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LAKEWOOD MEDICAL CENTER

Financial Statements
December 31, 1998 and 1997

With Independent Auditors' Report Thereon

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date. JUN 3 0 1999



Independent Auditors' Report

The Board of Commissioners
Hospital Service District No. 2 of
St. Mary Parish, Louisiana
(Lakewood Medical Center):

We have audited the accompanying balance sheets of Hospital Service District No. 2 of St. Mary Parish, Louisiana (Lakewood Medical Center) as of December 31, 1998 and 1997, and the related statements of revenues and expenses of unrestricted funds, changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of Lakewood Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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 of our opinion.

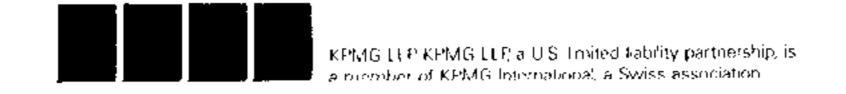
Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the Year 2000 issue. Lakewood Medical Center has included such disclosures in Note 14. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support Lakewood Medical Center's disclosures with respect to the Year 2000 issue made in Note 14. Further, we do not provide assurance that Lakewood Medical Center is, or will be, Year 2000 ready, that Lakewood Medical Center's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which Lakewood Medical Center does business will be Year 2000 ready.

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 examine evidence regarding Year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of Lakewood Medical Center as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 1999, on our consideration of Lakewood Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.



March 4, 1999



Balance Sheets - Restricted and Unrestricted Funds

December 31, 1998 and 1997

Assets		1998	1997
Current assets: Cash and cash equivalents (notes 2 and 3)	\$	183,077	288,025
Assets limited as to use required for current liabilities (note 4)		520,983	517,292
Patient accounts receivable, net allowance for doubtful accounts of \$2,437,000 and \$1,503,000 in 1998 and 1997, respectively Ad valorem tax receivable		3,688,327 459,738	4,422,969 493,059
Other receivables		258,851	274,208 597,536
Inventories Prepaid expenses and other current assets	e-1	604,974 129,831	153,100
Total current assets		5,845,781	6,746,189
Assets limited as to use (notes 3 and 4): For plant and equipment additions and replacement by Board of Commissioners For maintenance and purchase of capital and		814,587	793,901
technology relating to maintenance taxes received For debt service: Revenue bond General obligation bonds		2,328,079 1,428 1,491,449	1,514,702 1,492 1,993,929
Total assets limited as to use		4,635,543	4,304,024
Less assets limited as to use required for current liabilities		520,983	517,292
Noncurrent assets limited as to use		4,114,560	3,786,732
Property and equipment, net (note 5)		10,624,585	11,178,717
Debt issuance costs, net of accumulated amortization of \$70,150 in 1998 and \$65,923 in 1997		41,720	45,947
	\$ ==	20,626,646	21,757,585

(Continued)

Balance Sheets - Restricted and Unrestricted Funds

December 31, 1998 and 1997

Liabilities and Fund Equity	_	1998	1997
Current liabilities:			
Current portion of:			
Long-term debt (note 6)	\$	915,000	871,663
Capital lease obligations (note 7)		444,147	561,803
Accounts payable		2,501,345	1,720,301
Accrued salaries, wages and benefits'		896,678	614,440
Due to third-party payors		683,533	775,979
Accrued interest	_	64,830	76,929
Total current liabilities		5,505,533	4,621,115
Capital lease obligations, less current portion (note 7)		889,096	949,350
Long-term debt, less current portion (note 6)	_	7,586,000	8,501,000
Total liabilities	_	13,980,629	14,071,465
Fund equity:			
Contributed capital Fund balances:		128,456	-
Restricted for debt service on general obligation bonds		1,393,254	1,812,866
Restricted for plant replacement and other		9,000	15,000
Unrestricted	-	5,115,307	5,858,254
Total fund equity		6,646,017	7,686,120
Commitments and contingencies (notes 6, 7, 11, 12, 13 and 14)	-		<u></u>
Total liabilities and fund equity	\$ _	20,626,646	21,757,585

