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ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Eunice, Louisiana

Financial Report

Year Ended May 31, 1998

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Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana

We have audited the accompanying general purpose financial statements of St. Landry Parish Hospital Service District No. 1, Eunice, Louisiana, (the "District"), a component unit of the Police Jury of St. Landry Parish as of and for the year ended May 31, 1998. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District did not make a count of its physical inventory at May 31, 1998, stated in the accompanying general purpose financial statements at $247,937. Further, we were unable to obtain audited financial statements supporting the District's deficit in an investment in a joint venture stated at $576,840 at May 31, 1998, or the District's share in losses of that joint venture of $900,963, which is included in net loss for the year then ended. We were unable to satisfy ourselves about the amounts at which inventory, investment in joint venture and share in losses of the joint venture were recorded in the accompanying general purpose financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the amount of inventory and the investment in the joint venture, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of St. Landry Parish Hospital Service District No. 1 as of May 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The accompanying general purpose financial statements have been prepared assuming that the District will continue as a going concern. The District has signed a letter of intent to lease the existing hospital facilities and equipment, thus ceasing the District's operations as a hospital. This condition raises substantial doubt about its ability to continue as a going concern at May 31, 1998. The general purpose financial statements do not include any adjustment that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 1998, on our consideration of St. Landry Parish Hospital Service District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Darnall, Sikes & Frederick

A Corporation of Certified Public Accountants
October 30, 1998

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Balance Sheet
May 31, 1998

ASSETS

Current assets	
Cash and cash equivalents	$ 774,115
Patient accounts receivable, net of estimated uncollectibles of $341,958	2,649,058
Other receivables	19,326
Estimated third-party payor settlements	176,905
Inventory	247,937
Prepaid expenses	227,961
Total current assets	4,095,302
Property, plant and equipment, net	3,388,162
Other assets	17,118
Total assets	$ 7,500,582

LIABILITIES AND FUND EQUITY

Current liabilities	
Accounts payable	$ 678,877
Notes payable	2,322,147
Due to others	1,048,119
Accrued expenses	748,135
Unearned revenue	50,211
Current maturities of long-term debt	170,191
Current maturities of obligations under capital leases	76,735
Total current liabilities	5,094,415
Deficit in joint venture	576,840
Long-term debt, net of current maturities	461,582
Capital lease obligations, net of current maturities	85,787
Total liabilities	6,218,624
Fund equity	1,281,958
Total liabilities and fund equity	$ 7,500,582

See accompanying notes to financial statements.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Statement of Operations
Year Ended May 31, 1998

Operating Revenue	
Net patient service revenue	$ 3,229,766
Lease revenue	5,054,166
Other revenue	435,427
	8,719,359
Operating expenses	
Salaries and benefits	5,616,829
Professional fees and purchased services	816,281
Insurance	187,625
Depreciation and amortization	362,324
Interest	112,922
Provision for bad debts	408,578
Provision for charity discounts	222,557
Supplies	356,717
Other	117,606
	8,201,439
Operating income	517,920
Non-operating revenue (expense)	
Loss from joint venture	(900,963)
Interest income	10,001
	(890,962)
Net loss	$ (373,042)

See accompanying notes to financial statements.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Statement of Cash Flows
Year Ended May 31, 1998

Cash flow from operating activities:	
Operating income	$ 517,920
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	356,270
Amotization	6,054
Provision for bad debts	408,578
Changes in assets and liabilities:	
Patient accounts receivable	(3,057,636)
Other receivables	708,626
Inventories	(247,937)
Prepaid expenses	(227,961)
Accounts payable	(257,321)
Accrued expenses	(138,598)
Due from intermediaries	42,531
Due to others	1,048,119
Other assets	8,933
Net cash used by operating activities	(832,422)
Cash flow from investing activities:	
Interest	10,001
Investment in joint venture	(353,079)
Net cash used by investing activities	(343,078)
Cash flow from capital and related financing activities:	
Principal paid on long-term debt	(163,439)
Proceeds from notes payable	2,322,147
Principal paid on capital lease obligations	(123,710)
Purchase of property and equipment	(351,575)
Net cash provided by capital and related financing activities	1,683,423
Net increase in cash and cash equivalents	507,923
Cash and cash equivalents, beginning of year	266,192
Cash and cash equivalents, end of year	$ 774,115

