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**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Component Unit Financial Statements
September 30, 1998**

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.

APR 28 1999

Release Date _____

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Component Unit Financial Statements
September 30, 1998**

TABLE OF CONTENTS

	<u>Statement</u>	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON THE COMPONENT UNIT FINANCIAL STATEMENTS		1-2
COMPONENT UNIT FINANCIAL STATEMENTS		
Combined Balance Sheet - All Fund Types and Account Groups	A	3-4
Proprietary Funds:		
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings	B	5-6
Combined Statement of Cash Flows	C	7-8
Notes to the Component Unit Financial Statements		9-21
Index		9
Notes		10-21
SUPPLEMENTAL INFORMATION SCHEDULES		22
Enterprise Funds:		
Combining Balance Sheet	1	23-24
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings	2	25-26
Combining Statement of Cash Flows	3	27-28

(Continued)

Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana

Component Unit Financial Statements
September 30, 1998

TABLE OF CONTENTS

	<u>Page</u>
OTHER REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS	29
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	30-31
Status of Prior Reportable Conditions	32
Schedule of Reportable Conditions	33
Management Letter Items	34
Management Letter	35-37
Status of Prior Management Letter Items	38
	(Concluded)

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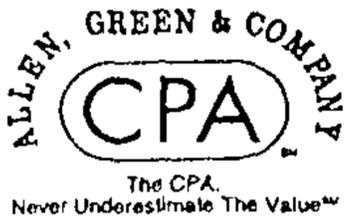
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Independent Auditors' Report on the Component Unit Financial Statements

Board of Commissioners
Hospital Service District Number One
of the Parish of LaSalle
State of Louisiana
Olla, Louisiana

We have audited the accompanying component unit financial statements of the Hospital Service District Number One of the Parish of LaSalle, State of Louisiana, a component unit of LaSalle Parish Police Jury, as of and for the year ended September 30, 1998. These component unit financial statements are the responsibility of the Board of Commissioners of the Hospital Service District. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit 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 Hospital Service District has omitted such disclosures. We do not provide assurance that the Hospital Service District is or will be year 2000 ready, that the Hospital Service District's 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital Service District does business will be year 2000 ready.

Hospital Service District Number One
of the Parish of LaSalle
State of Louisiana
Olla, Louisiana

In our opinion, except for the omission of disclosures about the year 2000 issues, the component unit financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Hospital Service District Number One of the Parish of LaSalle, state of Louisiana, as of September 30, 1998, and the results of its operations and the cash flows of the proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

The accompanying component unit financial statements have been prepared assuming that the Hospital Service District Number One of the Parish of LaSalle, State of Louisiana, will continue as a going concern. As discussed in Note 12 to the component unit financial statements, the Hospital Service District is experiencing liquidity problems resulting from several factors. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The component unit financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 1998, on our consideration of the Hospital Service District'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 component unit financial statements taken as a whole. The accompanying supplemental information schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the component unit financial statements of the Hospital Service District Number One of the Parish of LaSalle, State of Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the component unit financial statements taken as a whole.



ALLEN, GREEN & COMPANY, LLP

Monroe, Louisiana
November 12, 1998

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana

ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET
September 30, 1998

	<u>Proprietary Funds - Enterprise</u>
<u>ASSETS</u>	
Cash and investments	
Cash, checking	\$ 301,848
Certificates of deposit	221,211
Receivables	
Patient services, net of allowances of \$1,870,825	1,816,489
Estimated third-party payor settlements	246,225
Interest	841
Rent	1,200
Miscellaneous	154
Supplies	93,747
Prepaid expenses	30,530
Assets whose use is limited	
By agreement with third-party payors for funded depreciation	100,000
Under revenue bond agreement	
Revenue bond and interest sinking account	124,886
Revenue bond reserve account	107,587
Depreciation and contingency fund	28,271
Property, plant and equipment	
Land	4,615
Land improvements	39,359
Buildings	1,590,508
Equipment, furniture and fixtures	2,028,896
Accumulated depreciation	<u>(2,951,146)</u>
TOTAL ASSETS	<u>\$ 3,785,221</u>

(Continued)

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
Olla, Louisiana

ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET
September 30, 1998

Statement A

Proprietary
Funds -
Enterprise

LIABILITIES, EQUITY AND OTHER CREDITS

Liabilities

Accounts payable	\$	273,738
Salaries payable		80,425
Current portion of capital lease		26,154
Accrued vacation payable		39,096
Estimated third-party payor settlements		0
Payable from assets whose use is limited		
Revenue bonds payable		815,000
Accrued bond interest payable		<u>37,354</u>

Total liabilities \$ 1,271,767

Equity and other credits

Contributed capital	\$	1,067,738
Retained earnings:		
Reserved for revenue bond:		
Sinking account		124,886
Reserve account		107,587
Depreciation and capital improvement		28,271
Unreserved		<u>1,184,972</u>

Total equity and other credits \$ 2,513,454

TOTAL LIABILITIES, EQUITY AND OTHER CREDITS \$ 3,785,221

(Concluded)

See accompanying notes to financial statements.

**HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana**

**ALL PROPRIETARY FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year Ended September 30, 1998**

Statement B

Enterprise
Funds

OPERATING REVENUES

Net patient service revenues	\$ 5,332,125
Contributions from Ambulance Service District	72,000
State of Louisiana, Emergency Services grant	0
State of Louisiana, Disproportionate Share Pool Payments	275,045
Vending machine commissions	1,837
Rentals, physicians' offices	11,400
Cafeteria sales	<u>15,316</u>
 Total revenues	 \$ <u>5,707,723</u>

OPERATING EXPENSES

Daily patient services	\$ 857,984
Nursing services	1,806,982
Other professional services	1,494,947
General services	602,504
Administrative and fiscal services	426,817
Employee benefits	282,263
Depreciation	114,462
Provision for bad debts	304,741
Interest expense	<u>42,827</u>
 Total expenditures	 \$ <u>5,933,527</u>

OPERATING INCOME (LOSS)

\$ (225,804)

NONOPERATING REVENUES (EXPENSES)

Interest revenue:	
Unrestricted assets	\$ 22,336
Assets whose use is limited	12,720
Other	<u>11,140</u>
 Total nonoperating revenues (expenses)	 \$ <u>46,196</u>

**INCOME (LOSS) BEFORE OPERATING
TRANSFERS**

\$ (179,608)

(Continued)

See accompanying notes to the financial statements.