Statements of Revenues and Expenses - Unrestricted Funds

Years ended December 31, 1998 and 1997

		1998	1997
Net patient service revenue (note 8) Other revenue	\$	23,964,929 191,532	24,726,026 219,307
Total operating revenues	=	24,156,461	24,945,333
Expenses:			
Salaries, wages and benefits		12,443,192	11,375,940
Professional fees		1,533,732	1,150,793
Supplies and other		6,401,002	7,051,626
Provision for uncollectible accounts		3,369,015	2,438,583
Depreciation and amortization		1,952,805	1,893,007
Interest		642,535	697,351
Total operating expenses		26,342,281	24,607,300
(Loss) gain from operations		(2,185,820)	338,033
Nonoperating gains (losses):			
Ad valorem taxes		775,450	746,947
Donations		83,003	29,798
Interest income		156,929	114,444
Rental income, net		12,491	2,927
Loss on equipment disposal			(12,528)
Total nonoperating gains, net		1,027,873	881,588
Excess of (expenses and losses) revenues			
and gains	\$	(1,157,947)	1,219,621

Statements of Changes in Fund Equity -Restricted and Unrestricted Funds

Years ended December 31, 1998 and 1997

			Fund Balances				
		Contributed Capital	Restricted for debt service on general obligation bonds	Restricted for plant replacement and other	Unrestricted		
Balance at January 1, 1997	\$	-	2,218,430	15,000	4,248,633		
Additions (deductions): Investment earnings Revenues and gains in excess of		-	101,586	_	-		
expenses and losses Debt service on general obligation bonds:		•	~	-	1,219,621		
Principal payments		-	(390,000)	-	390,000		
Interest paid or accrued		-	(117,150)	-	-		
Donations received		-	-	29,798	-		
Transfers to finance property, equipment and other		<u></u>		(29,798)			
Balance at December 31, 1997		_	1,812,866	15,000	5,858,254		
Additions (deductions):							
Capital grants received		128,456	_	_	_		
Investment earnings		-	87,888	_	-		
Expenses and losses in excess of			• •				
revenues and gains		-	-	-	(1,157,947)		
Debt service on general obligation bonds:					(,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		
Principal payments		-	(415,000)	-	415,000		
Interest paid or accrued		-	(92,500)	-	_		
Donations received		-	-	77,003	-		
Transfers to finance property, equipment and other	_			(83,003)	-		
Balance at December 31, 1998	\$ _	128,456	1,393,254	9,000	5,115,307		

Statements of Cash Flows -Restricted and Unrestricted Funds

Years ended December 31, 1998 and 1997

		1998	1997
Cash flows from operating activities: (Loss) gain from operations	\$	(2,185,820)	338,033
Adjustments to reconcile operating (loss) gain	Ф	(2,103,020)	220,023
to net cash provided by operating activities:			
Depreciation and amortization		1,952,805	1,893,007
Provision for uncollectible accounts		(3,369,015)	(2,438,583)
Interest expense considered capital financing activity		642,535	697,351
Changes in operating assets and liabilities:			
Decrease in patient receivables		4,103,657	1,638,385
Decrease (increase) in other receivables		15,357	(87,206)
Decrease (increase) in prepaid expenses			
and other assets		23,269	(5,793)
Increase in inventories		(7,438)	(26,272)
Increase in accounts payable		781,044	505,559
Increase in accrued salaries		282,238	32,908
Decrease in due to third-party payors		(92,446)	(43,579)
Net cash provided by operating activities		2,146,186	2,503,810
Cash flows from investing activities:			
Net rental receipts		78,993	60,182
Ad valorem taxes received		716,272	686,738
Investment in assets limited as to use		(211,874)	(290,009)
Investment earnings		244,817	216,030
Net cash provided by investing activities	_	828,208	672,941
Cash flows from capital and related financing activities:			
Acquisitions of property and equipment		(1,012,497)	(752,129)
Capital grants received		128,456	-
Principal paid on long-term debt and capital leases		(1,498,025)	(1,325,010)
Interest paid on long-term debt and capital leases		(654,634)	(708,635)
Donations received	_	77,003	29,798
Net cash used in capital and related			
financing activities	_	(2,959,697)	(2,755,976)
Net increase in eash and eash equivalents		14,697	420,775
Cash and cash equivalents at beginning of year	-	789,466	368,691
Cash and cash equivalents at end of year	\$ _	804,163	789,466
Reconciliation of cash and cash equivalents to			
the balance sheet:	ø.	100.000	
Cash and cash equivalents in current assets	\$	183,077	288,025
Cash and cash equivalents in assets limited as to use: For plant and equipment additions and replacement by			
board of commissioners		170,540	159,739
For maintenance and purchase of capital and		170,540	137,139
technology		432,137	326,894
For debt service on revenue bonds		1,428	1,492
For debt service on general obligation bonds		16,981	13,316
	\$	804,163	789,466
	~ =	001,10 <i>0</i>	707,700

