TABLE OF CONTENTS

Page No.

GENERAL PURPOSE FINANCIAL STATEMENTS

St. Landry Parish Hospital Service District No. 1 - Unrestricted Fund

SUPPLEMENTARY INFORMATION

ADDITIONAL AUDITORS' REPORTS

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
Paul A. Delaney, CPA
Melissa L. Henry, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

Members
American Institute of CPA's
AICPA Division for CPA Firms —
Private Companies Practice Section
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

Independent Auditors' Report

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

We have audited the accompanying general purpose financial statements of the unrestricted fund of St. Landry Parish Hospital Service District No. 1, Eunice, Louisiana, (the "District"), a component unit of the police jury of St. Landry Parish for the years ended May 31, 1997, and 1996 as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits 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 general purpose 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 general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

We were unable to satisfy ourselves as to the accuracy of the beginning balance of the allowance for doubtful accounts and allowance for contractual adjustments for the year ending May 31, 1996, because reports were no longer available, nor were we able to satisfy ourselves as to the correct balances by other auditing procedures.

In our opinion, except for the effects on the 1996 general purpose financial statements of such adjustments, if any, as might have been determined to be necessary if we had been able to satisfy ourselves about the valuation of the accounts receivable allowance accounts or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, the general purpose financial statements referred to above present fairly in all material respects, the financial position of St. Landry Parish Hospital Service District No. 1, Eunice, Louisiana, as of May 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued a report dated November 20, 1997, on our consideration of St. Landry Parish Hospital Service District's internal control structure and a report dated November 20, 1997, on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1. As previously stated, the scope of our work was not sufficient to enable us to express an opinion, and we do not express, an opinion on the supplemental information.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed more fully in Note 17 to the financial statements, the District has experienced significant losses and related cash flow difficulties. These conditions raise substantial doubt about its ability to continue as a going concern at May 31, 1997. Management's plans regarding these matters are described in Note 17. The general purpose financial statements do not include any adjustment that might result from the outcome of this uncertainty.

As more fully discussed in Note 18, during 1997, the District discontinued hospital operations and began leasing the employees, equipment and facilities to a joint venture operation. The hospital operations represented a substantial portion of the District's results of operations.

Easley, Lester & Wells
Certified Public Accountants

November 20, 1997

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
BALANCE SHEETS - UNRESTRICTED FUND
MAY 31, 1997 AND 1996

ASSETS	1997	1996
Current assets:		
Cash and cash equivalents	$ 266,192	$ 348,662
Assets limited as to use (Note 5)	665	468
Patient accounts receivable, net of estimated uncollectibles of $787,000 and $525,135 in 1997 and 1996 respectively	-0-	2,147,746
Other receivables	5,992	-0-
Estimated third-party payor settlements	219,436	-0-
Due from joint venture	721,960	-0-
Inventory	-0-	347,361
Prepaid expenses	-0-	102,020
Physician loan	-0-	3,900
Total current assets	1,214,245	2,941,889
Property, plant and equipment, net (Note 6)	3,392,857	3,847,635
Unamortized bond issue cost	10,213	10,942
Deposits	9,968	9,968
Total assets	$ 4,627,283	$ 6,810,434

LIABILITIES AND FUND BALANCE	1997	1996
Current liabilities:		
Accounts payable	$ 936,198	$ 2,361,310
Payroll taxes and other withholdings	206,246	176,464
Estimated third-party payor settlements	-0-	133,689
Accrued expenses (Note 7)	680,487	663,163
Unearned revenue	50,211	-0-
Current portion of long-term debt (Note 8)	281,640	497,657
Total current liabilities	2,154,782	3,832,283
Investment in joint venture	28,956	-0-
Long-term debt, net of current maturities (Note 8)	799,804	879,444
Less deferred loss on bond refunding	(11,259)	-0-
Total liabilities	2,972,283	4,711,727
Fund balance - unrestricted	1,655,000	2,098,707
Total liabilities and fund balance	$ 4,627,283	$ 6,810,434