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana

ALL PROPRIETARY FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year Ended September 30, 1998

Statement B

Enterprise
Funds

TRANSFERS FROM (TO) OTHER FUNDS	
Operating transfers from other funds	\$ 0
Operating transfers to other funds	<u>0</u>
Total transfers from (to) other funds	<u>\$ 0</u>
NET INCOME	\$ (179,608)
RETAINED EARNINGS, BEGINNING	<u>\$ 1,625,324</u>
RETAINED EARNINGS, ENDING	<u>\$ 1,445,716</u>

(Concluded)

See accompanying notes to the financial statements.

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana

ALL PROPRIETARY FUNDS
COMBINED STATEMENT OF CASH FLOWS
Year Ended September 30, 1998

Statement C

Enterprise
Funds

CASH FLOWS FROM OPERATING ACTIVITIES

Income (loss) from operations	\$ (225,804)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Provision for bad debts	304,741
Depreciation expense	114,462
Interest paid on capital and <i>related financing activities</i>	42,827
(Increase) decrease in:	
Accounts receivable, patients	(434,269)
Accounts receivable, third-party payors	(88,210)
Supplies	4,944
Prepaid expenses	(11,812)
Other	3,055
Increase (decrease) in:	
Accounts payable, trade	(4,225)
Accounts payable, third-party payors	0
Salaries payable	13,511
Accrued vacation pay	(2,283)
Other revenues	<u>11,140</u>
 Total adjustments	 <u>(46,119)</u>
 Net cash provided by (used in) operating activities	 <u>(271,923)</u>

CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES

Transfers from (to) other funds	\$ <u>0</u>
 Net cash provided by (used in) noncapital financing activities	 <u>0</u>

(Continued)

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana

ALL PROPRIETARY FUNDS
COMBINED STATEMENT OF CASH FLOWS
Year Ended September 30, 1998

Statement C

Enterprise
Funds

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

<i>Purchase of property, plant and equipment</i>	\$	(61,755)
Loss on sale of equipment		0
Capital lease obligations:		
Principal		(6,654)
Interest		(1,869)
Hospital revenue bonds:		
Principal		(50,000)
Interest		<u>(43,250)</u>
 Net cash used in capital and related financing activities		 <u>(163,528)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease (increase) in restricted assets		278,872
Interest received		35,056
Decrease (increase) in certificates of deposit		<u>278,789</u>
 Net cash provided by investing activities		 <u>592,717</u>

NET INCREASE (DECREASE) IN CASH AND
CASH EQUIVALENTS

157,266

CASH AND CASH EQUIVALENTS AT BEGINNING
OF YEAR

405,326

CASH AND CASH EQUIVALENTS AT END
OF YEAR

\$ 562,592

(Concluded)

See accompanying notes to financial statements.

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

<u>INDEX</u>	<u>Page</u>
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
A. REPORTING ENTITY	10
B. FUND ACCOUNTING	10
Enterprise Funds	11
C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING	11
Enterprise Funds	11
D. BUDGET PRACTICES	13
E. ENCUMBRANCES	14
F. CASH AND CASH EQUIVALENTS	14
G. INVESTMENTS	14
H. SUPPLIES	14
I. ASSETS WHOSE USE IS LIMITED	14
J. PROPERTY, PLANT AND EQUIPMENT	14
K. LONG-TERM DEBT	15
L. MEMORANDUM ONLY - TOTAL COLUMN	15
M. USE OF ESTIMATES	15
 NOTE 2 - DEPOSITS	 15
NOTE 3 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	16
NOTE 4 - ASSETS WHOSE USE IS LIMITED	17
NOTE 5 - CONTINGENCIES	17
NOTE 6 - PENSION PLAN	18
NOTE 7 - LONG-TERM DEBT	18
NOTE 8 - CAPITAL LEASE OBLIGATIONS	19
NOTE 9 - INCOME TAXES	19
NOTE 10 - CASH FLOWS STATEMENTS	19
NOTE 11 - BEHAVIORAL HEALTH UNIT	19
NOTE 12 - GOING CONCERN	20

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hospital Service District Number One of the Parish of LaSalle, state of Louisiana (District), was created by the LaSalle Parish Police Jury, and operates Hardtner Medical Center through its Board of Commissioners. Hardtner Medical Center is a 49-bed hospital located in Olla, Louisiana, serving Olla and the surrounding community. In addition, the District provides office space to several physicians on a rental basis.

The district is governed by a Board of Commissioners composed of five members. David M. Hamner, Administrator of the Hospital, serves as secretary and treasurer of the Board.

Board members who served during the fiscal year and the amount of compensation received by each are presented below in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

Mr. Lee Richardel, Chairman	\$ 480
Mrs. Irma Terral, Vice-Chairman	480
Mr. M. L. Barksdale (July 1998 - present)	120
Mr. G. F. Tannhill	480
Mr. Lyle Woods (October 1998 - June 1998)	360
Mr. Benny Zeagler	<u>480</u>
	<u>\$2,400</u>

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles. The more significant of the Hospital Service District's accounting policies are described below.

A. REPORTING ENTITY

The Hospital Service District Number One is a component unit of the LaSalle Parish Police Jury, the reporting entity. The LaSalle Parish Police Jury is the governing authority of the Parish of LaSalle, Louisiana, and is governed by a board of police jurors elected by the public. Under the provisions granted by the Louisiana statutes, the police jury created the Hospital Service District Number One and appoints the members of its Board of Commissioners. The accompanying financial statements are component unit financial statements of the Hospital Service District Number One of the Parish of LaSalle and are not intended to present fairly the financial position and results of operations of the LaSalle Parish Police Jury in conformity with generally accepted accounting principles.