The Medical Center entered into capital lease obligations of \$455,115 for new equipment in 1998.

Notes to Financial Statements

December 31, 1998 and 1997

(1) Organization and Significant Accounting Policies

Lakewood Medical Center (the Medical Center) is a public corporation whose income is exempt from federal income taxes under Internal Revenue Code Section 115 (as a governmental entity). The Medical Center is owned by Hospital Service District No. 2 of St. Mary Parish, Louisiana (the District) and is organized under powers granted to Parish Police Juries by the State Legislature under Act 420 of 1950. All corporate powers are vested in a Board of Commissioners (the Board) appointed by the Parish Police Jury of St. Mary Parish, Louisiana. The significant accounting policies used by the Medical Center in preparing and presenting its financial statements are summarized as follows:

(a) Inventories

Inventories consisting primarily of medical supplies and drugs, are stated at the latest invoice price which approximates the lower of cost (first-in, first-out), or market.

(b) 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.

(c) Proprietary Fund Accounting

The Medical Center utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

(d) 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 Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(e) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

(f) Assets Limited as to Use

Assets limited as to use include:

- Assets set aside by the Board of Commissioners for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes, and
- Assets set aside under indenture agreements.

(Continued)

Notes to Financial Statements

December 31, 1998 and 1997

Assets limited as to use that will be used for current liabilities are reflected as current assets in the accompanying balance sheets.

(g) Investments

During the year ended January 1, 1998, the Medical Center adopted the provisions of the GASB's Statement No. 31, Accounting for Financial Reporting for Certain Investments and for External Investment Pools. The adoption of this statement was made retroactive to January 1, 1997. This statement establishes fair value standards for investments in debt securities. Fair value is the amount in which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Prior to adoption, all investments were reported at amortized cost.

The fund balance as of December 31, 1997 did not change as a result of the retroactive application of this change in accounting policy. As of December 31, 1997, all investments in debt securities were stated at amortized cost, which approximated the fair market value of December 31, 1997. Cost was adjusted for amortization of premiums, accretion of discounts and impairments in value that were deemed other than temporary. Premiums and discounts were amortized using the straight-line method which is not materially different from the interest method.

(h) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Donated equipment is recorded at fair value at date of donation, which is then treated as cost. Equipment under capital lease is stated at the lower of the present value of minimum lease payments at the beginning of the lease term or fair value at the inception of the lease.

Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Equipment held under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

(i) Fund Balance Restricted for Debt Service on General Obligation Bonds

Upon receipt of tax revenues which were levied through December 31, 1994, the Medical Center records the proceeds from ad valorem taxes levied on property within Hospital Service District No. 2 of St. Mary Parish, Louisiana as additions to the restricted fund balance for debt service on general obligation bonds. These monies are available only for payment of the debt service on the general obligation bonds. As principal payments are made on the general obligation bonds, a transfer to unrestricted funds is recorded. Interest payments result in a transfer to other revenue in the statement of revenue and expenses of unrestricted funds to offset the interest on the general obligation bonds included in expenses.

Beginning in the year ended December 31, 1995, the proceeds from ad valorem taxes levied on December 31 of each year on property within Hospital Service District No. 2 of St. Mary Parish, Louisiana for the same tax year ended December 31, are recorded as additions to assets limited as to use for plant and equipment additions and replacement by Board of Commissioners. These funds are only available for the maintenance and purchase of capital and technology. Current taxes are received beginning in December of each year and become delinquent after February 28 of the following year.

Notes to Financial Statements

December 31, 1998 and 1997

of the following year.

