

BAYOU LABS OF LOUISIANA, L.L.C.

December 31, 2003

Audit of Financial Statements

December 31, 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 11-10-04

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

Independent Auditor's Report

We have audited the accompanying balance sheet of **BAYOU LABS OF LOUISIANA, L.L.C.** (Bayou Labs) as of December 31, 2003, and the related statements of operations and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Bayou Labs' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Bayou Labs for the year ended December 31, 2002 were audited by other auditors whose report, dated June 26, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **BAYOU LABS OF LOUISIANA, L.L.C.** as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2004 on our consideration of **BAYOU LABS OF LOUISIANA, L.L.C.** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A Professional Accounting Corporation

July 7, 2004

**BAYOU LABS OF LOUISIANA, L.L.C.
BALANCE SHEETS**

ASSETS

	December 31,	
	2003	2002
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 327,758	\$ 820,951
Accounts Receivable, Net of Allowance for Uncollectible Receivables of \$3,000 and \$33,558 for 2003 and 2002	91,593	72,159
Prepaid Expenses	15,101	45,274
Total Current Assets	434,452	938,384
EQUIPMENT		
Radiographic System	1,017,044	1,017,044
Less: Accumulated Depreciation	(666,466)	(539,336)
Net Book Value	350,578	477,708
Total Assets	\$ 785,030	\$ 1,416,092

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 48,476	\$ 1,675
NET ASSETS		
Unrestricted	736,554	1,414,417
Total Liabilities and Net Assets	\$ 785,030	\$ 1,416,092

See accompanying notes to the financial statements

BAYOU LABS OF LOUISIANA, L.L.C.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

	For the Years Ended December 31,	
	2003	2002
UNRESTRICTED REVENUE		
Net Patient Service Revenue	<u>\$ 185,071</u>	<u>\$ 190,434</u>
EXPENSES		
Depreciation	127,130	127,130
Insurance	38,522	24,452
Personnel Cost	29,331	32,350
Supplies	22,597	24,923
Professional Fees	20,119	8,385
Maintenance	15,854	16,051
Provision for Bad Debts	14,389	65,443
Rent	3,648	3,648
Other	-	518
Total Expenses	<u>271,590</u>	<u>302,900</u>
Operating Loss	(86,519)	(112,466)
NON-OPERATING INCOME		
Interest Income	<u>8,656</u>	<u>13,978</u>
DECREASE IN NET ASSETS	(77,863)	(98,488)
NET ASSETS		
Beginning of Year	1,414,417	1,512,905
Distributions to Members	<u>(600,000)</u>	<u>-</u>
End of Year	<u>\$ 736,554</u>	<u>\$ 1,414,417</u>

See accompanying notes to the financial statements

BAYOU LABS OF LOUISIANA, L.L.C.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	\$ (77,863)	\$ (98,488)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided By Operating Activities		
Depreciation	127,130	127,130
(Increase) Decrease in Net Accounts Receivable	(19,434)	119,682
Decrease (Increase) in Prepaid Expenses	30,173	(16,366)
Increase (Decrease) in Accounts Payable	46,801	(30,578)
Net Cash Provided by Operating Activities	106,807	101,380
CASH FLOWS USED IN FINANCING ACTIVITIES		
Distributions to Members	(600,000)	-
NET (DECREASE) INCREASE IN CASH	(493,193)	101,380
CASH and CASH EQUIVALENTS		
Beginning of Year	820,951	719,571
End of Year	\$ 327,758	\$ 820,951

See accompanying notes to the financial statements

BAYOU LABS OF LOUISIANA, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

BAYOU LABS OF LOUISIANA, L.L.C. (Bayou Labs) was organized on October 29, 1997 as a limited liability company pursuant to the laws of the State of Louisiana. Bayou Labs is a cooperative hospital service organization, which provides on-site and off-site cardiac catheterization laboratory services to patients of its member hospitals: Hospital Service District No. 1 for the Parish of Lafourche, Louisiana, d/b/a Lady of the Sea General Hospital (Lady of the Sea), Hospital Service District No. 2 for the Parish of Lafourche, Louisiana, d/b/a St. Anne General Hospital (St. Anne), and Ochsner Clinic Foundation, formerly Alton Ochsner Medical Foundation (Ochsner). Based on the significant control that Hospital Service Districts Nos. 1 and 2 possess over its operations, Bayou Labs is deemed a quasi-public entity.

During the year ended December 31, 2002, Bayou Labs suspended operations for several months. Operations resumed in December 2002.