B. FUND ACCOUNTING

The accounts of the District are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The funds presented in the financial statements are described as follows:

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FUND ACCOUNTING (Continued)

Enterprise Funds

The enterprise funds are proprietary fund types that account for activities similar to those found in the private sector, where the determination of net income is necessary and useful to sound financial administration.

Operations and Maintenance Enterprise Fund

The District provides various services to the doctors of the Hospital through the use of this fund. In an effort to retain doctors for the Hospital, the District provides buildings for the doctors' use. The doctors are charged a monthly rent for use of these buildings.

Concession Enterprise Fund

In order to control the collections and reduce costs, the District engages an outside vending company to handle the concessions. All activities of the concession fund are conducted by an outside agency who pays the District a stated percentage of gross collections.

Hardtner Medical Center Enterprise Fund

This fund accounts for the operations of the Medical Center. Its purpose is to provide needed health care services to persons within the district.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Enterprise Funds

The enterprise funds are reported on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Patient service revenue, etc., are recognized as follows:

Net Patient Service Revenue

Net patient service revenue is patient revenue reported at Hardtner Medical Center's (Hospital's) established rates less contractual adjustments, charity allowances and policy discounts. Retroactive adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Enterprise Funds (Continued)

Net Patient Service Revenue (Continued)

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare Inpatient 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. Outpatient services and defined capital costs related to Medicare beneficiaries are paid based upon a cost reimbursement method. The Hospital is paid for outpatient cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. Cost reports through September 30, 1994 have been settled. Medicare has completed its review of the cost report for September 30, 1995, and tentative settlement figures have been recorded. Reports for September 30, 1996 and 1997 are still in the process of being reviewed.

Medicaid Inpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medical fiscal intermediary through September 30, 1994. A review for 1995, 1996 and 1997, is in progress and should be completed soon.

The state Medicaid Program made partial interim payments based on cost report figures without considering per-discharge limitations and incentive payments pending approval of this payment plan by the Health Care Financing Administration. The state of Louisiana recently settled cost reports for prior years after reaching agreement with the federal government regarding reimbursement methodology and upon appropriations of funds by the state legislature. The Medicaid cost reports for 1995, 1996 and 1997, are under review and should be completed soon. However, the Louisiana Department of Health and Hospitals has not made a commitment to budget and fund the payments for these cost reports, making collection uncertain. The unpaid balance on these three cost reports is \$110,275. Any difference between the amounts estimated to be due or payable on final audit will be included in contractual adjustments to revenues in the year settled.

Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana

Notes to the Component Unit Financial Statements
September 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Enterprise Funds (Continued)

Net Patient Service Revenue (Continued)

Blue Cross Inpatient services rendered to Blue Cross subscribers are reimbursed at an all-inclusive per diem rate. The prospectively determined per diem rates are not subject to retroactive adjustments.

Civilian Health and Medical Program of the Uniformed Services (Champus) Inpatient and outpatient services rendered are reimbursed on the same basis used by Medicare.

Charity Title VI (Hill-Burton) of the Public Health Act Regulations required hospitals to provide free care to patients who were unable to pay.

Hardtner Medical Center completed its twenty-year obligation of providing free care under Hill-Burton. A policy for providing continuing charity care for future years has not been established.

Net patient service revenue Following is a summary of contractual and other adjustments to arrive at net patient service revenues:

Gross patient service revenue	<u>\$7,921,705</u>
Less contractual adjustments:	
Medicare	1,931,501
Medicaid	493,173
Other third parties	<u>164,906</u>
Total contractual adjustments	<u>2,589,580</u>
Net patient service revenue	<u>\$5,332,125</u>

Contributions. Contributions from the LaSalle Parish Ambulance Service District for operation of the ambulances are treated as operating revenues. Unrestricted donations are treated as nonoperating revenues when received.

D. BUDGET PRACTICES

The District maintains only enterprise funds in its accounting system and is not subject to the Local Budget Act or the requirements of generally accepted accounting principles that require budget to actual comparisons. Therefore, budget to actual comparisons, usually found in the financial statements of governmental entities, are not included in these statements.

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ENCUMBRANCES

The District does not use a formal system of encumbrance accounting.

F. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits and interest-bearing demand deposits, and time deposit accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less.

The District deposits its funds in fiscal agent banks organized under the laws of the state of Louisiana, or the laws of the United States.

Cash and cash equivalents also include amounts whose use is limited by board designation or agreements with third-party payors in accordance with Statement Number 9 of the Governmental Accounting Standards Board. See Note 4.

G. INVESTMENTS

Investments are bank certificates of deposit that are valued at cost which approximates market. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

H. SUPPLIES

Inventories of supplies and minor equipment are valued at lower of cost (first-in, first-out) or latest invoice price.

I. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include funds set aside in accordance with agreements with third-party payors and funds held in accordance with the provisions of a revenue bond agreement.

J. PROPERTY, PLANT AND EQUIPMENT

Property and equipment acquisitions are recorded at cost. Property and equipment donated for hospital operations are valued at their fair market value on the date received, with the exception of the site of the Hospital which is carried at no value.

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. PROPERTY, PLANT AND EQUIPMENT (Continued)

Excluding the value of the Hospital site understates the assets of the Hospital, but not by a significant amount. All exhaustible property and equipment are shown in the accompanying balance sheet at their original costs, less accumulated depreciation. Depreciation is recorded on the straight-line method over the estimated useful lives, as follows:

Land improvements	12-29 years
Buildings	16-40 years
Fixed equipment	5-20 years
Major moveable equipment	3-20 years

K. LONG-TERM DEBT

Long-term liabilities expected to be financed from proprietary fund operations, Hardtner Medical Center, are accounted for in the enterprise fund.

L. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS

At September 30, 1998, the District has deposits (book balances) totaling \$883,803 as follows:

Demand deposit	\$412,292
Petty cash	300
Certificates of deposit	<u>471,211</u>
Total	<u>\$883,803</u>

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 2 - DEPOSITS (Continued)

The following is the relationship between total deposits and the balances on Statement A - Combined Balance Sheet, as of September 30, 1998:

Cash and cash equivalents	\$301,848
Investments	221,211
Assets whose use is limited under revenue bond agreement by agreement with third-party payors for funded depreciation	100,000
Under revenue bond agreement	
Revenue bond and interest sinking account	124,886
Revenue bond reserve account	107,587
Depreciation and contingency fund	<u>28,271</u>
Total	<u>\$883,803</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At year-end, the District's carrying amount of deposits was \$883,803 and the bank balance was \$994,811. Of the bank balance, \$300,000 was covered by federal depository insurance or by collateral held by the District's agent in the District's name (GASB Category 1). The remaining balance, \$694,811 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name (GASB Category 3).

These deposits are considered uncollateralized (Category 3) under the provisions of GASB Statement 3. However, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 3 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - patients, include unpaid amounts billed to discharged patients and third-party payors such as insurance companies and the fiscal intermediaries of the Social Security Administration on behalf of patients eligible for benefits under Title XVIII and XIX of the Social Security Act. Also included are unbilled charges for those patient not discharged at September 30, 1998.

A summary of transactions in the allowance for doubtful accounts and contractual adjustments of the Hospital follows:

Balance at beginning of period	\$ 1,244,172
Provision for estimated losses on uncollected accounts	322,000
Accounts charged to allowance	2,501,196
Reductions (increases) in allowances for contractual adjustments	<u>(2,196,543)</u>
Balance at end of period	<u>\$ 1,870,825</u>

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 4 - ASSETS WHOSE USE IS LIMITED

In accordance with Medicare regulations, the Board has limited the use of the following assets for capital improvement and funded depreciation. These funds are kept on deposit with local banks as shown below.

<u>Bank</u>	<u>Rate</u>	<u>1998</u> <u>Amount</u>	<u>Rate</u>	<u>1997</u> <u>Amount</u>
Bank of Jena	4.75%	\$100,000	4.75%	\$100,000
Jonesville Bank & Trust	N/A	_____	3.00% - 5.00%	<u>278,872</u>
Total		<u>\$100,000</u>		<u>\$378,872</u>

The Hospital decreased its capital improvement and funded depreciation accounts approximately \$278,000. This money was transferred to the operating fund.

The Hospital is required to make monthly deposits into the following funds under the FHA loan agreement:

	<u>1998</u>	<u>Balance</u>
	<u>Monthly</u>	
Revenue bond and interest sinking account	\$7,729	\$124,886
Revenue bond reserve account	-	107,587
Depreciation and contingency fund	<u>770</u>	<u>28,271</u>
Total	<u>\$8,499</u>	<u>\$260,744</u>
Total assets whose use is limited		<u>\$360,744</u>

These monies are in interest-bearing accounts and are included in the balance sheet as assets whose use is limited. There is a required amount of \$99,000 maintained in the revenue reserve fund. Payments into the depreciation fund shall continue and are to be used only for replacement and repairs. Revenue bond and interest sinking funds are used to make annual principal and interest payments. All required deposits to these funds have been made.

NOTE 5 - CONTINGENCIES

Self-Insured The Hospital pays Louisiana Unemployment Compensation Tax under the Louisiana Employment Security Law. The tax is normally assessed at the rate of four to five percent of the first \$8,500 of each employee's wages. However, the Hospital has elected to pay on an experience-rating method whereby actual compensation payments to qualifying employees are assessed.

Pending Litigation A case involving the use of an ambulance and its personnel was brought before the Medical Review Board Panel which ruled in July of 1992 that Hardtner Medical Center was without fault. The plaintiffs filed a lawsuit shortly thereafter to which the Hospital responded. A pre-trial conference was scheduled to be held in June 1996, at which time, a trial date was to be selected. At the date of this report, a trial date has been set for January 1999. It is the opinion of management that this case has no probable merit and will not result in any liability to the Hospital.

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 6 - PENSION PLAN

Employees of the Hardtner Medical Center are covered by the Federal Social Security System. The Hospital provides administrative assistance to its employees who participate in a salary reduction plan under Section 405(b) of the Internal Revenue Code. However, the Hospital does not contribute to the plan.

NOTE 7 - LONG-TERM DEBT

Funding for a 1981 expansion program at the Hospital was provided by the issuance of \$1,376,000 revenue bonds and \$348,000 from earnings accumulated by the Hospital. The bonds bear interest at five percent per annum and are payable over a period of 40 years. They were acquired by the Farmers Home Administration and are secured by a pledge of income, revenues and receipts derived by the Hospital.

The following is a summary of long-term debt principal transactions for the year ended September 30, 1998:

	<u>Revenue Bonds</u>
Balance, beginning of year	\$865,000
Redeemed	<u>50,000</u>
Balance, end of year	<u>\$815,000</u>

Scheduled annual debt service requirements are as follows:

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>
1999	\$ 90,750
2000	93,250
2001	90,500
2002	92,750
2003	89,750
2004-2010	<u>648,750</u>
Total payments	1,105,750
Less amount representing interest	<u>(290,750)</u>
Total principal outstanding	<u>\$ 815,000</u>

Bond principal and interest payable in the next fiscal year are \$50,000 and \$40,750, respectively.

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 8 - CAPITAL LEASE OBLIGATIONS

The District is obligated under a lease for computer equipment which is accounted for as a capital lease. Assets under capital lease totaled \$24,867 at September 30, 1998, and accumulated depreciation on these assets totaled \$8,696. The following is a schedule of future minimum lease payments.