(j) Statement of Revenues and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(k) Net Patient Service Revenue

Net patient service revenue is 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.

Retroactively calculated contractual 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 as final settlements are determined.

(1) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

(m) Income Taxes

The Medical Center's income is exempt from federal income tax as an official arm of the state government. The income which is derived from the exercise of its essential governmental functions is excluded under Internal Revenue Code Section 115.

(n) Debt Issuance Costs

Expenses related to issuance of bonds are deferred and amortized over the period the bonds will remain outstanding.

(2) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions, excluding amounts whose use is limited by Board designation. At December 31, 1998 and 1997, the Medical Center had cash as follows:

	 1998	1997
Demand deposits Petty cash	\$ 181,877 1,200	286,825 1,200
	\$ 183,077	288,025

(3) Bank Deposits

Under state law, the bank balances of bank deposits and cash balances included in assets limited as to

Notes to Financial Statements

December 31, 1998 and 1997

use by board designation, as discussed in note 4, must be secured by Federal deposit insurance or the pledge of securities owned by the fiscal agent. At December 31, 1998 and 1997, the market value of pledged securities plus the federal deposit insurance exceeded the amount on deposit with the fiscal agent banks. At December 31, 1998 and 1997, the Medical Center had bank deposits as follows:

		1998	1997
Secured by Federal deposit insurance Collateralized by securities held by the	\$	327,746	336,451
pledging financial institution's trust department in the Medical Center's name	_	2,066,009	2,391,303
	\$ _	2,393,7 <u>5</u> 5	2,727,754
Carrying value of bank deposits in the balance sheets	\$	1,803,832	2,173,830
Reconciliation of carrying value of bank deposits to t	he ba	lance sheets:	
	_	1998	1997
Demand deposits Cash and cash equivalents in assets limited as to use:	\$	181,877	286,825
For plant and equipment additions and replacement For maintenance and purchase of capital and technology relating		170,540	159,739
to maintenance taxes		432,137	326,894
For debt service on revenue bonds		1,428	1,492
For debt service on general bonds		16,981	13,316
Certificates of deposit in assets limited as to use: For debt service on general			
obligation bonds		1,000,869	1,385,564
	\$ _	1,803,832	2,173,830

(4) Assets Limited as to Use

Governmental accounting standards require that the carrying amounts of investments as of the balance sheet date be categorized according to the level of credit risk associated with the Medical Center's investments at the time. The level of credit risk is defined as follows:

Notes to Financial Statements

December 31, 1998 and 1997

- Category 1 Insured (including government securities) or registered, or collateralized with securities held by the Medical Center or its agent in the Medical Center's name.
- Category 2 Uninsured and unregistered, collateralized with securities held by the counterparty's trust department or agent in the Medical Center's name.
- Category 3 Uninsured and unregistered, or uncollateralized, including balances collateralized with securities held by the pledging financial institution, but not in the Medical Center's name.

The detail of assets limited as to use at December 31, 1998 and 1997 are as follows:

		1998	1997
For plant and equipment additions and			
replacement by board of commissioners:			
Cash and cash equivalents	\$	170,540	159,739
U.S. Treasury notes		643,007	622,804
Accrued interest receivable		1,040	11,358
		814,587	793,901
For maintenance and purchase of capital and technology relating to maintenance taxes received:			
Cash and cash equivalents		432,137	326,894
U.S. Treasury notes		1,871,184	1,170,086
Accrued interest receivable		24,758	17,722
		2,328,079	1,514,702
For debt service on Series 1978			
revenue bond - cash and cash equivalents		1,428	1,492
For debt service on Series 1976 general obligation bonds:			
Cash and cash equivalents		16,981	13,316
Certificates of deposit		1,000,869	1,385,564
U.S. Treasury notes		98,920	172,507
Accrued interest receivable		374,679	422,542
		1,491,449	1,993,929
Total assets limited as to use		4,635,543	4,304,024
Less amounts classified as current		520,983	517,292
Noncurrent assets limited as to use	\$.	4,114,560	3,786,732

On December 31, 1998 and 1997, all assets whose use is limited are a Category 1 type investment.

