99801096
5912

EUNICE REGIONAL MEDICAL CENTER, LLP

Eunice, Louisiana

Financial Statements

Six Months Ended March 31, 1998

TABLE OF CONTENTS

	Page No.
Independent Auditor's Report	1-2
FINANCIAL STATEMENTS	
Statement of Net Liabilities in Liquidation	3
Statement of Changes in Net Liabilities in Liquidation	4
Notes to Financial Statements (Liquidation Basis)	5-8
INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	10-11
Summary Schedule of Prior Year Findings	12
Schedule of Findings and Questioned Costs	13-14
Management's Corrective Action Plan for Current Year Findings	15

Darnall, Sikes & Frederick

(A Corporation of Certified Public Accountants)

Eugene H. Darnall, CPA, Retired 1990

E. Larry Sikes, CPA, CVA
Danny P. Frederick, CPA
Clayton E. Darnall, CPA
Eugene H. Darnall, III, CPA
Paula D. Bihm, CPA
Stephanie M. Higginbotham, CPA

Lloyd F. Doré, Jr., CPA

Kathleen T. Darnall, CPA
Jennifer S. Ziegler, CPA
Stephen R. Dischler, MBA, CPA
Chris A. Miller, CPA
Alan M. Taylor, CPA
Christine A. Raspberry, CPA
John P. Armato, CPA
Steven G. Moosa, CPA
Erich G. Loewer, Jr., CPA
Tamera T. Landry, CPA
Erich G. Loewer, III, CPA
Kelley D. Hawkins, CPA
Carla R. Fontenot, CPA

Offices:

125 Rue Beauregard
Lafayette, LA 70508
318.232.3312

1231 E. Laurel Avenue
Eunice, LA 70535
318.457.4146

1201 Brashear Avenue
Suite 301
Morgan City, LA 70380
504.384.6264

404 Pere Megret
Abbeville, LA 70510
318.893.5470

dscpas.com

Independent Auditor's 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 March 31, 1998, and the related statement of changes in net liabilities in liquidation for the six months then ended. 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 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 include 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 8 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 financial statements are prepared on the liquidation basis.

In our opinion, such financial statements present fairly, in all material respects, the net liabilities in liquidation of Eunice Regional Medical Center, LLP at March 31, 1998, and the changes in net liabilities in liquidation for the six months then ended, in conformity with generally accepted accounting principles applied on the basis of accounting described in Note 8.

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 1999, on our consideration of the Eunice Regional Medical Center, LLP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

Member of
American Institute of
Certified Public Accountants

Society of Louisiana
Certified Public Accountants

As discussed in Note 8 to the financial statements, because 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 from them may differ materially from the amounts shown in the accompanying financial statements.

Darnall, Sikes & Frederick
A Corporation of Certified Public Accountants

Eunice, Louisiana
February 24, 1999

EUNICE REGIONAL MEDICAL CENTER, LLP

Statement of Net Liabilities in Liquidation
March 31, 1998

ASSETS

Cash	$ 396,565
Patient accounts receivable, net of estimated uncollectibles of $265,825	1,686,372
Other receivables	320,414
Total assets	2,403,351

LIABILITIES

Accounts payable	$ 597,121
Other payables	77,921
Estimated third-party payor settlements	87,404
Due to partner - accounts payable	397,077
Due to partner - notes payable	3,165,985
Total liabilities	4,325,508
NET LIABILITIES IN LIQUIDATION	$(1,922,157)

See notes to financial statements (liquidation basis).