<u>Year Ending September 30,</u>	<u>Lease Payments</u>
1999	\$ 8,525
2000	8,525
2001	8,525
2002	<u>3,551</u>
Total minimum lease payments	29,126
Less amounts representing interest	<u>2,972</u>
Present value of net minimum lease payments	<u>\$26,154</u>

NOTE 9 - INCOME TAXES

The Hospital Service District is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

NOTE 10 - CASH FLOWS STATEMENTS

For the purpose of the statements of cash flows, the Hospital Service District considers the following accounts with a maturity of three months or less as cash and cash equivalents:

Cash and cash equivalents	\$301,848
Assets whose use is limited under revenue bond agreement	
Revenue bond and interest-sinking account	124,886
Revenue bond reserve account	107,587
Depreciation and contingency fund	<u>28,271</u>
Total cash and cash equivalents	<u>\$562,592</u>

NOTE 11 - BEHAVIORAL HEALTH UNIT

The Hospital established a Behavioral Health Unit (BHU) in 1996 and operates the BHU with the assistance of a third-party management company. The BHU provides programs for the treatment of emotional problems and psychiatric disorders and operates out of a ten-bed wing in the Hospital. During the year ended September 30, 1998, the BHU was managed by two separate companies.

Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana

Notes to the Component Unit Financial Statements
September 30, 1998

NOTE 11 - BEHAVIORAL HEALTH UNIT (Continued)

Through August 25, 1998, Sunrise Behavioral Health, Ltd., (SBH) operated the BHU under the terms of a contract entered into by both parties in October 1996. Under the contract the Hospital provided room and board, medical records services, food services, housekeeping services, laundry and linen services and billed and collected for these services. SBH provided the staff of the behavioral unit, the planning, administering, supervision of the program and billed Medicare for all clinical and medical services provided to the patients. The Hospital paid SBH a management fee of \$9,379 per patient discharge. This agreement was effective for a term of five years, cancelable by either party with ninety days' notice.

Upon canceling the contract with SBH, the Hospital entered into a contract with Carter Integrated Services (CIS) effective August 25, 1998. Under this contract, CIS provides management services concerning the BHU and the Hospital provides all staff except for the program director, social worker, and the marketing director, who are provided by CIS. The Hospital will pay to CIS a management fee of \$3,750 per patient discharge. This contract is for a term of three years and is cancelable by either party with a 90-day notice.

NOTE 12 - GOING CONCERN

There are concerns about the Hospital's liquidity and the ability to remain a going concern based on the factors discussed below.

LaSalle Parish, particularly the western portion of the parish in and around Olla, has experienced economic distress over the last few years. One of the parish's main employers was forced to close a portion of its operations in the area in December 1997, causing many of the citizens who utilize the Hospital to become unemployed. This has caused collection problems for the Hospital's self-pay and deductible portion of the accounts receivables, which comprise approximately 10-15% of total accounts receivables. The parish's economic conditions is only one factor in the increase in accounts receivable. Another cause of increasing accounts receivables is delinquent diagnoses which have not been billed.

This increase in the carrying amount of receivables has been coupled with annual operating losses in seven of the last eight years. These operating losses can be, at least, partially attributed to occupancy rates which have fallen annually for the last ten to twelve years. A further strain on liquidity is caused by the lack of commitment by the Louisiana Department of Health and Hospitals to budget and fund the amounts due to state hospitals resulting from services provided under Medicare and Medicaid as determined in the Hospital's cost reports.

When combined, these factors have forced the Hospital to rely on reserves built up and held in investments in order to fund operations. In addition to revenues generated by operations, the Hospital relies to some extent on annual funding received from the Louisiana Department of Health and Hospitals. Uncertainties exist about the availability of this funding in future years which could compound the problem faced by the Hospital and force the Hospital to dig into these reserves even deeper.

**Hospital Service District Number One of The
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Notes to the Component Unit Financial Statements
September 30, 1998**

NOTE 12 - GOING CONCERN (Continued)

Management has formulated some strategic initiatives in order to combat these problems which include but are not limited to:

- Addition of 10 to 15 nursing home beds in one wing of the hospital to fill beds which are currently empty. The hospital has strong support for this plan from both the community and the local state representative.
- The hospital has plans to revise outpatient charges in December of 1998. This should improve revenues and profitability, but the cash flow may not be realized for several months.
- The old management contract covering the Behavioral Health Unit (BHU) was canceled and renewed with a new management company. Projections are that the BHU should become more profitable under the current arrangement.

**Hospital Service District Number One of the
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

SUPPLEMENTAL INFORMATION SCHEDULES

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana

ALL ENTERPRISE FUNDS
COMBINING BALANCE SHEET
September 30, 1998

Schedule 1

	Operations And Maintenance	Concession	Hardtner Medical Center	Totals
ASSETS				
Cash and investments				
Cash, checking	\$ 2,031	\$ 10,114	\$ 289,703	\$ 301,848
Certificates of deposit	0	0	221,211	221,211
Receivables				
Patient services, net of allowances of \$1,870,825	0	0	1,816,489	1,816,489
Estimated third-party payor settlements	0	0	246,225	246,225
Interest	0	0	841	841
Rent	1,200	0	0	1,200
Miscellaneous	0	154	0	154
Supplies	0	0	93,747	93,747
Prepaid expenses	698	0	29,832	30,530
Assets whose use is limited				
By agreement with third-party payors for funded depreciation	0	0	100,000	100,000
Under revenue bond agreement				
Revenue bond and interest sinking account	0	0	124,886	124,886
Revenue bond reserve account	0	0	107,587	107,587
Depreciation and contingency fund	0	0	28,271	28,271
Property, plant and equipment				
Land	0	0	4,615	4,615
Land improvements	3,847	0	35,512	39,359
Buildings	162,707	0	1,427,801	1,590,508
Equipment, furniture and fixtures	13,553	0	2,015,343	2,028,896
Accumulated depreciation	(137,130)	0	(2,814,016)	(2,951,146)
TOTAL ASSETS	\$ 46,906	\$ 10,268	\$ 3,728,047	\$ 3,785,221

(Continued)

