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EUNICE REGIONAL MEDICAL CENTER, LLP

Financial Statements for the Period November 17, 1996 (date of inception) to September 30, 1997 and Independent Auditors' Report

Deloitte &
Touche

Deloitte & Touche LLP
Suite 3700
One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139-3700

Telephone: (504) 581-2727
Facsimile: (504) 561-7293

INDEPENDENT AUDITORS' REPORT

To the Board of Managers of
Eunice Regional Medical Center, LLP:

We have audited the accompanying statement of net liabilities in liquidation of Eunice Regional Medical Center, LLP (the "Venture") as of September 30, 1997, and the related statement of changes in net liabilities in liquidation for the period November 17, 1996 (date of inception) to September 30, 1997. These financial statements are the responsibility of Eunice Regional Medical Center, LLP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 6 to the financial statements, the Board of Managers of Eunice Regional Medical Center, LLP approved a plan of liquidation on March 9, 1998, and the Venture commenced liquidation shortly thereafter. As a result, the Venture has changed its basis of accounting from the going-concern basis to the liquidation basis effective September 30, 1997.

In our opinion, such financial statements present fairly, in all material respects, the net liabilities in liquidation of Eunice Regional Medical Center, LLP at September 30, 1997, and the changes in net liabilities in liquidation for the period November 17, 1996 (date of inception) to September 30, 1997 in conformity with generally accepted accounting principles applied on the basis described in the preceding paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 1998 on our consideration of Eunice Regional Medical Center, LLP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts.

As discussed in Note 6 to the financial statements, because of the inherent uncertainty of valuation when a company is in liquidation, the amounts realizable from the disposition of the remaining assets and the amounts that creditors agree to accept in settlement of the obligations due them may differ materially from the amounts shown in the accompanying financial statements.

Deloitte + Touche LLP

May 15, 1998

DeloitteTouche
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EUNICE REGIONAL MEDICAL CENTER, LLP

STATEMENT OF NET LIABILITIES IN LIQUIDATION
SEPTEMBER 30, 1997

ASSETS

Cash and cash equivalents	$ 105,192
Patient accounts receivable, less allowance for uncollectible accounts ($318,349) (Note 6)	2,789,751
Inventories	336,521
Other assets	217,949
Total assets	3,449,413

LIABILITIES

Accounts payable	236,224
Accrued salaries and wages	164,178
Estimated third-party payor settlements (Note 2)	63,556
Due to Partners - accounts payable (Note 6)	2,612,107
Other liabilities	200,115
Due to Partner - line of credit (Note 6)	850,000
Total liabilities	4,126,180
NET LIABILITIES IN LIQUIDATION	$ (676,767)

See notes to financial statements (liquidation basis).

EUNICE REGIONAL MEDICAL CENTER, LLP

STATEMENT OF CHANGES IN NET LIABILITIES IN LIQUIDATION PERIOD FROM NOVEMBER 17, 1996 (DATE OF INCEPTION) TO SEPTEMBER 30, 1997

REVENUES:	
Net patient service revenues (Note 2)	$11,661,025
Other revenues	79,887
Total revenues	11,740,912
EXPENSES:	
Nursing services	6,647,953
Other professional services	1,909,053
General services	1,145,857
Fiscal and administrative services	2,356,284
Interest expense	100,314
Provision for doubtful accounts	497,781
Total expenses	12,657,242
LOSS FROM OPERATIONS	(916,330)
NET ASSETS, BEGINNING OF PERIOD	-
PARTNER CONTRIBUTIONS	250,000
ADJUSTMENT TO LIQUIDATION BASIS	(10,437)
NET LIABILITIES IN LIQUIDATION, END OF PERIOD	$ (676,767)

See notes to financial statements (liquidation basis).

EUNICE REGIONAL MEDICAL CENTER, LLP

NOTES TO FINANCIAL STATEMENTS (LIQUIDATION BASIS)
PERIOD FROM NOVEMBER 17, 1996 (DATE OF INCEPTION) TO SEPTEMBER 30, 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Eunice Regional Medical Center, LLP (the "Venture") is a limited liability partnership organized as a joint venture to provide a variety of healthcare services. The joint venture was formed on November 17, 1996 by Louisiana Health System Corporation ("System") and St. Landry Parish Hospital Service District No. 1 ("District"). In return for contributions of cash and use of facilities, the System and the District each own 50% of the joint venture. The Venture was formed for a term of five years and is managed by a Board of Managers with equal representation by the System and the District.

As further discussed in Note 6 to the financial statements, the Board of Managers of the Venture approved a plan of liquidation on March 9, 1998, and the Venture commenced liquidation shortly thereafter. As a result, the Venture has changed its basis of accounting from the going-concern basis to the liquidation basis effective September 30, 1997.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles applied on the liquidation basis 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.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Inventories are valued at the latest invoice price which approximates the lower of cost (first-in, first-out method) or market and approximates net realizable value.

Leasehold Improvements - Leasehold improvements were recorded at cost in the amount of $10,437 and were adjusted to their net realizable at September 30, 1997. See further discussion in Note 6 to the financial statements. Depreciation was provided using the straight-line method over the original term of the joint venture.

Charity Care - The Venture maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone for charity care, based on established rates, approximated $351,000 for the period ended September 30, 1997.

