,650
Out Patient	79,235	5,774	0	81	85,090	85,145
Central Supply	0	3,146	912,795	41	915,982	857,538
Laboratory	342,844	216,086	188,527	83,628	831,085	769,616
EKG	0	307	0	0	307	429
Treadmill	0	2,284	0	0	2,284	1,995
EEG	0	0	13,435	0	13,435	12,900
Radiology	171,464	159,350	52,450	65,595	448,859	409,613
Nuclear Medicine	35,004	27,090	8,610	576	71,280	57,087
CAT Scan	5,105	0	132,590	0	137,695	130,525
Ultrasound	50,654	0	6,310	0	56,964	44,188
M.R.I.	9,244	5,030	107,600	0	121,874	177,750
Pharmacy	0	5,033	733,314	0	738,347	713,669
Respiratory Therapy	164,346	42,817	2,036	11,594	220,793	222,596
Anesthesia	0	17,088	0	3,445	20,533	18,308
Speech Therapy	0	0	175	0	175	0
Physical Therapy	0	0	106,103	0	106,103	99,765
Home Health	191,696	11,875	20,121	33,631	257,323	491,946
Social Services	35,070	337	3,118	2,051	40,576	27,613
Medical Records	156,201	4,661	17,144	14,230	192,236	178,060
V.A. Clinic	0	615	101,821	1,580	104,016	153,548
Quality Assurance	0	0	0	35	35	35
<b>Total Patient Services</b>	<u>3,519,541</u>	<u>1,046,425</u>	<u>2,938,349</u>	<u>306,569</u>	<u>7,810,884</u>	<u>7,825,674</u>
<b>GENERAL SERVICES:</b>						
Dietary	142,989	123,305	0	2,052	268,346	242,607
Maintenance	89,923	40,355	80,826	337,224	548,328	491,119
Inviromental Services	230,742	73,749	50,556	7,295	362,342	336,205
Laundry & Linen	0	20,308	135,363	787	156,458	142,553
<b>Total General Services</b>	<u>463,654</u>	<u>257,717</u>	<u>266,745</u>	<u>347,358</u>	<u>1,335,474</u>	<u>1,212,484</u>
<b>ADMINISTRATIVE SERVICES:</b>						
Human Resources	14,449	2,221	0	1,382	18,052	17,492
Accounting	72,226	2,499	0	5,367	80,092	60,087
Patient Accounts	137,199	6,210	69,576	21,613	234,598	205,875
Data Processing	19,583	6,584	23,752	35,748	85,667	86,750
Admitting/PBX	112,758	17,623	0	1,232	131,613	116,715
Administration	335,955	4,914	357,865	342,778	1,041,512	778,329
Medical Office Building	0	0	0	22,502	22,502	12,958
Employee Benefits	0	0	0	870,302	870,302	773,227
Insurance	0	0	0	179,142	179,142	150,321
Depreciation	0	0	0	1,002,063	1,002,063	838,567
Board	0	0	0	90,083	90,083	75,935
Interest	0	0	0	277,656	277,656	161,231
Bad Debts	0	0	0	923,545	923,545	1,054,231
Scholarship Expenses	0	0	0	14,632	14,632	17,050
<b>Total Administrative Services</b>	<u>692,170</u>	<u>40,051</u>	<u>451,193</u>	<u>3,788,045</u>	<u>4,971,459</u>	<u>4,348,768</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 4,675,365</u>	<u>\$ 1,344,193</u>	<u>\$ 3,656,287</u>	<u>\$4,441,972</u>	<u>\$14,117,817</u>	<u>\$13,386,925</u>

**JENNINGS AMERICAN LEGION HOSPITAL, INC.  
SCHEDULE OF OTHER OPERATING EXPENSE BY CATEGORY  
FOR THE YEARS ENDED NOVEMBER 30, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
<b>OTHER OPERATING EXPENSES:</b>		
Repairs Expense	\$ 233,499	\$ 208,616
Rental/Lease Expense	141,328	128,284
Utilities Expense	376,626	377,398
Travel Expense	44,778	65,036
Seminars Expense	66,160	41,131
Postage Expense	16,881	21,640
Freight Expense	26,807	26,460
Dues and Subscriptions	40,253	30,868
Board Expense	60,346	60,875
Licenses Expense	6,770	12,701
Promotion and Advertising	22,734	14,180
Bank Charges	2,333	3,986
Sales & Use Taxes	121,167	84,995
Miscellaneous	14,948	11,906
Scholarship Expense	<u>14,632</u>	<u>17,050</u>
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ <u>1,189,262</u></b>	<b>\$ <u>1,105,126</u></b>

**JENNINGS AMERICAN LEGION HOSPITAL, INC.**

**Schedule of Findings and Questioned Cost  
As of November 30, 1998**

**SECTION I Summary of Auditor's Reports**

**a. Report on Internal Control and Compliance Material to the Financial Statements**

Internal Control  
Material Weaknesses     Yes  No                      Other Reportable Conditions     Yes  No

Compliance  
Compliance Material to Financial Statements     Yes  No

**b. Federal Awards**

There were no Federal Program Expenditures

**c. Identification of Major Programs:**

There were no Federal Program Expenditures

**SECTION II Financial Statement Finding**

No Findings to Report

**SECTION III Federal Award Findings and Questioned Costs**

There were no matters reported.

JENNINGS AMERICAN LEGION HOSPITAL, INC.

Schedule of Prior Year Findings  
As of November 30, 1998

<b>SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>		
	<b>NO FINDINGS TO REPORT</b>	
<b>SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS</b>		
	<b>NO FINDINGS TO REPORT</b>	
<b>SECTION III MANAGEMENT LETTER</b>		
113097-1	<b>COMPLIANCE - USDA Rural Development regulations and the letter of conditions concerning the Hospital's loan contain certain reporting requirements that were not met.</b>	<b>Resolved</b>
113097-2	<b>INTERNAL CONTROL - The staffing of the accounting and administrative offices has been held to minimums. Although current staff is sufficient to insure adequate separation of duties, it is not sufficient to insure continuity of certain functions when an employee must be absent from work due to illness, vacations, etc.</b>	<b>Not Resolved</b>