See accompanying notes to financial statements.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENTS OF OPERATIONS - UNRESTRICTED FUND
YEARS ENDED MAY 31, 1997 AND 1996

	1997	1996
Revenue:		
Lease income	$ 3,746,162	$ -0-
Rental income	19,550	-0-
Total revenue	3,765,712	-0-
Expenses:		
Salaries and benefits	3,514,756	-0-
Depreciation and amortization	224,184	-0-
Interest	68,479	-0-
Total expenses	3,807,419	-0-
Operating (loss)	(41,707)	-0-
Nonoperating income		
Loss on investment	(31,456)	-0-
Interest income	13,884	11,820
Total nonoperating income	(17,572)	11,820
Excess of (expenses over revenues) before discontinued operations	(59,279)	11,820
Discontinued operations (Note 18)	(384,428)	(2,031,880)
Excess of (expenses over revenues)	$ (443,707)	$ (2,020,060)

See accompanying notes to financial statements.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENTS OF CHANGES IN FUND BALANCE - UNRESTRICTED FUNDS
YEARS ENDED MAY 31, 1997 AND 1996

Fund balance, June 1, 1995	$ 4,705,309
Prior period adjustment (Note 15)	(586,542)
Adjusted fund balance, June 1, 1995	4,118,767
Excess of expense over revenue	(2,020,060)
Fund balance, May 31, 1996	2,098,707
Excess of expense over revenue	(443,707)
Fund balance, May 31, 1997	$ 1,655,000

COMPOSITION OF FUND BALANCE

Contributed capital	
Hill-Burton	$ 1,137,016
Individuals	171,621
Total contributed capital	1,308,637
Accumulated excess of revenues over expenses	346,363
Fund balance, May 31, 1997	$ 1,655,000

See accompanying notes to financial statements.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENTS OF CASH FLOWS - UNRESTRICTED FUNDS
YEARS ENDED MAY 31, 1997 AND 1996

	1997	1996
Cash flow from operating activities:		
Operating income (loss)	$ (426,135)	$ (2,031,880)
Interest expense considered capital financing activities	116,057	145,009
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	479,182	523,562
Provision for bad debts	61,063	1,161,709
Changes in:		
Patient accounts receivable	2,086,683	67,964
Other accounts receivable	(727,952)	-0-
Inventories	347,361	503
Prepaid expenses	93,752	(9,388)
Accounts payable	(1,425,112)	997,283
Payroll and other withholdings	29,782	20,463
Accrued expense	17,324	11,243
Due from/to intermediaries	(353,125)	51,562
Unearned revenue	50,211	(9,199)
Assets whose use is limited-current	(197)	4,273
Net cash provided by operating activities	348,894	933,104
Cash flow from investing activities:		
Collections on physician loans	3,900	16,100
Loans to physicians	-0-	(20,000)
Investment in joint venture	(2,500)	-0-
Interest	13,884	11,820
Net cash provided by investing activities	15,284	7,920

See accompanying notes to financial statements.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENTS OF CASH FLOWS - UNRESTRICTED FUNDS
YEARS ENDED MAY 31, 1997 AND 1996

	1997	1996
Cash flow from capital and related financing activities:		
Principal paid on long-term debt	$ (970,272)	$ (571,361)
Interest paid on long-term debt	(116,057)	(145,009)
Purchase of property and equipment	(14,919)	(115,302)
Premium on early extinguishment	(4,100)	-0-
Bond issue	670,000	-0-
Bond issue costs	(11,300)	-0-
Net cash used by capital and related financing activities	(446,648)	(831,672)
Net increase (decrease) in cash and cash equivalents	(82,470)	109,352
Cash and cash equivalents, beginning of year	348,662	239,310
Cash and cash equivalents, end of year	$ 266,192	$ 348,662

Supplemental disclosures of cash flow information:

The District entered into capital lease obligations of $4,615 and $389,713 for new equipment in 1997 and 1996, respectively.

The District paid $148,667 and $167,712 for interest during 1997 and 1996, respectively.

The District had a loss on an equity investment in the amount of $31,456.

See accompanying notes to financial statements.