See accompanying notes to financial statements.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Statement of Changes in Fund Equity
Year Ended May 31, 1998

	Retained Earnings	Contributed Capital		Total
		Hill-Burton Grants	Contributed Capital	
BALANCE, May 31, 1997	$ 346,363	$ 1,137,016	$ 171,621	$ 1,655,000
Net loss	(373,042)	-	-	(373,042)
BALANCE, May 31, 1998	$ (26,679)	$ 1,137,016	$ 171,621	$ 1,281,958

See accompanying notes to financial statements.

Notes to Financial Statements
Year Ended May 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legal Organization

The St. Landry Parish Hospital Service District No. 1, dba Moosa Memorial Hospital, (referred to as the "District") was created by an ordinance of the St. Landry Parish Police Jury. The governing board of the District consists of six members appointed by the Jury and the chief of the medical staff. Because the police jury appoints the majority of the commissioners of the St. Landry Parish Hospital Service District No. 1, the police jury is considered to have the ability to impose its will on the District and therefore the District is a component unit of the St. Landry Parish Police Jury, which is the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the police jury, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides a variety of healthcare services including: 1) inpatient services such as acute, psychiatric and skilled nursing, through "swing beds"; 2) outpatient services such as diagnostic and therapeutic ancillaries, emergency room and physician specialty clinics; 3) other services such as home health. The District leased hospital employees and facilities to Eunice Regional Medical Center, a joint venture with Louisiana Health Systems Corporation, during the period of November 17, 1996 through March 8, 1998.

Proprietary Fund Accounting

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual method. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and the Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards established by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Property, Plant and Equipment

Purchased fixed assets are recorded at cost and donated fixed assets, if received, at fair market value on the date of any donation. Depreciation is calculated over estimated useful lives, using the straight-line method. Equipment under capital lease obligations is amortized using the straight-line method over the life of the asset if there is a bargain purchase option or transfer of title. If there is no bargain purchase option or transfer of title, the leased asset is amortized over the lease term. Such amortization is included in depreciation and amortization in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash represents coin, currency, bank demand deposits and other negotiable instruments that are readily acceptable in lieu of currency. Cash equivalents are time deposits, certificates of deposit, Treasury Bills and mortgage backed securities purchased with a maturity of three months or less.

Inventory

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

Income Taxes

The District is a political subdivision of the State of Louisiana and exempt from taxation.

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.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB).

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims did not exceed this commercial coverage. The District is self-insured for medical malpractice claims and judgments, as discussed in Note 13.

Compensated Absences

The District's policy allows full-time employees to carry forward annual leave beyond the fiscal year end. Full-time employees earn a maximum of 14 to 21 hours of annual leave per month based upon the employee's length of service. Accordingly, annual leave has been accrued as a liability in the financial statements at the current pay rate of the employee in effect as of the balance sheet date.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

Credit Risk

The District provides medical care primarily to St. Landry Parish residents and grants credit to patients, substantially all of whom are local residents. The District's estimate of collectibility is based on an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Third-Party Cost-Based Revenues

Contractual agreements with governmental agencies (Medicare, Medicaid, etc.) provide for reimbursement based on combinations of the lesser of reasonable cost (subject to certain limits) or charges and prospective rates initially set based upon costs of services to patients. These reimbursements are subject to audit and retroactive adjustments by each payor.

NOTE 2 - CASH AND INTEREST-BEARING DEPOSITS

Under state laws, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At May 31, 1998, the Hospital has cash and interest-bearing deposits (book balances) totaling $774,115.