EUNICE REGIONAL MEDICAL CENTER, LLP

Statement of Changes in Net Liabilities in Liquidation
Six Months Ended March 31, 1998

REVENUE:	
Net patient service revenue	$ 5,455,065
Other revenue	68,888
Total revenue	5,523,953
EXPENSES:	
Lease expense for salaries and benefits	2,895,374
Professional and contract services	1,374,152
Supplies	982,427
Provision for doubtful accounts	402,034
Lease expense for facility and equipment	268,889
Insurance	235,260
Utilities	197,286
Repair and maintenance	140,699
Interest expense	95,063
Other	178,159
Total expenses	6,769,343
LOSS FROM OPERATIONS	(1,245,390)
NET LIABILITIES IN LIQUIDATION, BEGINNING OF PERIOD	(676,767)
NET LIABILITIES IN LIQUIDATION, END OF PERIOD	$(1,922,157)

See notes to financial statements (liquidation basis).

NOTE 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.

Basis of Accounting

As further discussed in Note 8, 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 financial statements are prepared on the liquidation basis.

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

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.

Charity Care

The Venture maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregoing for services and supplies furnished under its charity care policy. Charges foregoing for charity care, based on established rates, approximated $242,265 for the six months ended March 31, 1998.

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.

NOTE 2 *NET PATIENT SERVICE REVENUE*

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 Venture and audits thereof by the Medicaid fiscal intermediary.

Estimated amounts due to Medicare and Medicaid services are included in estimated third-party payor settlements at March 31, 1998. Net revenue from government health care programs included in net patient service revenue approximated $3,100,000 during the six months ended March 31, 1998.

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 $1,300,000 during the six months ended March 31, 1998.

NOTE 3 CONCENTRATIONS OF CREDIT RISK

The Venture grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements. The concentration of receivables from patients and third-party payors at March 31, 1998 is as follows:

Medicare	47%
Other third-party payors	34%
Medicaid	7%
Patients	12%
	100%

NOTE 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.

NOTE 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 on liability.

NOTE 6 RELATED PARTY TRANSACTIONS

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 District contributed the use of its physical plant, name and equipment in exchange of a 50% ownership interest in the Venture.

The System advanced amounts to the Venture to fund operations under a line of credit and promissory notes. The line of credit, $850,000, had no outstanding balance and the promissory notes had an outstanding balance of $3,224,070 as of March 31, 1998. The line of credit and the promissory notes are secured by a pledge of the Venture's receivables.

NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

The Venture pays the District rental payments in amounts sufficient to meet bond obligations, pay employees and related obligations and make equipment lease payments. In return, the Venture has exclusive rights to use the physical plant, employees, name and equipment of the District. The Venture's transactions with the District as of and for the six months ended March 31, 1998 are as follows:

Payable to District	$ 397,077
Lease expense for employees and benefits	$2,895,374
Lease expense for property, plant and equipment	172,342
Lease expense for sublease of equipment	96,547
	$3,164,263

NOTE 7 NOTES PAYABLE

Promissory note, Louisiana Health System Corporation, $3,000,000, dated October 1, 1997, payable on demand, bearing interest of 8.5% per annum secured by receivables	$2,165,985
Promissory note, Louisiana Health System Corporation, $1,000,000, dated March 5, 1998, payable on demand, bearing interest of 8.5% per annum, secured by receivables	1,000,000
	$3,165,985

NOTE 8 DISSOLUTION OF JOINT VENTURE

Due to continuing losses and the need for additional funds, 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 March 31, 1998 and for the six months 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.

NOTE 9 SUBSEQUENT EVENTS

Subsequent to March 31, 1998, the Venture paid $1,741,250 on the promissory notes due to Louisiana Health System Corporation from cash collections on receivables outstanding at March 31, 1998.