Notes to Financial Statements

December 31, 1998 and 1997

In connection with the 1978 revenue bond, the Medical Center established a sinking fund and reserve fund. The reserve fund is used for the purpose of making payments of principal and interest on the bond if funds available for payment of principal and interest in the sinking fund are insufficient. At December 31, 1998 and 1997, there were no funds on deposit in the reserve fund. The amounts on deposit in the sinking fund were \$1,428 and \$1,492 at December 31, 1998 and 1997, respectively. The Medical Center has not funded the sinking fund since September 1993 (see Note 6).

(5) Property and Equipment

Property and equipment, by major category, at December 31, 1998 and 1997 are as follows:

		1998	<u>1997</u>
Land and improvements	\$	118,210 22,677,458	118,210
Building and improvements Fixed equipment		3,833,137	22,655,371 3,798,588
Major moveable equipment Construction in progress		9,899,643 583,257	8,129,774 66,244
Less accumulated depreciation		37,111,705 28,011,203	34,768,187 25,339,706
		9,100,502	9,428,481
Equipment under capital lease obligations Less accumulated amortization	-	2,157,445 633,362	3,033,351 1,283,115
		1,524,083	1,750,236
Property and equipment, net	\$	10,624,585	11,178,717

At December 31, 1998, the Medical Center was obligated under purchase commitments of approximately \$1,739,000 related to the completion of various plant and equipment improvement projects.

Notes to Financial Statements

December 31, 1998 and 1997

(6) Long-term Debt

Long-term debt at December 31, 1998 and 1997 is as follows:

	_	1998	1997
Revenue bond, Series 1978, 6%, due serially to 2011, with remaining annual installments ranging from \$470,000 to \$716,000	\$	7,076,000	7,526,000
General obligation bonds, Series 1976, interest ranging from 6% to 6.2%, in varying installments through 2001 with remaining annual installments ranging from \$445,000 to \$505,000		1,425,000	1,840,000
Note payable to St. Mary Parish, noninterest-bearing	_		6,663
		8,501,000	9,372,663
Less current installments of long-term debt		915,000	871,663
	\$ _	7,586,000	8,501,000

Revenue Bond, Series 1978 - In 1978, the Medical Center issued to the National Oceanic and Atmospheric Administration (NOAA), Office of Coastal Zone Management, its revenue bond in the amount of \$10,636,000, secured by a pledge of the Medical Center's future revenue. The bond can be paid prior to maturity without penalty. In connection with the issuance of the 1978 revenue bond, the Medical Center is required to maintain funds in a revenue bond sinking fund, reserve fund, and depreciation fund. The reserve fund and the depreciation fund are to be funded up to certain amounts with excess revenue as defined in the Resolution. During 1994, the reserve fund was exhausted to pay the debt service payments on the revenue bond (see note 4).

The Medical Center is currently not in compliance with the Resolution as it does not have the required funds on deposit in the sinking fund, reserve fund and the depreciation fund. However, the revenue bond payment schedule cannot be changed as a result of the lack of required funds on deposit. The bondholders, after giving proper notice, have the right to appoint a receiver of the Medical Center; however, the bondholders have indicated that they currently have no intention to exercise this right.

General Obligation Bonds, Series 1976 - During 1976, the District issued \$6,250,000 of general obligation bonds to acquire hospital buildings, machinery and equipment. The bonds are payable from the proceeds of a special ad valorem tax levied by the St. Mary Parish Police Jury over the period the bonds are outstanding. The tax receipts and related interest earned on invested unexpended tax receipts are restricted for the payment of principal and interest on the general obligation bonds (see note 4). The bonds are callable at the option of the District in inverse order of maturities on any interest payment date at the principal amount, plus a premium of up to 1.5%.

Notes to Financial Statements

December 31, 1998 and 1997

Note Payable to St. Mary Parish - In 1979, the Medical Center entered into a loan with the Parish of St. Mary, Louisiana, for \$200,000. In 1986, the Hospital leased space to the Sheriff of St. Mary Parish for 15 years in satisfaction of the remaining unpaid principal amount of \$166,667. During 1991 and 1993, the lease was amended to include additional office space for use by St. Mary Parish.