These deposits are stated at cost, which approximates market. Under state laws, 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 bank. 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. Deposit balances (bank balances) at May 31, 1998, are as follows:

Bank balances	$ 869,398

At May 31, 1998, the deposits are secured as follows:

Federal deposit insurance	$ 100,000
Pledged securities (category 3)	2,493,046
Total	$2,593,046

Pledged securities in Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the District's name. Even though the pledged securities are considered uncollateralized (Category 3), 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 the fiscal agent has failed to pay deposited funds upon demand.

NOTE 3 - NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Management has recorded estimates of charge reductions based upon historical collections with adjustment to current payment arrangements. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare 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. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Cost reports have been audited through year end May 31, 1996.

Medicaid - Inpatient and outpatient services rendered to Medicaid recipients are reimbursed under prospective per diems and a cost reimbursement methodology, respectively. Cost reimbursements is at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. Cost reports have been audited for year ends through May 31, 1996.

Commercial - The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The District receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. During the year ended May 31, 1998, the following revenues were obtained from these programs:

Medicare and Medicaid gross patient charges	$4,245,220
Contractual adjustments	2,257,200
Net patient service revenue	$1,988,020
Percent of medicare and medicaid net patient service revenue to total net patient revenue	61%

NOTE 4 - CHARITY CARE

The District provides charity care to patients who meet certain criteria under Hill-Burton Grant without charge or amounts at less than established rates. Charity write-offs expensed were $244,928 in 1998.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended May 31, 1998.

	Cost	Accumulated Depreciation	Book Value
Land	$ 165,468	$ -	$ 165,468
Buildings	5,960,804	3,713,336	2,247,468
Equipment	5,212,287	4,498,147	714,140
Equipment under capital lease obligations	505,991	244,905	261,086
	$ 11,844,550	$ 8,456,388	$ 3,388,162

Depreciation is calculated using the straight-line method. Useful lives for the purpose of calculating depreciation by class are:

Buildings	10 - 40 years
Furniture, fixtures and equipment	3 - 15 years

NOTE 6 - ACCRUED EXPENSES

A summary of accrued expenses is presented below:

Salaries payable	$ 302,726
Compensated absences	173,769
Employee health benefits payable	24,959
Interest payable	24,124
Hill-Burton Grant uncompensated services payable	222,557
Total	$ 748,135

NOTE 7- NOTES PAYABLE

Notes payable, PHC-Eunice, Inc., bearing interest at a variable rate, currently 9.5% per annum secured by assets, excluding property, plant and equipment	$ 2,322,147

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Notes to Financial Statements
Year Ended May 31, 1998

NOTE 8- LONG-TERM DEBT

Series 1997A Certificate of Indebtedness, due May 1, 2001, bearing interest at 6% to 7% per annum, secured by a pledge and dedication of excess of annual revenue	$ 295,000
Series 1997B Taxable Certificate of Indebtedness, due May 1, 2001, bearing interest at 8.75% to 10.25% per annum, secured by a pledge and dedication of excess annual revenue	110,000
Note payable, due January 1, 2004, bearing interest at 7.5% per annum, secured by office building	42,130
Note payable, due June 1, 2002, bearing interest at 11% per annum, secured by office building	184,642
	631,772
Less current maturities of long term debt	170,191
Long-term debt net of current maturities	$ 461,581

Under the terms of the Series 1997A and 1997B Certificates of Indebtedness, no deposits are required prior to principal and interest payment dates. The District will not dispose of facilities prior to maturity of the certificates. The 1997A Series includes a non-arbitrage covenant.

Scheduled principal repayments on long-term debt over the next five years are as follows:

Year Ending May 31,	Revenue Bonds	Mortgage Notes	Total
1999	$ 125,000	$ 45,191	$ 170,191
2000	135,000	50,180	185,180
2001	145,000	55,727	200,727
2002	-	61,892	61,892
2003	-	8,513	8,513
Thereafter	-	5,269	5,269
	$ 405,000	$ 226,772	$ 631,772

NOTE 9 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations, at varying rates of imputed interest from 4.99% to 20.93% collateralized by leased equipment	$ 162,522
Less current maturities of capital lease obligations	76,735
	$ 85,787

