

Financial Report

Bayou Labs of Louisiana, L.L.C.

December 31, 1999 and 1998

Under provisions of state law, this report is a public document. A copy of this report is on file in the office of the clerk of court for the parish of the parish where the company is organized. The report is also on file in the office of the clerk of court for the parish of the parish where the company is organized, where appropriate, at the office of the parish clerk of court.

Release Date DEC 13 2000

TABLE OF CONTENTS

Bayou Labs of Louisiana, L.L.C.

December 31, 1999 and 1998

	<u>Exhibits</u>	<u>Page</u>
Financial Section		
Independent Auditor's Report		1 – 2
Balance Sheets	A	3
Statements of Operations and Changes in Net Assets	B	4
Statements of Cash Flows	C	5
Notes to Financial Statements	D	6 – 9
Special Reports of Certified Public Accountants		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>		10 – 11
Schedule of Findings and Questioned Costs		12 – 13
Reports By Management		
Schedule of Prior Year Findings		14
Management's Corrective Action Plan		15

FINANCIAL SECTION



Bourgeois Bennett

INDEPENDENT AUDITOR'S REPORT

To the Member Hospitals,
Bayou Labs of Louisiana, L.L.C.
Raceland, Louisiana.

We have audited the accompanying financial statements of Bayou Labs of Louisiana, L.L.C. ("Bayou Labs") as of December 31, 1999 and 1998 and for the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998. These financial statements are the responsibility of Bayou Labs' 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 the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bayou Labs as of December 31, 1999 and 1998, and the results of its operations for the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998 in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2000 on our consideration of Bayou Labs' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La.,
September 29, 2000.

BALANCE SHEETS**Bayou Labs of Louisiana, L.L.C.**

December 31, 1999 and 1998

ASSETS

	<u>1999</u>	<u>1998</u>
Current assets		
Cash	\$ 450,941	\$ 3,058
Accounts receivable, net of allowance for uncollectible accounts (\$8,952 at 1999; \$0 at 1998)	169,460	68,418
Prepaid expenses	<u>15,602</u>	<u>8,018</u>
Total current assets	<u>636,003</u>	<u>79,494</u>
Equipment		
Radiographic system	1,017,044	986,044
Less accumulated depreciation	<u>(157,945)</u>	<u>(30,814)</u>
Net book value	<u>859,099</u>	<u>955,230</u>
Total assets	<u><u>\$ 1,495,102</u></u>	<u><u>\$ 1,034,724</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 48,583	\$ 77,893
Accrued expenses	<u>2,486</u>	<u>-</u>
Total current liabilities	51,069	77,893
Contingencies (Note 5)	<u>-</u>	<u>-</u>
Total liabilities	51,069	77,893
Net assets		
Unrestricted	<u>1,444,033</u>	<u>956,831</u>
Total liabilities and net assets	<u><u>\$ 1,495,102</u></u>	<u><u>\$ 1,034,724</u></u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**Bayou Labs of Louisiana, L.L.C.**

For the year ended December 31, 1999 and
the initial period from January 7, 1998 (inception) through December 31, 1998

	<u>1999</u>	<u>1998</u>
Unrestricted Revenue		
Net patient service revenue	\$ 799,922	\$ 68,418
Expenses		
Depreciation	127,131	30,814
Supplies	66,130	5,317
Personnel cost	85,836	6,901
Insurance	16,733	2,894
Maintenance	2,486	-
Provision for bad debts	8,952	-
Other	-	174
Rent	3,648	912
Start up fees	3,335	24,575
Total expenses	<u>314,251</u>	<u>71,587</u>
Operating income (loss)	485,671	(3,169)
Nonoperating Income		
Interest income	<u>1,531</u>	<u>-</u>
Increase (Decrease) in Net Assets	487,202	(3,169)
Net Assets		
Beginning of period	956,831	-
Members' capital contributions	<u>-</u>	<u>960,000</u>
End of period	<u>\$ 1,444,033</u>	<u>\$ 956,831</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS**Bayou Labs of Louisiana, L.L.C.**

For the year ended December 31, 1999 and
the initial period from January 7, 1998 (inception) through December 31, 1998