The Medical Center paid interest relating to long-term debt of approximately \$528,000 and \$589,000 during the years ended December 31, 1998 and 1997, respectively.

Aggregate maturities of the Medical Center's long-term debt at December 31, 1998 are as follows:

Year ended December 31:	
1999	\$ 915,000
2000 2001 2002	965,000
	1,015,000
	530,000
2003	550,000
Thereafter	4.526.000

(7) Leases

The Medical Center has entered into lease agreements that have been capitalized in accordance with Financial Accounting Standards Board Statement No. 13, Accounting for Leases. Under the terms of the leasing agreements, the Medical Center is obligated to pay a monthly rental payment over the primary term of the lease, which generally is for five years. Depending on the lease agreement, the Medical Center has the option to purchase the leased equipment at the fair market price, renew the lease for an additional lease term at the fair market rental rate, or return the equipment to the lessor.

The leased equipment collateralizes the capital lease obligations. Future minimum lease payments at December 31, 1998 under capital lease obligations are as follows:

Year ending December 31:		
1999	\$	524,538
2000		524,538
2001		345,147
2002		83,414
2003	_	7,056
		1,484,693
Less imputed interest	_	151,450
Present value of future lease obligations		1,333,243
Less amounts due within one year		444,147
Long-term portion of capital lease obligations	\$ _	889,096

Notes to Financial Statements

December 31, 1998 and 1997

The Medical Center is obligated under non-cancelable operating leases for equipment. Future lease payments for one of the leases is based upon patient usage. Amounts paid under these leases totaled \$77,539 and \$74,216 during 1998 and 1997, respectively. Other future minimum lease payments for operating leases having initial or remaining noncancelable lease terms in excess of one year as of December 31, 1998 are summarized as follows:

Year ended December 31:	
1999	\$ 40,177
2000	40,177
2001	6,696

Total rental expense incurred for all operating leases was \$82,674 and \$90,355 for the years ended December 31, 1998 and 1997, respectively.

The Medical Center leases office space to members of its medical staff under operating leases whose terms are generally for 5 years. Assets held for lease at December 31, 1998 consist of buildings and improvements with an original cost of \$1,092,895. Accumulated depreciation of the leased assets totaled \$575,363 at December 31, 1998. The future minimum lease rentals at December 31, 1998 to be received from these leases are as follows:

Year ended December 31:	
1999	\$ 78,386
2000	30,666
2001	29,717
2002	27,200
2003	18,133

(8) Net Patient Service Revenue

The Medical Center has agreements with governmental and other third-party payors that provide for reimbursement to the Medical Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at 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 acute 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.

Certain types of exempt inpatient and outpatient services related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary.

 Medicaid - Inpatient services rendered to Medicaid program beneficiaries are generally paid at an all-inclusive per diem rate. Outpatient services rendered to Medicaid program beneficiaries

Notes to Financial Statements

December 31, 1998 and 1997

are reimbursed based upon a cost reimbursement methodology. The Medical Center is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicaid fiscal intermediary.

A summary of net patient service revenue for the years ended December 31, 1998 and 1997 is as follows:

		1998	1997
Gross patient service revenue Less provision for contractual adjustments	\$ -	40,211,055 16,246,126	40,120,024 15,393,998
	\$	23,964,929	24,726,026

(9) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Medical Center provided charity care of approximately \$229,500 and \$101,000 and in 1998 and 1997, respectively, based upon foregone charges using established rates.

(10) Accrued Employee Leave Benefits

At December 31, 1998 and 1997, employees of the Medical Center have accumulated and vested \$453,705 and \$217,005, respectively, of employee leave benefits. This is recorded as an obligation of the Medical Center.

(11) Pension Plan

Effective January 1, 1996, the Medical Center adopted a defined contribution plan. Employees who have completed one year of service and are age 21 or older, are eligible to participate in the Plan. Plan participants are fully vested after 5 years of service or upon participant death or disability.