Minimum future lease payments, including interest, under capital leases as of May 31, 1998, are:

	1999	$ 87,490
	2000	61,435
	2001	30,384
		179,309
Less amount representing interest		16,787
		$162,522

NOTE 10 - RETIREMENT PROGRAM

The Parochial Employee Retirement System (the "System") of Louisiana is the administrator of the cost sharing multiple-employer plan, a Public Employee Retirement System (PERS), in which the District is a member. The Retirement System is governed by the Louisiana Revised Statutes, Title 11, Sections 1901 through 2015, specifically, and other general laws of the State of Louisiana.

Because the District is a member of the Retirement System, participating in Plan A, membership for all employees is mandatory. Any permanent Hospital employee working at least 28 hours per week is covered. Employee contributions are established by Statute at 9.5% of total compensation. Employer contributions are actuarially determined every fiscal year according to statutory process so that existing unfunded liability may be completely amortized by January 1, 2029.

Retirement System members vest after 10 years of creditable service. Under Plan A members are eligible for normal retirement with 30 years of creditable service regardless of age, 25 years of creditable service and at least age 55, 10 years of creditable service and at least age 60. The retirement allowance is equal to three percent of the member's final average compensations (average of the highest consecutive 36 months) multiplied by the years of creditable service. Any employee who was a member prior to January 1, 1980, has benefit earned for service credited prior to that date on the basis of one percent of final compensation plus two dollars per month for each year credited prior to the revision date and three percent of final compensation for each year of service credited after January 1, 1980. The retirement allowance may not exceed the greater of one hundred percent of a member's final salary (last 12 months) or the final average compensation. The system also provides death and disability benefits which require five years of creditable service for eligibility.

NOTE 10 - RETIREMENT PROGRAM (Continued)

District payroll and contributions for the year ended May 31, 1998 are summarized below:

District covered payroll	$4,998,710
District total payroll	5,607,554
District employee contribution (9.5%)	474,877
District employer contribution (7.75%)	387,400
System employer contributions at December 31, 1997 (7.75%)	21,413,588
System employee contributions at December 31, 1997	28,572,193

The actuarial funding method utilized to determine contributions for Plan A is the Frozen Attained Age Normal Cost Method. The System actuarial determined employer net contribution for 1998 is $12,685,112 or 4.20% of Plan A payroll.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of present value of pension benefits, adjusted for the estimated to be payable in the future as a result of employees service to date. The System does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation for Plan A at December 31, 1997, for the System as a whole, determined through actuarial valuation performed as of that date, was $881,981,793. The System's net assets available for benefits on those dates were $874,023,941 leaving an unfunded accrued liability of $7,957,852.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 1997 financial report. The District does not guarantee benefits granted by the System.

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the year ended May 31, 1998 is as follows:

The District paid $95,265 for interest during 1998

The District had a loss from the joint venture of $900,963 for the year ended May 31, 1998.

NOTE 12 - OPERATING LEASES

The District leases various equipment under operating leases expiring at various dates through July 2001. Total operating lease payments in 1998 were $24,285. However, the joint venture (Note 15) reimbursed the District for all lease payments through March 9, 1998, and the District expenses were $6,791 for the year ended May 31, 1998.

NOTE 12 - OPERATING LEASES (Continued)

The following is an annual schedule of future minimum lease payments under operating leases as of May 31, 1998, that have initial or remaining lease terms in excess of one year.

Year Ending May 31,	Amount
1999	$27,166
2000	17,180
2001	742
	$45,088

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

Third Party Cost-Based Revenues (Note 1) - Cost reimbursements are subject to examination by agencies administering the Medicare and Medicaid programs. The Medicare program has discontinued its cost-based reimbursement system for inpatient services. Currently, the District receives a fixed fee for each patient as determined by the government using the patient's diagnosis. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions The amount of such adjustments cannot reasonably be determined.

Workmen's Compensation Risk – The District participates in the Louisiana Hospital Association Self Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has only included these allocations or equity amounts assigned to the District by the Trust Fund in its financial statements.