BASIS OF PRESENTATION

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

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

ALLOWANCE FOR UNCOLLECTIBLE RECEIVABLES

Accounts receivable are carried at original invoice amount less an estimate made for *doubtful receivables based on a review of all outstanding amounts on a monthly basis*. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

EQUIPMENT

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

BAYOU LABS OF LOUISIANA, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

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

INCOME TAXES

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

NOTE B

RELATED PARTY TRANSACTIONS

LEASE

The cardiac catheterization laboratory is located at and leases its premises from St. Anne for a monthly rental of \$304. The lease was executed effective January 1998, for five years. In January 2003, the lease automatically renews for additional one-year terms until cancelled by either party.

OPERATIONS

St. Anne performs the billing and collection functions for the services rendered by Bayou Labs. Revenue earned by Bayou Labs is determined based on a mutually agreed-upon rate per procedure performed.

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

NOTE C

CONCENTRATIONS

CREDIT RISK

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

UNINSURED CASH DEPOSITS

Bayou Labs' cash balances exceed, at various times throughout the year, the amount insured by the Federal government.

BAYOU LABS OF LOUISIANA, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE D

FUNCTIONAL EXPENSES

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

Health Care Services	\$ 67,782
General and Administrative	<u>203,808</u>
Total	<u>\$ 271,590</u>

NOTE E

RISK MANAGEMENT

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

NOTE F

COMPENSATION OF MANAGERS

No compensation was paid to the managers of Bayou Labs during the year ended December 31, 2003.

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

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

We have audited the financial statements of **BAYOU LABS OF LOUISIANA, L.L.C.** as of and for the year ended December 31, 2003, and have issued our report thereon dated July 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **BAYOU LABS OF LOUISIANA, L.L.C.**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have a direct and material effect on the determination of financial statements 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 as item 2003-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **BAYOU LABS OF LOUISIANA, L.L.C.**'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **BAYOU LABS OF LOUISIANA, L.L.C.**'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-2 and 2003-3.

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 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. However, of the reportable conditions described above, we consider items 2003-2 and 2003-3 to be material weaknesses.

This report is intended solely for the information and use of management of the **BAYOU LABS OF LOUISIANA, L.L.C.**, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A Professional Accounting Corporation

July 7, 2004

BAYOU LABS OF LOUISIANA, L.L.C.
SCHEDULE OF FINDINGS
For The Year Ended December 31, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of **BAYOU LABS OF LOUISIANA, L.L.C.**
2. One instance of noncompliance material to the financial statements was identified during the audit of the financial statements. This instance of noncompliance is explained further below and is referenced as 2003-1.
3. Two material weaknesses were identified during the audit of the financial statements. These weaknesses are explained in detail below and are referenced as 2003-2 and 2003-3.
4. Bayou Labs of Louisiana, L.L.C. did not receive any Federal awards during the year ended December 31, 2003.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

1. **Finding 2003-1 - Noncompliance with Laws and Regulations.** In accordance with Louisiana Revised Statute 24:513, **BAYOU LABS OF LOUISIANA, L.L.C.** did not file its audit in a timely manner. This was caused by a turnover in personnel at Lady of the Sea General Hospital. The person designated as responsible for maintaining the general ledger of **BAYOU LABS OF LOUISIANA, L.L.C.** resigned their employment with Lady of the Sea General Hospital in June 2003. Subsequent to the resignation, the members of **BAYOU LABS OF LOUISIANA, L.L.C.** were negligent in appointing a replacement and as such the general ledger was not maintained. This caused an inability to perform the audit timely. A recommendation has been made to the members of **BAYOU LABS OF LOUISIANA, L.L.C.** to designate which member will assume responsibility for maintaining the general ledger and in a timely manner. Management has yet to respond with their plan of corrective action.
2. **Finding 2003-2 - Accounting Responsibilities.** We understand **BAYOU LABS OF LOUISIANA, L.L.C.** is in the process of restructuring certain accounting responsibilities and, as a result, duties are not clearly established for the accurate and timely preparation of financial information. Due to key employee turnover in the prior year, certain required and important accounting functions are now not being performed. These functions are necessary for the timely processing of financial data to then allow for accurate financial statements to be produced. We suggest that a complete review of accounting responsibilities be performed in all areas of the accounting function in order to adequately evaluate and determine what steps should be taken to establish and implement proper remedies.
3. **Finding 2003-3 - Agreements of Related Parties**
During our audit, we were not able to obtain a contract supporting the terms of the agreement between Bayou Labs and member St. Anne General Hospital (St. Anne). A contract should outline the calculation of revenue per unit and cost per unit for the medical procedures which are performed by St. Anne personnel on St. Anne premises. We recommend that management substantiate all related-party transactions with written documents.

BAYOU LABS OF LOUISIANA, L.L.C.
STATUS OF PRIOR YEAR AUDIT OF FINDINGS
For The Year Ended December 31, 2002

None