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
Olla, Louisiana

ALL ENTERPRISE FUNDS
COMBINING BALANCE SHEET
September 30, 1998

Schedule 1

	<u>Operations And Maintenance</u>	<u>Concessions</u>	<u>Hartdner Medical Center</u>	<u>Totals</u>
<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>				
Liabilities				
Accounts payable	\$ 673	\$ 0	\$ 273,065	\$ 273,738
Salaries payable	0	0	80,425	80,425
Current portion of capital lease	0	0	26,154	26,154
Accrued vacation payable	0	0	39,096	39,096
Estimated third-party payor settlements	0	0	0	0
Payable from assets whose use is limited				
Revenue bonds payable	0	0	815,000	815,000
Accrued bond interest payable	0	0	37,354	37,354
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	\$ 673	\$ 0	\$ 1,271,094	\$ 1,271,767
Equity and other credits				
Contributed capital	\$ 0	\$ 0	\$ 1,067,738	\$ 1,067,738
Retained earnings:				
Reserved for revenue bond:				
Sinking account	0	0	124,886	124,886
Reserve account	0	0	107,587	107,587
Depreciation and capital improvement	0	0	28,271	28,271
Unreserved	46,233	8,088	1,130,651	1,184,972
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity and other credits	\$ 46,233	\$ 8,088	\$ 2,459,133	\$ 2,513,454
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES, EQUITY AND OTHER CREDIT	\$ 46,906	\$ 8,088	\$ 3,730,227	\$ 3,785,221

(Concluded)

**HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
Olla, Louisiana**

**ALL ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year Ended September 30, 1998**

Schedule 2

	Operations And Maintenance	Concession	Hardtner Medical Center	Total
OPERATING REVENUES				
Net patient service revenues	\$ 0	\$ 0	\$ 5,332,125	\$ 5,332,125
Contributions from Ambulance Service District	0	0	72,000	72,000
State of Louisiana, Emergency Services grant	0	0	0	0
State of Louisiana, Disproportionate Share Pool Payments	0	0	275,045	275,045
Vending machine commissions	0	1,837	0	1,837
Rentals, physicians' offices	11,400	0	0	11,400
Cafeteria sales	0	0	15,316	15,316
Total revenues	\$ 11,400	\$ 1,837	\$ 5,694,486	\$ 5,707,723
OPERATING EXPENSES				
Daily patient services	\$ 0	\$ 0	\$ 857,984	\$ 857,984
Nursing services	0	0	1,806,982	1,806,982
Other professional services	0	0	1,494,947	1,494,947
General services	12,174	2,180	588,150	602,504
Administrative and fiscal services	0	0	426,817	426,817
Employee benefits	0	0	282,263	282,263
Depreciation	5,250	0	109,212	114,462
Provision for bad debts	0	0	304,741	304,741
Interest expense	0	0	42,827	42,827
Total expenditures	\$ 17,424	\$ 2,180	\$ 5,913,923	\$ 5,933,527
OPERATING INCOME (LOSS)	\$ (6,024)	\$ (343)	\$ (219,437)	\$ (225,804)
NONOPERATING REVENUES (EXPENSES)				
Interest revenue:				
Unrestricted assets	\$ 0	\$ 0	\$ 22,336	\$ 22,336
Assets whose use is limited	0	0	12,720	12,720
Other	0	0	11,140	11,140
Total nonoperating revenues (expenses)	\$ 0	\$ 0	\$ 46,196	\$ 46,196
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ (6,024)	\$ (343)	\$ (173,241)	\$ (179,608)

(Continued)

**HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana**

**ALL ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year Ended September 30, 1998**

Schedule 2

	<u>Operations And Maintenance</u>	<u>Concession</u>	<u>Hardtner Medical Center</u>	<u>Total</u>
TRANSFERS FROM (TO) OTHER FUNDS				
Operating transfers from other funds	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Total transfers from (to) other funds	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>
 NET INCOME	 \$ (6,024)	 \$ (343)	 \$ (173,241)	 \$ (179,608)
 RETAINED EARNINGS, BEGINNING	 <u>\$ 52,257</u>	 <u>\$ 10,611</u>	 <u>\$ 1,562,456</u>	 <u>\$ 1,625,324</u>
 RETAINED EARNINGS, ENDING	 <u>\$ 46,233</u>	 <u>\$ 10,268</u>	 <u>\$ 1,389,215</u>	 <u>\$ 1,445,716</u>

(Concluded)

HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE, STATE OF LOUISIANA
Olla, Louisiana

ALL ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 1998

Schedule 3

	Operations And Maintenance	Concession	Hardtner Medical Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) from operations	\$ (6,024)	\$ (343)	\$ (219,437)	\$ (225,804)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Provision for bad debts	0	0	304,741	304,741
Depreciation expense	5,250	0	109,212	114,462
Interest paid on capital and related financing activities	0	0	42,827	42,827
(Increase) decrease in:				
Accounts receivable, patients	0	0	(434,269)	(434,269)
Accounts receivable, third-party payors	0	0	(88,210)	(88,210)
Supplies	0	0	4,944	4,944
Prepaid expenses	26	0	(11,838)	(11,812)
Other	(400)	(36)	3,491	3,055
Increase (decrease) in:				
Accounts payable, trade	98	0	(4,323)	(4,225)
Accounts payable, third-party payors	0	0	0	0
Salaries payable	0	0	13,511	13,511
Accrued vacation pay	0	0	(2,283)	(2,283)
Other revenues	0	0	11,140	11,140
 Total adjustments	 \$ 4,974	 \$ (36)	 \$ (51,057)	 \$ (46,119)
 Net cash provided by (used in) operating activities	 <u>(1,050)</u>	 <u>(379)</u>	 <u>(270,494)</u>	 <u>(271,923)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	\$ 0	\$ 0	\$ 0	\$ 0
 Net cash provided by (used in) noncapital financing activities	 <u>0</u>	 <u>0</u>	 <u>0</u>	 <u>0</u>

(Continued)