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legal Organizations

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

Nature of Business

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

Proprietary Fund Accounting

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

Property, Plant and Equipment

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

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Inventory

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

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims did not exceed this commercial coverage. The Authority is self-insured for medical malpractice claims and judgments, as discussed in Note 14.

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

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

Third-Party Cost-Based Revenues

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

NOTE 2 - DEPOSITS

All amounts that are included in cash and cash equivalents and assets whose use is limited are deposits in checking accounts with financial institutions that are insured by the FDIC. Banks are holding pledged securities with a market value of $2,611,920 and $1,626,584, in the District's name to cover all deposits in excess of the $100,000 FDIC limit at May 31, 1997 and 1996. Bank reported demand deposit account balances at May 31, 1997 and May 31, 1996 equaled $156,651 and $411,927.

NOTE 3 - NET PATIENT SERVICE REVENUE

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

Medicare - Inpatient acute care services rendered to Medicare beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Cost reports have been audited through year end May 31, 1995.

NOTE 3 - NET PATIENT SERVICE REVENUE (Continued)

Medicaid - Inpatient and outpatient services rendered to Medicaid recipients are reimbursed under prospective per diems and a cost reimbursement methodology, respectively. Cost reimbursements is at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. Cost reports have been audited for year ends through May 31, 1994.

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

The District receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. During the periods ended May 31, 1997 and 1996, the following revenues were obtained from these programs:

	1997	1996
Medicare and Medicaid gross patient charges	$ 5,947,044	$ 15,008,332
Contractual adjustments	(2,222,186)	(7,077,980)
Patient service revenue	$ 3,724,858	$ 7,930,352
Percent of total net patient revenue	60%	61%

NOTE 4 - CHARITY CARE

The District provides charity care to patients who meet certain criteria under Hill-Burton Grant without charge or amounts at less than established rates. Because the Hospital does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue. Charity write-offs were $294,102 and $393,524 in 1997 and 1996, respectively.

NOTE 5 - ASSETS LIMITED AS TO USE

Assets in the amounts of $665 and $468 are limited by bond indenture in 1997 and 1996. Debt funding requirements and compliance are more fully discussed in Note 8.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 1997 AND 1996

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended May 31, 1997.

		ASSET COST		
	May 31, 1996	Additions	Deductions	May 31, 1997
Land	$ 165,468	$ -0-	$ -0-	$ 165,468
Buildings	5,955,804	5,000	-0-	5,960,804
Equipment	4,804,039	9,919	-0-	4,813,958
Equipment under capital lease obligation	730,288	4,615	-0-	734,903
Total	$ 11,655,599	$ 19,534	$ -0-	$ 11,675,133

		ACCUMULATED DEPRECIATION		
	May 31, 1996	Additions	Deductions	May 31, 1997
Buildings	$ 3,443,825	$ 161,369	$ -0-	$ 3,605,194
Equipment	4,063,157	180,712	-0-	4,243,869
Equipment under capital lease obligation	300,982	132,231	-0-	433,213
Total	$ 7,807,964	$ 474,312	$ -0-	$ 8,282,276

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended May 31, 1996.

		ASSET COST		
	May 31, 1995	Additions	Deductions	May 31, 1996
Land	$ 165,468	$ -0-	$ -0-	$ 165,468
Buildings	5,929,687	26,117	-0-	5,955,804
Equipment	4,714,854	89,185	-0-	4,804,039
Equipment under capital lease obligation	340,575	389,713	-0-	730,288
Total	$ 11,150,584	$ 505,015	$ -0-	$ 11,655,599

NOTE 6 - PROPERTY, PLANT & EQUIPMENT (Continued)

	May 31, 1995	ACCUMULATED DEPRECIATION Additions	Deductions	May 31, 1996
Buildings	$ 3,267,206	$ 176,619	$ -0-	$ 3,443,825
Equipment	3,848,501	214,656	-0-	4,063,157
Equipment under capital lease obligation	172,343	128,639	-0-	300,982
Total	$ 7,288,050	$ 519,914	$ -0-	$ 7,807,964

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

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

These assets were obtained in part with funds from a Hill-Burton program grant of $1,137,016. Donated assets were recorded at fair value at the time of donation in the amount of $171,376.