The amount contributed to the plan by the Medical Center is determined by the management of the Medical Center. Compensation is defined as base pay up to a maximum of 80 hours for each pay period including regular hours worked, vacation and holidays. Total salaries were \$10,248,237 and \$9,546,665 for the years ended December 31, 1998 and 1997, respectively. Total covered compensation for eligible plan participants was \$6,152,233 and \$5,666,933 for the years ended December 31, 1998, and 1997, respectively. Plan contributions for the same periods were \$184,567 and \$170,008, respectively. Plan participants are allowed to direct the investment of their plan assets to those investment options designated by the plan administrator. The plan does not permit loans to participants, or investment in insurance policies, qualifying employer securities or employer real property.

(12) Business and Credit Concentration

The Medical Center grants credit to patients, substantially all of whom are local residents. The Medical Center generally does not require collateral or other security extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits

Notes to Financial Statements

December 31, 1998 and 1997

payable under health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

At December 31, 1998, the Medical Center had a net receivable from the Federal government (Medicare and Medicaid) of approximately \$145,517 and \$175,467, respectively. Amounts included in due to third-party payors represent estimated settlements to be paid to Medicare and Medicaid for all cost reports for which final settlements have not been made. Final settlement has been made by the intermediary for all years through December 31, 1996 and 1995 for Medicare and Medicaid, respectively.

(13) Contingencies

The Medical Center participates in the Louisiana Hospital Association Trust Fund and the Louisiana Patients' Compensation Fund for medical malpractice claims. As a participant, the Medical Center has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The Trust Fund provides malpractice coverage for claims up to \$100,000 and the Compensation Fund provides additional coverage on a claims-made basis for claims over \$100,000 and up to \$500,000.

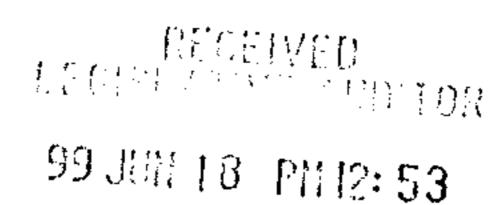
The Medical Center provides health insurance benefits to its employees under a self-insured plan. The plan requires that the Medical Center pay the first \$50,000 of covered benefits per employee. The Medical Center has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying financial statements.

(14) Year 2000 Disclosures (unaudited)

The Year 2000 should not cause any problems for the Medical Center's computerized data files since the database has always stored dates as the number of days (negative or positive) from a fixed date in time. The Medical Center's major computer systems have undergone modifications to ensure that all mission critical applications are Year 2000 compliant. The health information system's "custom programming" is currently being modified for compliance purposes. The Medical Center has budgeted \$100,000 to update and/or replace systems and equipment that are not Year 2000 compliant. The new billing system will be installed and in full operations by April 12, 1999 to meet the requirements of HCFA, Medicaid, Champus and various other third party reimbursement agencies. The Medical Center will be in full compliance as dictated by federal and local government agencies which require all billings forms to include a 4-digit date. The Medical Center does not anticipate any negative financial impact for Year 2000 issues.

The only foreseen issues for the Medical Center are the ongoing modifications and replacement efforts that may cause delays beyond the planned completion target date; however, all mission critical computer application and patient-care systems are scheduled to be compliant before the target date of June 30, 1999.





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

The Board of Commissioners
Hospital Service District No. 2 of
St. Mary Parish, Louisiana
(Lakewood Medical Center):

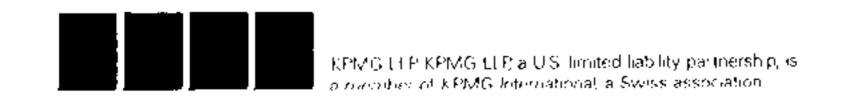
We have audited the financial statements of Hospital Service District No. 2 of St. Mary Parish, Louisiana (Lakewood Medical Center) as of and for the year ended December 31, 1998, and have issued our report thereon dated March 4, 1999, which was qualified because insufficient audit evidence exists to support Lakewood Medical Center's disclosure with respect to the Year 2000 issue. Except as discussed in the preceding sentence, 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

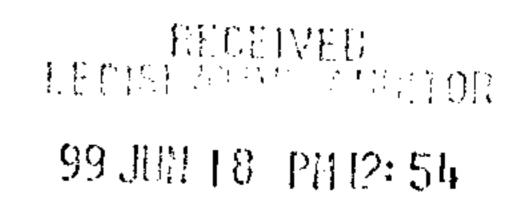
As part of obtaining reasonable assurance about whether Lakewood Medical Center's general purpose financial statements are free of material misstatement, we performed tests of Lakewood Medical Center's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with 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 the 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 Lakewood Medical Center'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. 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 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. We noted no