INTERNAL CONTROL AND COMPLIANCE

Darnall, Sikes & Frederick
(A Corporation of Certified Public Accountants)

Eugene H. Darnall, CPA, Retired 1990

E. Larry Sikes, CPA, CVA
Danny P. Frederick, CPA
Clayton E. Darnall, CPA
Eugene H. Darnall, III, CPA
Paula D. Bihm, CPA
Stephanie M. Higginbotham, CPA

Lloyd F. Doré, Jr., CPA

Kathleen T. Darnall, CPA
Jennifer S. Ziegler, CPA
Stephen R. Dischler, MBA, CPA
Chris A. Miller, CPA
Alan M. Taylor, CPA
Christine A. Raspberry, CPA
John P. Armato, CPA
Steven G. Moosa, CPA
Erich G. Loewer, Jr., CPA
Tamera T. Landry, CPA
Erich G. Loewer, III, CPA
Kelley D. Hawkins, CPA
Carla R. Fontenot, CPA

Offices:

125 Rue Beauregard
Lafayette, LA 70508
318.232.3312

1231 E. Laurel Avenue
Eunice, LA 70535
318.457.4146

1201 Brashear Avenue
Suite 301
Morgan City, LA 70380
504.384.6264

404 Pere Megret
Abbeville, LA 70510
318.893.5470

dsfcpas.com

Independent Auditor's 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 Managers
Eunice Regional Medical Center, LLP
Eunice, Louisiana

We have audited the accompanying statement of net liabilities in liquidation of Eunice Regional Medical Center, LLP (the "Venture") as of March 31, 1998, and the related statement of changes in net liabilities in liquidation for the six months then ended. 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 Venture'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 could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 98-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Venture's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 Venture's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 98-2.

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

This report is intended for the information of the board of managers 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
February 24, 1999

EUNICE REGIONAL MEDICAL CENTER, LLP

Summary Schedule of Prior Year Findings
Six Months Ended March 31, 1998

97-1 Violation of Louisiana Audit Law

Finding:

Violation of LSA-RS 24:513 failing to file audit report within six months of the fiscal year end.

Status:

Report filed as of March, 1999.

EUNICE REGIONAL MEDICAL CENTER, LLP

Schedule of Findings and Questioned Costs
Six Months Ended March 31, 1998

Part 1: Summary of Auditor's Results

Financial Statements

Auditor's Report – Financial Statements

An unqualified opinion has been issued on Eunice Regional Medical Center, LLP financial statements as of and for the six months ended March 31, 1998.

Reportable Conditions – Financial Reporting

One reportable condition in internal control over financial reporting was disclosed during the audit of the financial statements and is shown as item 98-2 in Part 2 and is considered a material weakness.

Material Noncompliance – Financial Reporting

One instance of material noncompliance was noted during the audit as described in item 98-1 in Part 2.

Federal Awards

This section is not applicable for the six months ended March 31, 1998.

Management Letter

This section is not applicable for the six months ended March 31, 1998.

Part 2 *Findings Relating to an Audit in Accordance with* Government Auditing Standards

98-1 Violation of Louisiana Audit Law

Finding:

The District did not comply with the provisions of the state audit law, LSA-RS 24:513 requiring audits to be completed within six months of the period ended under audit. 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.

98-2 Accounting Records

Finding:

During the audit, it was noted that the District did not prepare or reconcile the accounts payable subsidiary ledger and the balance due to partners to the general ledger as of March 31, 1998. Also, payables were not properly accrued and significant audit entries were necessary to adjust payables at March 31, 1998.

Recommendation:

We recommend that the subsidiary ledgers and other supporting schedules should be reconciled to the general ledger on a monthly basis to ensure that accounts payable and the due to partners accounts are appropriately recorded on the general ledger and to ensure payables are posted in the proper period.

Part 3 Findings and Questioned Costs Relating to Federal Programs

This section is not applicable for the six months ended March 31, 1998.

EUNICE REGIONAL MEDICAL CENTER, LLP

Management's Corrective Action Plan for Current Year Findings
Six Months Ended March 31, 1998

98-1 Violation of Louisiana Law

Procedures have been implemented to ensure compliance with applicable laws.

98-2 Accounting Records

Procedures have been implemented to ensure that the account payable and due to partners subsidiary ledgers are reconciled monthly to the general ledger and all activity is posted in the appropriate period.