NOTE 7 - ACCRUED EXPENSES

A summary of accrued expenses is presented below:

	1997	1996
Salaries payable	$ 231,375	$ 103,662
Vacation and sick leave payable	442,645	546,549
Interest payable	6,467	12,952
Total	$ 680,487	$ 663,163

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 1997 AND 1996

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at May 31, 1997 and 1996, follows:

	1997	1996
11.0 percent 1983A Revenue Bonds, due May 1, 1998, collateralized by a pledge and dedication of Hospital income and revenue	$ -0-	$ 60,000
11.5 percent 1989 Revenue Refunding Bonds, due April 1, 1999, collateralized by a pledge and dedication of the excess of annual revenues of the Hospital	-0-	170,000
8.5 percent 1987 Certificates of Indebtedness, due March 1, 1997, collateralized by a pledge of Hospital revenue	-0-	145,000
6.0 percent 1974 Revenue Bonds, due May 1, 1999, collateralized by a pledge of Hospital income and revenue	-0-	255,000
6.0 to 7.0 percent Series 1997A Certificate of Indebtedness, due May 1, 2001, secured by a pledge and dedication of the excess of annual revenues	385,000	-0-
8.75 to 10.25 percent Series 1997B Taxable Certificate of Indebtedness, due May 1, 2001, secured by a pledge and dedication of excess annual revenue	140,000	-0-
7.5 percent note payable, due January 1, 2004, secured by mortgage of property	47,988	52,987
11.0 percent note payable, due June 1, 2002, secured by mortgage of property	222,223	250,719
Capital lease obligations, at varying rates of imputed interest from 4.99 percent to 20.93 percent collateralized by leased equipment with costs of $854,024 at May 31, 1996	286,233	443,395
Total long-term debt	1,081,444	1,377,101
Less current maturities of long-term debt	281,640	497,657
Long-term debt net of current maturities	$ 799,804	$ 879,444

The 1983A, 1987 and 1989 Certificates were discharged during the year with funds acquired from issuance of the 1997 Series A and B Certificates. Under the terms of the Series 1997A and 1997B Certificates of Indebtedness, no deposits are required prior to principal and interest payment dates. The District will not dispose of facilities prior to maturity of the certificates. The 1997A Series includes a non-arbitrage covenant.

NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal repayments on long-term debt and payments on capital lease obligations over the next five years are as follows:

Year Ending May 31,	Revenue Bonds	Mortgage Notes	Capital Lease Obligations
1998	$ 120,000	$ 40,387	$ 148,328
1999	125,000	44,838	87,450
2000	135,000	49,786	60,222
2001	145,000	55,288	28,121
2002	-0-	61,406	-0-
Thereafter	-0-	18,506	-0-
	$ 525,000	$ 270,211	324,121
Less amounts representing interest on capital lease obligations			37,888
Total			$ 286,233

NOTE 9 - COMPENSATED ABSENCES

Employees of the District are entitled to paid vacation and sick days accrued based upon the employee's length of service and on the time worked during the year. Accordingly, sick and vacation benefits have been recorded as a liability in the financial statements at employee earning rates in effect at the balance sheet date.

NOTE 10 - RETIREMENT PROGRAM

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

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

NOTE 10 - RETIREMENT PROGRAM *(Continued*

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

District payroll and contributions are summarized below:

	1997	1996
District covered payroll	$ 5,106,719	$ 5,187,091
District total payroll	5,762,856	5,694,444
District employee contribution (9.5%)	621,686	492,402
District employer contribution (8% in 1995, 7.25% in 1996)	405,773	398,119
System employer contributions at December 31, 1995 (8%)	20,078,053	21,196,094
System employee contributions	25,122,742	25,007,892

