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VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish
State of Louisiana

FINANCIAL REPORT

Year Ended December 31, 1998

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 7-14-99

Receipt Acknowledged
Legislative Auditor

By L. Lavigne

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KOLDER, CHAMPAGNE, SLAVEN & RAINEY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA
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234 Rue Beaugard
Lafayette, LA 70508
Phone (318) 232-4141
Fax (318) 232-8660

113 East Bridge Street
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Fax (318) 253-8681

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Fax (504) 384-3020

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Fax (318) 363-3049

332 W. Sixth Avenue
Oberlin, LA 70655
Phone (318) 639-4737
Fax (318) 639-4568

INDEPENDENT AUDITORS' REPORT

Board of Directors
Ville Platte Medical Center, Inc.
Evangeline Parish
Ville Platte, Louisiana

We have audited the accompanying statement of financial position of the Ville Platte Medical Center, Inc., a component unit of Hospital Service District No. 1 of Evangeline Parish, as of December 31, 1998, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ville Platte Medical Center, Inc. as of December 31, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 8, 1999 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Supplemental Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Ville Platte Medical Center, Inc. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The financial information for the preceding year which is included for comparative purposes was taken from the financial report for that year which we expressed an unqualified opinion on the financial statements.

Kolder, Champagne, Slaven & Rainey, LLC
Certified Public Accountants

Ville Platte, Louisiana
March 8, 1999

VILLE PLATTE MEDICAL CENTER, INC.
 Evangeline Parish

Statements of Financial Position
 December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
ASSETS		
Current assets:		
Cash and certificates of deposit	\$ 3,055,641	\$ 3,574,427
Accounts receivable, net of allowance for doubtful accounts of \$2,757,986 and \$2,671,187 at December 31, 1998 and 1997, respectively	2,549,690	2,744,834
Other accounts receivable	-	176,890
Inventories	700,695	584,787
Prepaid expenses	<u>213,460</u>	<u>167,232</u>
Total current assets	<u>6,519,486</u>	<u>7,248,170</u>
Property, plant and equipment:		
Buildings and improvements	\$ 2,523,153	\$ 2,164,523
Equipment	2,088,260	1,584,889
Medical records	542,963	542,963
Furniture & fixtures	1,851,949	1,888,286
Land improvements	75,840	75,840
Construction in progress	<u>1,025,559</u>	<u>-</u>
	8,107,724	6,256,501
Less accumulated depreciation	<u>(1,465,929)</u>	<u>(793,920)</u>
	6,641,795	5,462,581
Land	377,223	282,362
Net property, plant and equipment	<u>7,019,018</u>	<u>5,744,943</u>
Deferred finance charges, net of accumulated amortization of \$26,926, and \$15,386 at December 31, 1998 and 1997, respectively	<u>30,771</u>	<u>42,311</u>
Total assets	<u>\$13,569,275</u>	<u>\$13,035,424</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 706,544	\$ 706,701
Accounts payable - trade	377,173	459,694
Accrued wages and related withholdings	397,270	449,449
Accrued compensated absences	312,107	333,139
Deferred revenue	681,725	498,049
Other	<u>15,306</u>	<u>16,318</u>
Total current liabilities	2,490,125	2,463,350
Long-term debt, less current maturities	8,174,922	7,974,620
Net assets:		
Unrestricted	<u>2,904,228</u>	<u>2,597,455</u>
Total liabilities and net assets	<u>\$13,569,275</u>	<u>\$13,035,425</u>

The accompanying notes are an integral part of this statement.

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Statements of Activities
For the Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Unrestricted revenues, grants and other support:		
Net Patient Revenue	\$19,003,716	\$18,737,267
Other revenue	241,520	331,875
Interest income	127,725	151,641
Total revenues, gains and other support	<u>19,372,961</u>	<u>19,220,783</u>
 Expenses:		
Salaries and benefits	8,838,243	8,087,122
Contract services	2,992,929	2,706,069
Medical supplies and drugs	3,293,571	3,041,597
Depreciation and amortization	683,550	611,961
Interest	928,582	1,072,042
Maintenance and utilities	701,216	659,489
Insurance	278,562	184,050
Rents and leases	438,385	381,692
Advertising	35,875	76,557
Other	875,275	532,590
Total expenses	<u>19,066,188</u>	<u>17,353,169</u>
Excess of revenues, gains and other support over expenses	306,773	1,867,614
Contribution for property acquisition	<u>-</u>	<u>7,394</u>
Increase in unrestricted net assets	306,773	1,875,008
Net assets, beginning of year	<u>2,597,455</u>	<u>722,447</u>
Net assets, end of year	<u>\$ 2,904,228</u>	<u>\$ 2,597,455</u>

The accompanying notes are an integral part of this statement.