	<u>1999</u>	<u>1998</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 487,202	\$ (3,169)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	127,131	30,814
Interest income	(1,531)	-
Increase in assets:		
Net receivables	(101,042)	(68,418)
Prepaid expenses	(7,584)	(8,018)
Increase (decrease) in liabilities:		
Accounts payable	(902)	37,705
Accrued expenses	2,486	-
	<u>505,760</u>	<u>(11,086)</u>
Net cash provided by (used in) operating activities		
Cash Flows From Investing Activities		
Purchase of equipment (net of accounts payable: \$11,780 - 1999, \$40,188 - 1998)	(59,408)	(945,856)
Interest income	1,531	-
	<u>(57,877)</u>	<u>(945,856)</u>
Net cash used in investing activities		
Cash Flows From Financing Activities		
Members' capital contributions	-	960,000
	<u>447,883</u>	<u>3,058</u>
Net Increase In Cash		
Cash		
Beginning of period	3,058	-
End of period	<u>\$ 450,941</u>	<u>\$ 3,058</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Bayou Labs of Louisiana, L.L.C.

December 31, 1999 and 1998

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

Bayou Labs of Louisiana, L.L.C. ("Bayou Labs") is a cooperative hospital service organization which provides on-site and off-site cardiac catheterization laboratory services to patients of its member hospitals: Hospital Service District No. 1 for the Parish of Lafourche, Louisiana, d/b/a Lady of the Sea General Hospital ("Lady of the Sea"), Hospital Service District No. 2 for the Parish of Lafourche, Louisiana, d/b/a St. Anne General Hospital ("St. Anne"), and Alton Ochsner Medical Foundation ("Ochsner"). Based on the significant control that Hospital Service Districts Nos. 1 and 2 possess over its operations, Bayou Labs is deemed to be a quasi-public entity.

Bayou Labs was organized on October 29, 1997 as a limited liability company pursuant to the laws of the State of Louisiana. After Bayou Labs' bank account was opened on January 7, 1998, various start-up activities took place until operations began in October 1998.

b. Basis of Accounting

The financial statements of Bayou Labs are presented on the accrual basis of accounting.

c. 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Allowance For Uncollectible Receivables

Bayou Labs provides for possible uncollectible receivables as determined by management.

e. Equipment

Bayou Labs records all equipment acquisitions at cost. Depreciation on equipment is provided on a straight-line basis over its estimated useful life.

f. Revenue

Net patient service revenue is recorded by Bayou Labs as procedures are performed.

g. Income Taxes

Bayou Labs is a cooperative hospital service organization as described in Section 501(c) of the Internal Revenue Code and, as such, is exempt from Federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

h. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-For-Profit Organizations. Under SFAS No. 117, Bayou Labs is required to report information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Bayou Labs does not have any temporarily restricted or permanently restricted net assets.

Note 2 – RELATED-PARTY TRANSACTIONS

a. Lease

The cardiac catheterization laboratory is located at and leases its premises from St. Anne for a monthly rental of \$304. The lease was executed effective January 1998, for five years and, at the expiration of the current term, will automatically renew for

Note 2 – RELATED-PARTY TRANSACTIONS (Continued)

a. Lease (Continued)

additional one-year terms unless cancelled by either party. Future minimum rentals are as follows:

<u>Year Ending</u>	<u>Amount</u>
2000	\$ 3,648
2001	3,648
2002	<u>3,648</u>
Total	<u>\$10,944</u>

b. Operations

St. Anne performs the billing and collection functions for the services rendered by Bayou Labs. Revenue earned by Bayou Labs is determined based on a mutually agreed-upon rate per procedure performed. Any favorable or unfavorable difference between the actual billing verses the agreed-upon rate per procedure is absorbed by St. Anne.

St. Anne provides labor and supplies for the operation of the cardiac catheterization laboratory. Bayou Labs reimburses St. Anne for these expenses at a mutually agreed-upon rate per procedure performed.

Note 3 – CONCENTRATIONS

a. Credit Risk

Bayou Labs provides services to its member hospitals for their patients, most of whom reside primarily in Lafourche Parish, Louisiana. These patients are typically insured under third-party payor agreements. Bayou Labs grants credit without collateral to St. Anne, the member hospital which performs the billing functions, until payment is received from the third-party payors.

Note 3 – CONCENTRATIONS

b. Uninsured Cash Deposits

Bayou Labs' cash balances in one financial institution exceeded the amount insured by the Federal government at various times during 1999 and 1998. At December 31, 1999, the uninsured balance was \$350,940.