Professional Liability Risk - The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for $400,000 in coverage per occurrence above the first $100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to $500,000 per occurrence. The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Hill-Burton Uncompensated Service and Community Service Obligations - As a result of the District receiving a Federal Hill-Burton program grant, the District is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. Additionally, the District is obligated to provide community service.

NOTE 14 - SELF-FUNDED BENEFITS PLAN

The District maintains a self-funded medical benefits plan. The District entered into an agreement effective April 1987, with Gulf South Administrative Services, Inc., for supervision of the Plan. The Hospital purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of $25,000 per year per covered person up to specific individual maximums of $975,000. The insurance provides for payment of 100% of aggregate claims in excess of $495,646 with $1,000,000 limit of liability. The liability for incurred but not reported claims is $24,959 at May 31, 1998.

NOTE 15 - JOINT VENTURE

Effective March 9, 1998, the Eunice Regional Medical Center, LLP, (Joint Venture) terminated the right of use of the assets of the District which, pursuant to the provisions of the Joint Venture, results in the automatic termination or dissolution of the Joint Venture.

Prior to the dissolution, the venture made annual payments to the District in amounts sufficient to meet bond obligations, pay employees and related obligations and make capital lease payments. In return, the venture had exclusive rights to use the physical plant, employees, name and equipment of the District. The District records the net loss of the venture on an equity basis. There is no established market value of the venture at May 31, 1998. The Joint Venture has a September 30 year end and will have separately issued Financial Statements.

The District's transactions with the joint venture as of and for the year ended May 31, 1998 are as follows:

Investment in joint venture	$ 2,500
Equity loss from joint venture	(900,963)
Lease income from joint venture - salaries and benefits	4,728,972
Lease income from joint venture - property, plant and equipment for debt service	157,300
Lease income from joint venture - sublease of equipment	167,894
Unearned lease payment - property, plant and equipment for debt service	50,211

NOTE 16 - CHANGE IN ESTIMATE

Due to the change in management during the fiscal year ended May 31, 1998, the District does not allow the payment of sick pay benefits unless an illness related absence occurs. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in net income of $213,153.

NOTE 17 - SUBSEQUENT EVENTS

The District executed an agreement, as of June 9, 1998, whereby the District would cease operations of the hospital and lease all premise and equipment to PHC-Eunice, Inc. under a long-term lease contract. In addition, the District will sale certain assets including, but not limited to, cash, accounts receivable, inventory, prepaid expenses, intangibles, other assets and goodwill. The agreement will take effect on the last day of the month in which regulatory approval is granted. As of October 30, 1998, approval has not been granted.

The District converted the entire $1,048,119 due to PHC-Eunice, Inc. as of May 31, 1998 into two promissory notes secured by assets of the District. In addition, during the four month period subsequent to May 31, 1998, the District obtained an additional $3,135,796 from PHC-Eunice, Inc. as advances to meet current cash flow needs of the District. The District subsequently converted $2,394,979 of these advances into several promissory notes secured by assets of the District, excluding property, plant and equipment.

During October, 1998, the District repaid $2,200,000 of the amount due PHC-Eunice, Inc.

INTERNAL CONTROL AND COMPLIANCE

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Darnall, Sikes & Frederick

(A Corporation of Certified Public Accountants)

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana

We have audited the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1 (the "District"), a component unit of the Police Jury of St. Landry Parish, and for the year ended May 31, 1998, and have issued our report thereon dated October 30, 1998. We have conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 98-4.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable condition is described in the accompanying schedule of findings and questioned costs as items 98-1, 98-2 and 98-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, of the reportable conditions described above, we consider items 98-1, 98-2 and 98-3 to be material weaknesses.

This report is intended for the information of the board of commissioners and management. However, this report is a matter of public record and its distribution is not limited.

Darnall, Sikes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana
October 30, 1998

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Summary Schedule of Prior Year Findings
Year Ended May 31, 1998

97-1 Finding: Segregation of Duties

Status: This finding is unresolved. See current year finding 98-1.