Income Taxes - Income or loss of the Venture is allocated to the partners. Accordingly, no income taxes have been provided in the accompanying financial statements. The Venture files the appropriate information returns.

2. NET PATIENT SERVICE REVENUES

The Venture has agreements with third-party payors that provide for payments to the Venture at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare*** - Inpatient acute care services (and related capital costs) rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Acute care service rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Venture is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Venture and audits thereof by the Medicare fiscal intermediary.

- ***Medicaid*** - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain limits. The Venture is reimbursed for outpatient services at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

- ***Managed Care*** - The Venture has payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge or per covered life and prospectively determined daily rates. Gross revenues derived from managed care contracts approximated \$2,600,000 in 1997.

Estimated amounts due for Medicare and Medicaid services are included in receivables at year end. Net revenues from government health care programs included in net patient service revenues approximated \$6,300,000 in 1997.

3. CONCENTRATIONS OF CREDIT RISK

The Venture is located in Eunice, Louisiana. The Venture grants credit without collateral (other than deposits in some instances) to its patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors was as follows:

	1997
Medicare	49 %
Other third-party payors	27
Medicaid	14
Patients	10
	100 %

4. PROFESSIONAL LIABILITY INSURANCE

During 1976 the State of Louisiana enacted legislation that placed a maximum limit of $500,000 for each medical professional liability claim and established the Louisiana Patient's Compensation Fund ("Fund") to provide professional liability insurance to participating health care providers. The Venture participates in the Fund. The Fund provides up to $400,000 coverage for settlement amounts in excess of $100,000 per claim. The Venture has a commercial professional liability insurance policy which provides primary coverage up to $100,000 per incident and $900,000 in the aggregate annually, on a claims made basis.

5. SELF-FUNDED BENEFITS PLAN

The Venture maintains a self-funded medical benefits plan. The Venture entered into an agreement with a third party administrator for supervision of the Plan. The Venture purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of $40,000 per year per covered person up to specific individual maximums of $1,000,000. The insurance provides for payment of 100% of aggregate claims in excess of $366,737 with $1,000,000 limit liability. The liability for incurred but not reported claims at September 30, 1997 is $52,213.

6. RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT

In November 1996, Eunice Regional Medical Center, LLP was formed by a joint venture agreement between the System and the District. The System acquired a 50% ownership interest in the Venture in exchange for a capital contribution of $250,000 which constitutes the Venture's capital balance. The System advanced amounts to the Venture to fund operations under a line of credit. At September 30, 1997, the line of credit totaled $850,000 and bears interest at 8.5%. The System also advanced additional funds and provided services to the Venture. Payables to the System under these agreements totaled $2,244,853 at September 30, 1997. The line of credit and the receivables are secured by a pledge of the Venture's receivables.

The District, d/b/a Moosa Memorial Hospital, contributed the use of its physical plant, name and equipment in exchange for a 50% ownership interest in the Venture. The Venture pays the District rental payments in an amount equal to annual debt service on the District's debt plus an additional sum to cover other expenses. Amounts paid to the District under this agreement totaled $242,880 in 1997. The Venture leases its employees from the District and contributes to the retirement benefits of the leased employees through the District's participation in the Public Employee Retirement System. Leased employee and benefits expense totaled $5,791,145 in 1997. All leased equipment and space utilized by the Venture is leased from the District. Rent expense under these leases totaled $310,879 in 1997. At September 30, 1997, amounts payable to the District totaled $367,254.

Due to continuing losses and needs for additional funding, the Venture's Board of Managers adopted a formal plan of liquidation effective March 9, 1998. As a result, the Venture's financial statements as of September 30, 1997 and for the period then ended have been prepared on a liquidation basis. Accordingly, assets have been valued at estimated net realizable value and liabilities have been adjusted to the estimated amounts to be paid in settlement of the Venture's obligations.

The net adjustment at September 30, 1997 required to convert from a going-concern (historical cost) basis to a liquidation basis of accounting was a decrease in carrying value of $10,437, which is included in the statement of changes in net liabilities in liquidation for 1997. The increase in the carrying value of net liabilities is due to the adjustment to write-off leasehold improvements in the amount of $10,437.

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Deloitte & Touche LLP
Suite 3700
One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139-3700

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Managers
Eunice Regional Medical Center, LLP:

We have audited the financial statements of Eunice Regional Medical Center, LLP as of September 30, 1997 and for the period November 17, 1996 (date of inception) to September 30, 1997, and have issued our report thereon dated May 15, 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 Eunice Regional Medical Center, LLP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which would 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying appendix as item 97-1.

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Board of Managers and management. However, this report is a matter of public record and its distribution is not limited.

Deloitte + Touche LLP

May 15, 1998

APPENDIX

NON-COMPLIANCE UNDER GOVERNMENT AUDITING STANDARDS

97-1 ENGAGEMENT COMPLETION

Condition: Louisiana statute LSA-RS 24:513 requires audit engagements to be completed within six months of the close of the fiscal year. The audit of Eunice Regional Medical Center, LLP (the "Venture") was not completed and financial statements were not issued within six months of September 30, 1997. Due to the liquidation of the Venture, the issuance of the financial statements was delayed.

Recommendation: The Venture should implement procedures to ensure compliance with all applicable laws.

Management's Response: Procedures will be implemented to ensure compliance with applicable laws.