**HOSPITAL SERVICE DISTRICT NUMBER ONE OF THE
PARISH OF LaSALLE , STATE OF LOUISIANA
Olla, Louisiana**

**ALL ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 1998**

Schedule 3

	Operations And Maintenance	Concession	Hardtner Medical Center	Total
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of property, plant and equipment	\$ 0	\$ 0	\$ (61,755)	\$ (61,755)
Loss on sale of equipment	0	0	0	0
Capital lease obligations:				
Principal	0	0	(6,654)	(6,654)
Interest	0	0	(1,869)	(1,869)
Hospital revenue bonds:				
Principal	0	0	(50,000)	(50,000)
Interest	0	0	(43,250)	(43,250)
Net cash used in capital and related financing activities	<u>0</u>	<u>0</u>	<u>(163,528)</u>	<u>(163,528)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in restricted assets	0	0	278,872	278,872
Interest received	0	0	35,056	35,056
Decrease (increase) in certificates of deposit	0	0	278,789	278,789
Net cash provided by investing activities	<u>0</u>	<u>0</u>	<u>592,717</u>	<u>592,717</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,050)</u>	<u>(379)</u>	<u>158,695</u>	<u>157,266</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,081</u>	<u>10,493</u>	<u>391,752</u>	<u>405,326</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,031</u>	<u>\$ 10,114</u>	<u>\$ 550,447</u>	<u>\$ 562,592</u>

(Concluded)

**Hospital Service District Number One of the
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Other Reports Required By
Government Auditing Standards**

The following page is a report on internal control and compliance with laws and regulations required by Government Auditing Standards issued by the Comptroller General of the United States. The report on internal control structure is based solely on the audit of the general-purpose financial statements and includes, where appropriate, any *reportable conditions and/or material weaknesses*. The report on compliance with laws and regulations is, likewise, based solely on the audit of the presented general-purpose financial statements and presents, where applicable, compliance matters that would be material to the presented general-purpose financial statements.

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Tim Green, CPA

Margie Williamson, CPA

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 Number One
of the Parish of LaSalle, State of Louisiana
Olla, Louisiana

We have audited the financial statements of the Hospital Service District Number One of the Parish of LaSalle, State of Louisiana, as of and for the year ended September 30, 1998, and have issued our report thereon dated November 12, 1998. 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 Hospital Service District Number One of the Parish of LaSalle'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 Hospital Service District Number One of the Parish of LaSalle's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hospital Service District Number One of the Parish of LaSalle's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 98-F1.

Board of Commissioners
Hospital Service District Number One
of the Parish of LaSalle, State of Louisiana
Olla, Louisiana

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Management Letter Items

We noted other matters involving financial operations which we have reported to management of the District in a separate letter dated November 12, 1998, included later in this report.

This report is intended for the information of the Board, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Allen Green & Company

ALLEN, GREEN & COMPANY, LLP

Monroe, Louisiana
November 12, 1998

**Hospital Service District Number One of the
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Status of Prior Reportable Conditions
As of and for the Year Ended September 30, 1998**

97-1 Inadequate Separation of Duties

See current-year comment 98-F1 in the Schedule of Reportable Conditions.

Hospital Service District Number One of the
Parish of LaSalle, State of Louisiana
Olla, Louisiana

Schedule of Reportable Conditions
As of and for the Year Ended September 30, 1998

98-F1 Inadequate Separation of Duties

CONDITION: Employees in the business office perform overlapping accounting procedures in several areas including accounts payable, cash, accounts receivable, and revenue posting transactions.

REASON IMPROVEMENT NEEDED: Separation of accounting duties has been shown to assist management in accounting for and safe-guarding assets under its control and reducing errors and omissions.

CAUSE OF CONDITION: A lack of personnel prevents adequate separation of duties.

EFFECT OF CONDITION: The Hospital assumes additional risks in summarizing, recording and reporting its financial information and in safeguarding its assets.

RECOMMENDATION: Job descriptions and duties of the business office staff should be reviewed and changes made where possible to reassign incompatible duties. A review of each employee's work should be assigned and rotated among the other employees who are independent of the process.

MANAGEMENT'S RESPONSE: Preparation of the payroll has been assigned to one employee who does not have unlimited access to the general ledger. The administrator periodically reviews the entire payroll function. The administrator is in the process of further reassigning job duties to achieve better separation of duties. These duties can be reassigned by the end of fiscal year 1999.

**Hospital Service District Number One of the
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

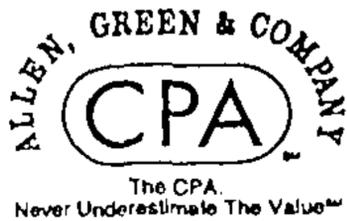
Management Letter Items

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Management Letter

Board of Commissioners
Hospital Service District Number One
of the Parish of LaSalle
State of Louisiana
Olla, Louisiana

In planning and performing our audit of the general-purpose financial statements of the Hospital Service District Number One of the Parish of LaSalle, Olla, Louisiana for the year ended June 30, 1998, we considered the District's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report November 12, 1998, on the financial statements of the District. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

98-M1 Accounts Receivable

Comment: Accounts receivable have grown steadily over the past several years. During the months after the close of the fiscal year, they increased substantially. Part of this growth is related to the larger Medicare population. There is a delay between the time a patient is discharged and the time that the bill is submitted to Medicare and paid. Therefore, some increase in Medicare receivables is to be expected.

This situation has reduced cash flow and caused the hospital to draw on its cash reserves.

Recommendation: We believe it is vital to the future of the hospital that every effort be made to collect these receivables as quickly as possible. Procedures should be started to ensure that every bill is processed as quickly as possible. While there have been improvements by the doctors to provide diagnoses on patients who have been discharged, the physicians should be encouraged to cooperate to the fullest in this regard.

Management's response: The Hospital hired a new employee in July 1998, for the main purpose of collecting past due accounts receivable. Since this date old accounts greater than one year have gone down by nearly 40%. Emphasis has been made to medical staff of the need to reduce the number of delinquent charts.