The actuarial funding method utilized to determine contributions for Plan A is the Frozen Attained Age Normal Cost Method. The System actuarial determined employer contribution for 1997 and 1996 is $16,405,731 and $23,463,733 or 5.73% and 7.78% of Plan A payroll. The Hospital employer contribution was 1.88% of the total system contribution in 1996 and 1995. Using that percentage, the Hospital employer contribution for 1997 and 1996 is $441,000. The changes in plan assumptions and methods used in arriving at this amount, including a change in mortality assumptions, a change in the methods for valuing the liabilities related to the Deferred Retirement Option Plan, and a change in the asset valuation method, caused the contribution rate to increase by 2.78% in 1996. The decrease in funding in 1997 is due to asset gains. The recommended net contribution rate for 1998 is a reduction of 2.25% of payroll.

NOTE 10 - RETIREMENT PROGRAM (Continued)

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of present value of pension benefits, adjusted for the estimated to be payable in the future as a result of employees service to date. The System does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation for Plan A at December 31, 1996 and 1995, for the System as a whole, determined through actuarial valuation performed as of that date, was $815,248,050 and $762,893,530. The System's net assets available for benefits on those dates were $701,060,019 and $647,645,108, leaving an unfunded accrued liability of $114,188,031 and $115,248,422.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 1996 and 1995, financial report. The District does not guarantee benefits granted by the System.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for $400,000 in coverage per occurrence above the first $100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to $500,000 per occurrence. Legal action in an attempt to overturn this legislation on constitutional grounds is in process.

NOTE 12 - WORKMEN'S COMPENSATION RISK

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Operating leases - The District leases various equipment under operating leases expiring at various dates through February 2000. Total operating lease payments in 1997 for all operating leases were $19,881. However, Eunice Regional Medical Center (ERMC) reimbursed the District for all lease payments after November 16, 1996 and District expenses are $8,284 for 1997. Remaining lease payments will also be reimbursed by ERMC.

The following is a schedule by year of future minimum lease payments under operating leases as of May 31, 1997, that have initial or remaining lease terms in excess of one year.

Year Ending May 31,		Amount
1998	$	14,237
1999		13,524
2000	$	5,578

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

The principal contingencies are described below:

Third Party Cost-Based Revenues (Note 1) - Cost reimbursements are subject to examination by agencies administering the Medicare and Medicaid programs. The Medicare program has discontinued its cost-based reimbursement system for inpatient services. Currently, the District receives a fixed fee for each patient as determined by the government using the patient's diagnosis. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions

In order to continue receiving reimbursement from the Medicare and Medicaid programs, the District entered into an agreement with an agent of the Healthcare Financing Administration (HCFA) which allowed the government access to its Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid by the fiscal intermediary. The amount of such adjustments cannot reasonably be determined.of those programs. The amount of such adjustments cannot be determined.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Federal and state budget restraints are increasing the time period taken to pay Medicare and Medicaid claims and the Medicaid program is delaying payment of year-end statements.

Professional Liability Risk (Note 11) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

Workmen's Compensation Risk (Note 12) - The District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

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

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the District. In the opinion of management, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

NOTE 14 - SELF-FUNDED BENEFITS PLAN

The District maintains a self-funded medical benefits plan. The District entered into an agreement effective April 1987, with Gulf South Administrative Services, Inc., for supervision of the Plan. The Hospital purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of $25,000 per year per covered person up to specific individual maximums of $975,000. The insurance provides for payment of 100% of aggregate claims in excess of $471,447 with $1,000,000 limit of liability. The liability for incurred but not reported claims at May 31, 1997 and 1996, is $-0- and $32,060.

NOTE 15 - PRIOR PERIOD ADJUSTMENT

An adjustment was made as of May 31, 1995, to record vested sick and vacation accruals in the amount of $586,542.

NOTE 16 - JOINT VENTURE

The District negotiated a joint venture with a Louisiana Health System Corporation (the System) in which it will participate on a 50% basis in *governance, profits, and losses of the joint venture. The District investment* is one percent of the System investment. All debts and accounts receivable prior to the commencement of the joint venture were retained by the District.