March 4, 1999

CONFIDENTIAL

The Board of Commissioners
Hospital Service District No. 2 of
St. Mary Parish, Louisiana
(Lakewood Medical Center)

Dear Members:

We have audited the financial statements of Hospital Service District No. 2 of St. Mary Parish, Louisiana (Lakewood Medical Center) for the year ended December 31, 1998, and have issued our report thereon dated March 4, 1999. In planning and performing our audit of the consolidated financial statements of Lakewood Medical Center, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered the internal control structure since the date of our report. 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 internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

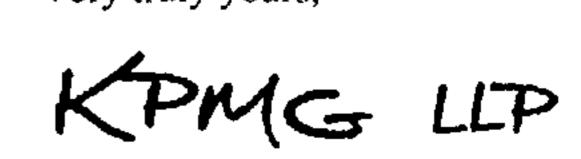
Status of Our Observations Dated March 5, 1998

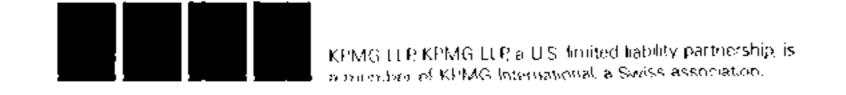
Management is addressing the impact of the Year 2000 on its systems and has formed a committee which is currently monitoring the Year 2000 efforts undertaken by Lakewood Medical Center's management and employees.

This report is intended solely for the information and use of the Board of Commissioners, management and others within Lakewood Medical Center, and is not intended to be, and should not be, used by anyone other than these specified parties.

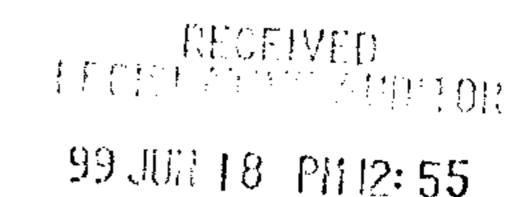
We wish to acknowledge the cooperation and courtesy extended to us by the management and others of Lakewood Medical Center throughout the audit. Should you have any questions concerning the matters presented in this letter, we will be pleased to discuss them with you at your convenience.

Very truly yours,









Independent Auditors' Report

The Board of Commissioners
Hospital Service District No. 2 of
St. Mary Parish, Louisiana
(Lakewood Medical Center):

We have audited, in accordance with generally accepted auditing standards, the balance sheet of Hospital Service District No. 2 of St. Mary Parish, Louisiana (Lakewood Medical Center) as of December 31, 1998, and the related statement of revenues and expenses of unrestricted funds, changes in fund equity, and cash flows for the year then ended, and have issued our report thereon dated March 4, 1999.

In conducting our audit, nothing came to our attention that caused us to believe that Lakewood Medical Center failed to comply with the terms, covenants, provisions or conditions of Sections 8, 9, 11, 12, 13, 14, 15, 16, 18, 19, 20, and 21 of the Hospital Service District No. 2 of St. Mary Parish, Louisiana Bond Resolution (the Resolution) authorizing the issuance of the Hospital Service District No. 2 of St. Mary Parish, Louisiana Revenue Bond dated January 27, 1978 insofar as they relate to accounting matters except as described in the following paragraphs. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In 1990, Lakewood Medical Center changed its fiscal year end to December 31. The Resolution defines Lakewood Medical Center's fiscal year end as September 30. Reports required by Section 15 of the Resolution are prepared using a fiscal year as of and for the year ended December 31.

Lakewood Medical Center is currently not in compliance with Section 9 (b), (c), and (d) regarding maintaining the required funding levels in the sinking fund, reserve fund, and depreciation fund and Section 12 regarding charity care.

This report is intended solely for the information and use of the Board of Commissioners, management, and the Lakewood Medical Center Revenue Bond Purchaser, and is not intended to be, and should not be, used by anyone other than these specified parties.



March 4, 1999