Ville Platte Medical Center, Inc.
Evangeline Parish

Statements of Cash Flows
For the Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities -		
Excess of revenues over expenses	\$ 306,777	\$ 1,875,008
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	683,550	611,963
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable - trade	195,144	(274,967)
(Increase) decrease in other accounts receivable	176,890	(176,890)
(Increase) decrease in inventory	(115,908)	(124,967)
(Increase) decrease in prepaid expenses	(46,228)	(78,888)
Increase (decrease) in accounts payable	(82,521)	199,146
Increase (decrease) in accrued wages	(73,210)	174,756
Increase (decrease) in deferred revenue	183,676	498,049
Increase (decrease) in other liabilities	(1,012)	(94)
Total adjustments to net income	<u>920,381</u>	<u>828,108</u>
Net cash provided by (used in) operating activities	<u>1,227,158</u>	<u>2,703,116</u>
Cash flows from capital and related financing activities -		
Purchase of equipment	(1,946,089)	(607,732)
Proceeds from long-term borrowing	981,000	-
Principal payments on long-term borrowing	(665,358)	(797,119)
Principal payments on capital lease obligations	(115,497)	(60,186)
Net cash provided by capital and related financing activities	<u>(1,745,944)</u>	<u>(1,465,037)</u>
Net increase in cash and cash equivalents	(518,786)	1,238,079
Cash and cash equivalents, beginning of year	<u>3,574,427</u>	<u>2,336,348</u>
Cash and cash equivalents, end of year	<u>\$ 3,055,641</u>	<u>\$ 3,574,427</u>

The accompanying notes are an integral part of this statement.

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Ville Platte Medical Center, Inc. (the Hospital) was incorporated on June 1, 1995 as a not-for-profit corporation. On August 30, 1996 the Hospital entered into a lease agreement with the Hospital Service District No. 1 of Evangeline Parish to lease the real property together with the buildings, and improvements erected thereon and equipment (the hospital facility) for a period of twenty years. Due to the nature and significance of its relationship with the Hospital Service District No. 1 of Evangeline Parish, the Ville Platte Medical Center, Inc. is considered to be a component unit of the Hospital Service District No. 1 of Evangeline Parish. On September 1, 1996, the Hospital began operations to provide or facilitate an adequate level of quality, affordable acute inpatient services and healthcare to all citizens of the City of Ville Platte and surrounding areas.

B. Method of Accounting

The Hospital uses the accrual method of accounting. Revenue is reported when earned, net of the provision for contractual adjustments based upon each payor's agreement with the Hospital. Expenditures are recorded when incurred. Hospital accounting and reporting procedures also conform to the requirements of the AICPA Audits of Providers of Health Care Services, published by the American Institute of Certified Public Accountants.

C. Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking, money market accounts, and certificates of deposit. Cash and cash equivalents are stated at cost, which approximates market value.

D. Inventory

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

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Notes to Financial Statements (Continued)

E. Property and equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Property and equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the property and equipment.

F. Credit risk

The Hospital provides medical care primarily to Evangeline Parish residents, substantially all of whom are local residents. The Hospital's estimate of collectibility is based upon an evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

G. Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians.

H. Third Party Cost-Based Revenues

Contractual agreements with governmental agencies provide for reimbursement based on a fixed price per patient stay based upon the patient's primary diagnosis for Medicare inpatient services. Medicare and Medicaid outpatients are reimbursed based upon the lesser of reasonable cost (subject to certain limits) or charges to patients. The Medicaid program reimbursement is based upon a fixed price per stay. These reimbursements are subject to audit and retroactive adjustments by each payor.

I. Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code.

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Notes to Financial Statements (Continued)

(2) Accounts Receivable

A summary of accounts receivable is presented below:

	1998	1998
Medicare	\$ 1,528,004	\$ 1,740,286
Medicaid	850,886	763,032
HMO & PPO	1,368,456	1,258,142
Commercial insurance	759,232	911,363
Self pay	710,650	662,103
Workers compensation	72,681	64,762
Other	17,767	16,963
Total accounts receivable	5,307,676	5,416,651
 Estimated uncollectibles	 (2,757,986)	 (2,671,817)
 Accounts receivable, net of allowance	 \$ 2,549,690	 \$ 2,744,834

(3) Long-Term Debt

The following is a summary of the note and capital lease obligations:

	1998	1997
<p>Note payable to First National Bank of Commerce, dated August 29, 1996, for the purchase of accounts receivable, inventory, equipment and working capital with a maturity date of October 1, 2006, monthly payments of \$49,683, which includes principal and interest at 8.25%. Secured by assignment of lease between Ville Platte Medical Center, Inc. and the Hospital Service District #1 of Evangeline Parish pertaining only to the occupancy rights of the hospital and first lien on inventory, furniture, fixtures and equipment.</p>	\$2,555,018	\$3,168,401

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Notes to Financial Statements (Continued)

	1998	1997
Capitalized lease payable to Hospital Service District No. 1 of Evangeline Parish (land, buildings and improvements, and equipment totaling \$5,440,508), payable in monthly installments of \$61,000 to \$67,000 including interest at 4.5% to 5.6% through January, 2015.	5,268,038	5,383,535
Capitalized lease payable to General Electric Company (Nuclear Med Camera), payable in monthly installments of \$2,651 including interest at 10.5% through July, 2002.	117,085	129,385
Note payable to Evangeline Bank & Trust dated September 11, 1998, payable in monthly installments of \$19,500, including interest at 6.99% through September 20, 2003, secured by computer equipment.	941,325	-
Total	8,881,466	8,681,321
Less current portion of long-term debt and current portion of capital lease obligations	706,544	706,701
Total debt reflected as long-term	\$8,174,922	\$7,974,620

The following is a schedule of maturities of long-term debt including interest of \$8,338,104 by year and in aggregate:

December 31.

1999	\$ 1,670,791
2000	1,669,667
2001	1,667,750
2002	1,660,100
2003	1,580,980
2004-2015	8,970,282
Total	\$17,219,570

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Notes to Financial Statements (Continued)

(4) Compensated absences

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. Accrued compensated absences consist of the portion of accumulated vacation not used at year end. The amount accrued was \$312,107 and \$333,138 at December 31, 1998 and 1997, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

(5) Professional Liability Risk

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital 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 ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence. Additional coverage for professional medical malpractice liability was purchased from a commercial insurance company.

(6) Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$43,331 and \$25,553 for the year ended December 31, 1998 and 1997, respectively.

(7) Commitments and Contingencies

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

The Hospital is liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations, as well as retroactive changes in interpretations in applying statutes, regulations and general instructions of those programs. The amount of such adjustment, if any, cannot be determined.

(8) Employee Benefit Plan

The Hospital sponsors a 403(b) Profit Sharing Plan under Section 403(b) of the Internal Revenue Code. All employees who have completed one year of service are eligible to participate in the plan. The Hospital elected to match twenty-five cents for each dollar of employee deferral, with

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Notes to Financial Statements (Continued)

the Hospital's contribution not to exceed 6% of an employee's salary, subject to limitations imposed by the Internal Revenue Service. The Hospital's contribution to the plan totaled \$53,357 and \$56,321 for the year ended December 31, 1998 and 1997, respectively.

(9) Compensation of Board of Directors

The Board of Directors of the Hospital receive no compensation.