Note 4 – FUNCTIONAL EXPENSES

Bayou Labs provides certain health care services to patients within its geographic location. Expenses related to providing these services are as follows:

	<u>1999</u>	<u>1998</u>
Health care services	\$301,964	\$46,838
General and administrative	<u>12,287</u>	<u>24,749</u>
Totals	<u>\$314,251</u>	<u>\$71,587</u>

Note 5 – CONTINGENCIES

Bayou Labs carries professional liability insurance for medical malpractice losses up to \$100,000. It is a member of the Louisiana Patients' Compensation Fund, which provides coverage for any such losses in excess of \$100,000 up to the \$500,000 statutory maximum of awards for such damages in Louisiana.

Note 6 – COMPENSATION OF MANAGERS

No compensation was paid to the managers of Bayou Labs during the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998.

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS



Bourgeois Bennett

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

To the Member Hospitals,
Bayou Labs of Louisiana, L.L.C.
Raceland, Louisiana.

We have audited the financial statements of Bayou Labs of Louisiana, L.L.C. as of and for the year ended December 31, 1999 and as of and for the initial period from January 7, 1998 (inception) through December 31, 1998, and have issued our report thereon dated September 29, 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bayou Labs' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 one instance of noncompliance that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bayou Labs' 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 considered to be material weaknesses.

This report is intended for the information of management of Bayou Labs, and the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties.

Bougeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La.,
September 29, 2000.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Bayou Labs of Louisiana, L.L.C.

For the year ended December 31, 1999 and
the initial period from January 7, 1998 (inception) through December 31, 1998

Section I - Summary of Auditor's Report

a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Reportable condition(s) identified that are
not considered to be material weakness? ___ yes X none reported

Noncompliance material to financial statements noted? X yes ___ no

b) Federal Awards

Bayou Labs of Louisiana, L.L.C. did not receive any Federal awards during the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998.

Section II - Financial Statement Findings

Compliance

99-1 Criteria – Louisiana State law requires certain quasi-governmental entities to have biennial audit engagements completed within six months from the close of the entity's year-end.

Condition – Bayou Labs did not submit a biennial audit report to the Legislative Auditor within six months of its year end.

Section II - Financial Statement Findings (Continued)

Compliance (Continued)

Questioned Costs – None noted.

Context – The biennial audit for the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998 is the first time Bayou Labs was required to be audited since it had not commenced operations prior to 1998.

Effect – Bayou Labs submitted its audit report to the Legislative Auditor late.

Cause – Management was not aware that because of its ownership, Bayou Labs would have to furnish a copy of its audit report to the Legislative Auditor.

Recommendation – Management of Bayou Labs must become knowledgeable of the authority of the Legislative Auditor as related to investees of political subdivisions.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS

Bayou Labs of Louisiana, L.L.C.

For the year ended December 31, 1999 and
the initial period from January 7, 1998 (inception) through December 31, 1998

Section I - Internal Control and Compliance Material to the Financial Statements

Prior to 1998, there were no internal control or compliance issues reported or noted as Bayou Labs had not yet commenced operations.

Section II - Internal Control and Compliance Material to Federal Awards

Prior to 1998, Bayou Labs of Louisiana, L.L.C. had not received any Federal awards as it had not yet commenced operations.

Section III - Management Letter

Prior to 1998, a management letter has not been issued as Bayou Labs had not yet commenced operations.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Bayou Labs of Louisiana, L.L.C.

For the year ended December 31, 1999 and
the initial period from January 7, 1998 (inception) through December 31, 1998

Section I - Internal Control and Compliance Material to the Financial Statements

Internal Control

No material weaknesses were reported during the audit for the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998. No reportable conditions were reported during the audit for the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998.

Compliance

99-1 Recommendation – Management of Bayou Labs must become more knowledgeable of the authority of the Legislative Auditor as related to investees of political subdivisions.

Management's Corrective Action -- Management of Bayou Labs will review Louisiana law as it relates to the audit authority of the Legislative Auditor and will ensure that future required audits of Bayou Labs are timely submitted to the Legislative Auditor's office.

Section II - Internal Control and Compliance Material to Federal Awards

Bayou Labs of Louisiana, L.L.C. did not receive any Federal awards during the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended December 31, 1999 and the initial period from January 7, 1998 (inception) through December 31, 1998.