NOTE 16 - JOINT VENTURE (Continued)

The venture is expected to make annual payments to the District in amounts sufficient to meet bond obligations, pay employees and related obligations and make capital lease payments. Additionally, all rent revenues from the long-term rehab unit and profits on rehab ancillary hospital revenues realized during the term of the joint venture shall belong to the District, exclusively, until such time as the District's pre-effective date debt (other than vacation and sick pay and Certificates of Indebtedness) have been paid. The venture uses the physical plant, employees, name and equipment. The District will record net income of the venture on an equity basis. There is no established market value at May 31, 1997. The Joint Venture, Eunice Regional Medical Center, LLP, has a September 30 year end and will have separately issued Financial Statements. The joint venture will terminate at October 31, 2001 unless it terminates at an earlier date or the parties elect to continue with written amendments.

Investment in joint venture	$ 2,500
Equity loss from joint venture	(31,456)
Lease income from joint venture - salaries and benefits	3,514,756
Lease income from joint venture - property, plant & equipment for debt service	110,026
Lease income from joint venture - sub leased equipment	121,380
Unearned lease payment - property, plant & equipment for debt service	50,211
Receivables from joint venture	721,960
Rehab rental income from joint venture	$ 19,550

NOTE 17 - GOING CONCERN

As of May 31, 1996, the District experienced losses for the preceding two years and was in default on outstanding revenue bonds and certificates of indebtedness. Management obtained a letter of waiver on the monthly deposit requirement default and the revenue less reasonable expenses requirement that was effective until the joint venture was signed. The District incurred losses in 1997, but the loss was much less than the prior year. The bonds were refunded in 1997 and there are now no deposit requirements. At May 31, 1997, current liabilities exceed current assets, net of related party receivable, and unearned revenues by $1,612,286.

NOTE 18 - DISCONTINUED OPERATIONS

The Articles of Joint Venture between St. Landry Parish Hospital Service District No.1, dba Moosa Memorial Hospital, and Louisiana Health System Corporation, which became effective on November 17, 1996, discontinued the District's hospital operations. Operating results of Moosa Memorial Hospital are shown separately as discontinued operations in the accompanying Statement of Operations. A detail of the discontinued operations follows:

	1997	1996
Revenue:		
Net patient service revenue	$ 6,165,996	$ 12,984,441
Other	80,649	156,528
Total revenue	6,246,645	13,140,969
Expenses:		
Salaries and benefits	2,959,613	6,646,931
Medical supplies and drugs	818,948	1,944,763
Professional fees	897,375	2,134,814
Advertising	15,825	61,064
Maintenance and repairs	90,841	194,888
Rentals and leases	33,904	22,639
Utilities	149,070	266,068
Travel	29,004	94,604
Other expenses	1,055,321	1,614,415
Insurance	191,408	339,122
Depreciation and amortization	254,998	523,562
Interest	73,703	168,270
Provision for bad debt	61,063	1,161,709
Total expenses	6,631,073	15,172,849
Operating income (loss)	$ (384,428)	$ (2,031,880)

SUPPLEMENTARY INFORMATION

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
SCHEDULES OF PER DIEM
OR OTHER AMOUNTS PAID TO COMMISSIONERS
YEARS ENDED MAY 31, 1997 AND 1996

Board Member	Per Diem Amounts Paid to Commissioners		Other Amounts Paid to Commissioners	
	1997	1996	1997	1996
Thomas Myers	$ 360	$ 480	$ -0-	$ -0-
Jenny Dischler	280	440	-0-	-0-
R. A. Keller	400	440	-0-	-0-
Lou Johnson	-0-	400	-0-	-0-
Shelia Derousselle	-0-	440	-0-	-0-
Newton "Chip" Thibodeaux	360	440	-0-	-0-
Edward E. Graul, MD	320	120	-0-	-0-
Charles Bowie, MD	-0-	280	-0-	-0-
John Lassere, MD	-0-	80	-0-	-0-
Sheila Lobe	320	-0-	-0-	-0-
Harvey Gil	440	-0-	-0-	-0-

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
Paul A. Delaney, CPA
Melissa L. Henry, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

Members
American Institute of CPA's
AICPA Division for CPA Firms —
Private Companies Practice Section
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1 (the District) for the years ended May 31, 1997 and 1996, and have issued our report thereon dated November 20, 1997.