(10) Risk Management

Effective October 1, 1997, the Hospital established a self-insurance health plan to account for and finance its uninsured risk of loss for commercial group health insurance. The plan is administered by Benesys, Inc. and the plan year ends on September 30 of each year. Under this plan, the Continental Assurance Company agreed to reimburse the Hospital for specific incurred claims related to any one covered employee or dependent which exceeds the retention by the Hospital which is \$20,000. For the plan year ending September 30, 1999, the Continental Assurance Company will reimburse the Hospital for aggregate incurred claims during the period of insurance less any amounts paid in respect to the specific incurred claims, which exceeds the greater of \$753,207 or the total of monthly payments by the Hospital. Monthly payments are calculated based on the number of employees with single coverage multiplied by a funding factor of \$162 and the number of employees with family coverage multiplied by a funding factor of \$412.

Reconciliation of Claims Liabilities

Unpaid claims, October 1, 1997	\$ -
Insurance claims	181,269
Payments	<u>(70,778)</u>
Unpaid claims, December 31, 1997	110,491
Insurance claims	594,430
Payments	<u>651,824</u>
Unpaid claims, December 31, 1998	<u>\$ 53,097</u>

VILLE PLATTE MEDICAL CENTER, INC.
Evangeline Parish

Notes to Financial Statements (Continued)

Claims payable of \$53,097 at December 31, 1998 was determined as follows:

A. Claims incurred prior to December 31, 1998 and paid subsequently:

<u>Paid as of</u>	<u>Amount</u>
January 31, 1999	\$26,635
February 28, 1999	17,072

B. Claims incurred prior to December 31, 1998 and pending at February 28, 1999

9,390

Total unpaid claims at December 31, 1998

\$53,097

(11) Year 2000 Compliance (Unaudited)

Time and space saving programming decisions made in prior years resulted in two-digit computer codes that may not correctly recognize "00" as the year 2000. Serious processing error or system failure could result. To prevent this error, computer systems and equipment must be reprogrammed or replaced to make them year 2000 compliant.

The hospital is significantly dependent on computerized systems for essential operations and to provide service to patients. The Ville Platte Medical Center, Inc. is currently installing new computer programs and equipment for all areas of computer usage. The hospital is prepared to spend approximately \$1,300,000 on this project, of which \$960,700 has been incurred as of December 31, 1998. The new system, which is considered a "year 2000" compliant system, should be in full operation by July of 1999.

SUPPLEMENTAL INFORMATION

SCHEDULE

Ville Platte Medical Center, Inc.
 Evangeline Parish

Schedule of Patient Statistics
 For the Year Ended December 31, 1998

Number of Beds -	
Adult & pediatrics	10
Intensive care unit	6
Nursery	8
Psychiatric	10
Bed days available -	
Adult & pediatrics	40,150
Intensive care unit	2,190
Nursery	2,920
Psychiatric	3,650
Patient days -	
Total adult & pediatrics	11,149
Total swing beds	2,543
Total intensive care unit	1,353
Total nursery	653
Total psychiatric	2,008
Medicare adult & pediatrics	1,509
Medicare swing beds	2,454
Medicare intensive care unit	945
Medicare psychiatric	1,977
Medicaid adult & pediatrics	3,264
Medicaid intensive care unit	306
Medicaid nursery	590
Percentage occupancy -	
Adult & pediatrics	40.3%
Intensive care unit	62.0%
Nursery	22.0%
Psychiatric	55.0%
Discharges -	
Adult & pediatrics	3,725
Intensive care unit	113

**INTERNAL CONTROL, COMPLIANCE
AND OTHER INFORMATION**

KOLDER, CHAMPAGNE, SLAVEN & RAINEY, LLC

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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 Directors
Ville Platte Medical Center, Inc.
Ville Platte, Louisiana

We have audited the component unit financial statements of Ville Platte Medical Center, Inc. as of and for the year ended December 31, 1998 and have issued our report thereon dated March 8, 1999. 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 the Hospital'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 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 the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Kolder, Champagne, Slaven & Rainey, LLC
Certified Public Accountants

Ville Platte, Louisiana
March 8, 1999

VILLE PLATTE MEDICAL CENTER, INC.

Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 1998

There were no prior year audit findings.

VILLE PLATTE MEDICAL CENTER, INC.

Corrective Action Plan for Current Year Audit Findings
For the Year Ended December 31, 1998

There were no current year audit findings noted.