97-2 Finding: Accounting Records

Status: This finding is unresolved. See current year finding 98-2.

97-3 Finding: Violation of Louisiana Revenue Statute 24:513A(5)(a) failing to file audit report within six months of the fiscal year end

Status: Resolved

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Schedule of Findings and Questioned Costs
Year Ended May 31, 1998

Part 1: Summary of Auditor's Results

Financial Statements

Auditor's Report – Financial Statements

A qualified opinion has been issued on St. Landry Parish Hospital Service District No. 1 (the "District") financial statements as of and for the year ended May 31, 1998.

Reportable Conditions – Financial Reporting

Three reportable conditions in internal control over financial reporting were disclosed during the audit of the general purpose financial statements and are shown as items 98-1, 98-2 and 98-3 in Part 2 and are considered material weaknesses.

Material Noncompliance – Financial Reporting

There was one instance of material noncompliance noted during the audit as described in item 98-4 in Part 2.

Federal Awards

This is not applicable for the fiscal year ended May 31, 1998.

Part 2: Findings Relating to an Audit in Accordance with Governmental Auditing Standards

98-1 Inadequate Segregation of Accounting Functions

Finding:

Due to the limited number of available employees, there is not a complete segregation of duties in all accounting, recording, and custody functions.

Recommendation:

We recommend that duties be segregated to the extent possible to prevent error and/or fraud. Segregation includes: 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operational responsibilities from record-keeping. Where these segregation are not possible, we recommend close supervision and regular reviews.

98-2 Accounting Records

Finding:

During the audit, it was noted that the District did not reconcile the subsidiary ledgers to the general ledger for accounts receivable, inventory, accounts payable and the due from joint venture. Also, it was noted that the District did not perform bank reconciliations on all bank accounts through May 31, 1998.

Recommendation:

We recommend that all the cash accounts and the subsidiary ledgers be reconciled to the general ledger on a monthly basis to insure that all information regarding cash, accounts receivable, inventory, accounts payable and the due from joint venture is accounted for and properly coded.

98-3 Physical Inventory

Finding:

The District did not take physical inventory for the fiscal year ending May 31, 1998.

Recommendation:

The District should perform a physical count of inventory on hand at the fiscal year end and reconcile the actual count of inventory to items maintained by the perpetual inventory system.

98-4 Violation of Louisiana Bid Law

Criteria:

Governmental entities must comply with all applicable Louisiana laws.

Finding:

The District did not comply with the provisions of the public bid law, LSA-RS 38:2212 regarding purchases in excess of $15,000.

Recommendation:

The District should implement procedures to insure that all applicable laws are complied with.

Part 3: Findings and Questioned Cost Relating to Federal Programs

This section is not applicable for the year ended May 31, 1998, because the District did not meet the requirements to have a single audit in accordance with OMB Circular A-133.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Management's Corrective Action Plan For Current Year Findings
Year Ended May 31, 1998

Response to finding:

98-1 Segregation of Duties

Based on the size of the operation and the cost-benefit of additional personnel, it is not feasible to achieve complete segregation of duties. However, management will segregate wherever possible and supervise and review wherever needed.

98-2 Accounting Records

Procedures have been implemented to insure that all subsidiary ledgers are reconciled with the monthly general ledger with any differences reconciled and all activity is posted to the appropriate journals.

98-3 Physical Inventory

Procedures have been implemented to insure that a physical inventory count will be performed at the District's fiscal year end and reconciled to the perpetual inventory accounting system.

98-4 Violation of Louisiana Law

Procedures have been implemented to insure that all applicable laws are complied with.

SUPPLEMENTAL INFORMATION

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1

Schedule of Per Diem Paid to Commissioners
Year Ended May 31, 1998

Board Member		
Thomas Myers	$	200
Genny Dischler		120
R. A. Keller		120
Newton "Chip" Thibodeaux		160
Edward E. Graul, MD		120
Sheila Lobe		120
Harvey Gil		160