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.

The management of the District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the District for the years ended May 31, 1997 and 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The schedule that accompanies this letter summarizes our comments and suggestions regarding this matter.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted four matters involving internal control structure and its operation that we consider to be material weaknesses as defined above. The schedule that accompanies this letter summarizes our comments and suggestions regarding these matters. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the District for the years ended May 31, 1997 and 1996.

This report is intended for the information of management and the office of the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Easley, Lester & Wells
Certified Public Accountants

November 20, 1997

St. Landry Parish Hospital Service District No. 1
Auditors' Comments and Recommendations
May 31, 1997

General

We were pleased to see improvements in certain areas where we recommended changes in the prior year. However, several conditions still exist at year end 1997 as follows:

Material Weaknesses

1. Accounting Records

Condition: Adjustments were not made timely to the general ledger. Reconciliations were not prepared monthly to reconcile subsidiary records to the general ledger. The District closed the books three months after year end, yet a large number of audit entries were needed. Retirement withholding and employer's portion from 1996 were not remitted timely.

Recommendations: Prepare monthly reviews, reconciliations and entries to insure the books are prepared accurately and timely.

Response: Adjustments were not made timely to the general ledger due to the lack of staff. Every attempt was made to ensure proper entries were made the first time, including consulting our CPA firm for advise on how to book the entries needed. Because of the nature of the Joint Venture agreement, it was very difficult to determine how each entry should be made.

Reconciliations were not completed timely however, several were completed at the time of audit by the hospital staff and entries were given to the auditors. There were numerous entries that needed to be made. However, several of them were a result of determinations on how the monthly transactions with the joint venture were to be accounted for.

Reportable Conditions:

1. Segregation of Duties

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

Recommendations: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes: 1) separating transaction authorization from custody of related asset: 2) separating transaction recording from general ledger posting and maintenance; 3) separating operational responsibility from record-keeping. Where these segregation are not possible, we recommend close supervision and regular review.

Response: It is not practicable or cost effective to achieve the total segregation of duties with the number of available employees. However, management will segregate wherever possible and supervise and review in the other areas.

Marvin H. Easley, CPA
Bobby G. Lester, CPA
John S. Wells, CPA
Robert G. Miller, CPA

Linda L. Wright, CPA
Paul A. Delaney, CPA
Melissa L. Henry, CPA

EASLEY, LESTER AND WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
3600 BAYOU RAPIDES ROAD
ALEXANDRIA, LOUISIANA 71303

Telephone (318) 487-1450
Telecopy (318) 445-1184

Members
American Institute of CPA's
AICPA Division for CPA Firms —
Private Companies Practice Section
Society of Louisiana CPA's

Mailing Address:
P.O. Box 8758
Alexandria, LA 71306-1758

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1 (the District) as of and for the year ended May 31, 1997 and 1996, and have issued our report thereon dated November 20, 1997.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

While performing our audit, we read the responses to the questions in the attached Systems Survey and Compliance Questionnaire completed by management and adopted by the Board of Commissioners. However, it should be noted that our audit was not directed primarily towards the answers to the questions in the questionnaire.

Compliance with laws, regulations, contracts and grants applicable to the St. Landry Parish Hospital Service District No. 1 is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We noted certain instances of noncompliance that are included in the accompanying schedule and certain other instances that were reported to the District in a separate letter dated November 20, 1997.

This report is intended for the information of management and the office of the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Easley, Lester & Wells
Certified Public Accountants

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
REPORTABLE NONCOMPLIANCE
MAY 31, 1997

1. Audited Financial Statements

Condition: The District did not submit a copy of audited financial statements within six months of the District's fiscal year end.

Recommendation: Year end reconciliations, reports and adjustments should be completed so that the annual audit can be completed within the six month prescribed period.

Response: All efforts will be made in the future to have an audit completed within six months. Due to lack of staff, all reconciliations are not completed monthly. Attempts will be made to complete them before the audit begins.