Board Members
Hospital Service District Number One
of the Parish of LaSalle
Olla, Louisiana

98-M2 Computer Software

Comment: We have worked with several worksheets that have to be maintained throughout the year which are prepared manually. We believe a significant amount of time could be saved if these worksheets were kept on spreadsheets such as Lotus 123 or Microsoft Excel. PC workstations and printers have come down considerably in price and would be a very good bargain for the hospital due to increased speed and accuracy. These files can also be transmitted to us through the Internet and provide excellent file support and documentation. With a network interface card, some of these workstations could be connected to the AS400 thereby providing access to some of the files that can be downloaded.

Recommendations: The Hospital should examine purchasing PCS and the needed software, and should make the purchase if practical.

Management's response: The Hospital has scheduled a computer upgrade for the year-2000 issue. We expect to upgrade the system at that time. Due to time constraints, the software company is not able to perform the upgrade until July 1999.

98-M3 Medical Records Software

Comment: We understand that you are considering getting proposals for the installation of computer software in medical records. This should improve the efficiency in that department and would enhance your efforts to speed up the billing process.

Recommendations: We think this is worthwhile and encourage you to continue your efforts. We have found one or two sources of software for medical records departments and are sending them to you.

Management's response: A new quote has been obtained for a medical record software. This will be presented to the board in the April 1999 monthly board meeting.

Included immediately following this letter is a Status of Prior Management Letter Items. This information has not been audited by Allen, Green & Company, LLP, and no opinion is expressed. However, we did follow-up on prior management letter items and performed procedures to assess the reasonableness of the Status of Prior Management Letter Items prepared by the auditee, and we would report, as a current-year management letter item when Allen, Green & Company, LLP, concludes that the Status of Prior Management Letter Items materially misrepresents the status of any prior management letter item.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not reveal all weaknesses in policies and procedures that may exist.

Board Members
Hospital Service District Number One
of the Parish of LaSalle
Olla, Louisiana

This report is intended for the information of the Board, management, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Allen Green & Company
ALLEN, GREEN & COMPANY, LLP

Monroe, Louisiana
November 12, 1998

**Hospital Service District Number One of the
Parish of LaSalle, State of Louisiana
Olla, Louisiana**

**Status of Prior Management Letter Items
September 30, 1998**

97-1 Accounts Receivable

Initially occurred: Year ended September 30, 1997.

Condition: Accounts receivable have grown steadily over the past several years. During the months after the close of the fiscal year, they increased substantially. Part of this growth is related to the larger Medicare population. There is a delay between the time a patient is discharged and the time that the bill is submitted to Medicare and paid. Therefore, some increase in Medicare receivables is to be expected.

This situation has reduced cash flow and caused the hospital to draw on its cash reserves. We believe it is vital to the future of the hospital that every effort be made to collect these receivables as quickly as possible. Procedures should be started to ensure that every bill is processed as quickly as possible. While there have been improvements by the doctors to provide diagnoses on patients who have been discharged, the physicians should be encouraged to cooperate to the fullest in this regard.

Management's response: See current-year comment 98-M1.

97-2 Computer Software

Initially occurred: Year ended September 30, 1997.

Condition: We have worked with several worksheets that have to be maintained throughout the year which are prepared manually. We believe a significant amount of time could be saved if these worksheets were kept on spreadsheets such as Lotus 123 or Microsoft Excel. PC workstations and printers have come down considerably in price and would be a very good bargain for the hospital due to increased speed and accuracy. These files can also be transmitted to us through the Internet and provide excellent file support and documentation. With a network interface card, some of these workstations could be connected to the AS400 thereby providing access to some of the files that can be downloaded.

Management's response: See current-year comment 98-M2.

97-3 Medical Records Software

Initially occurred: Year ended September 30, 1997.

Condition: We understand that you are considering getting proposals for the installation of computer software in medical records. This should improve the efficiency in that department and would enhance your efforts to speed up the billing process. We think this is worthwhile and encourage you to continue your efforts. We have found one or two sources of software for medical records departments and are sending them to you.

Management's response: See current-year comment 98-M3.

Hospital Service District Number One of the
Parish of LaSalle, State of Louisiana
Olla, Louisiana

Status of Prior Management Letter Items
September 30, 1998

97-4 Labor Costs

Initially occurred: Year ended September 30, 1997.

Condition: While it is difficult to project the patient load in the hospital, every effort should be made to reduce the hourly salary costs whenever possible without compromising patient care. The Director of Nursing should be kept apprised of the situation and encouraged to work with the hospital in this regard.

Management's response: This is monitored daily by the administrator and Director of Nursing. Extra personnel are cut when necessary.

97-5 Behavioral Unit

Initially occurred: Year ended September 30, 1997.

Condition: Because of recent changes in the method of reimbursement for the case load in this unit, the cost sharing methodology should be carefully reviewed. A preliminary study was prepared recently, but it is our understanding that the results were inconclusive. Although it may not provide a profit on the resources provided by the hospital, it should at least cover the direct costs and contribute toward the allocable indirect costs. The statistics in the cost report can be used to help make a determination in this regard.

Management's response: As of August 1, 1998, the hospital changed management companies. The BHU reduced length of stay from 32.7 days in 1997, to 16.7 days in 1998 fiscal year end. The hospital reduced the management fee from \$9,450 per discharge to \$3,750 per discharge.

97-6 Proposed Nursing Home Facility

Initially occurred: Year ended September 30, 1997.

Condition: The hospital may have an opportunity to establish a nursing home facility to help the elderly in the community. This could be very good for the hospital from a financial standpoint. It is likely that costs could be shared and services enhanced. We encourage you and the Board to continue your efforts in this regard. If we can help in any way, please let us know.

Management's response: The hospital has worked closely with our representative on getting the nursing home beds. We have received approval from our Board and the board of another facility to transfer the license of some empty beds to our hospital. This is currently being reviewed by the DHH and the Governor's office for approval.