

5372

RECEIVED
LEGISLATIVE AUDITOR
04 JUN 04

NEW ORLEANS MEDICAL COMPLEX, INC.
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 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 9-15-04

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	17
SCHEDULE OF PRIOR YEAR FINDINGS	19



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Michael B. Bruno, CPA
Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New Orleans Medical Complex, Inc.

We have audited the accompanying statement of financial position of the **New Orleans Medical Complex, Inc. (the Complex)** as of December 31, 2003, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of **the Complex's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 the **New Orleans Medical Complex, Inc.** as of December 31, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
New Orleans Medical Complex, Inc.
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated April 16, 2004 on our consideration of **the Complex's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

April 16, 2004

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2003

<u>Assets</u>	
Cash	\$ 58,674
Accounts receivable	28,080
Prepaid expenses	6,161
Property and equipment, net of accumulated depreciation (NOTES 1 and 5)	15,363,640
Restricted cash and cash equivalents (NOTE 8)	<u>123,172</u>
Total assets	<u>\$15,579,727</u>
 <u>Liabilities</u>	
Accounts payable	\$ 9,328
Deferred revenues (NOTE 9)	<u>14,496,409</u>
Total liabilities	<u>14,505,737</u>
 Unrestricted net assets	 <u>1,073,990</u>
Total liabilities and net assets	<u>\$15,579,727</u>

See Accompanying Notes to the Financial Statements.

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Support and Revenue:	
Memberships	\$ 216,000
Rental income - Thermal Project	536,368
Rental income - other (NOTE 2)	47,160
Interest on restricted deposits (NOTE 8)	558
Interest on deposits	569
Other revenue	<u>27,496</u>
Total support and revenue	<u>828,151</u>
Expenses:	
Program services	596,026
Supporting services	<u>136,071</u>
Total expenses	<u>732,097</u>
Change in net assets	<u>96,054</u>
Unrestricted net assets, beginning of year, as previously reported	937,936
Prior period adjustment (NOTE 10)	<u>40,000</u>
Unrestricted net assets, beginning of year, as restated	<u>977,936</u>
Unrestricted net assets, end of year	<u>\$1,073,990</u>

See Accompanying Notes to the Financial Statements.

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Program</u> <u>Services</u>	<u>Supporting</u> <u>Services</u>	<u>Total</u>
Salaries, fringe benefits and payroll taxes	\$ -0-	\$ 32,740	\$ 32,740
Telephone	4,318	480	4,798
Professional fees	60,635	78,851	139,486
Affiliate expense (NOTE 3)	-0-	6,100	6,100
Dues and subscriptions	-0-	1,580	1,580
Meeting expense	146	-0-	146
Postage	-0-	221	221
Office expense	-0-	1,170	1,170
Insurance	-0-	7,941	7,941
Miscellaneous expenses	-0-	1,406	1,406
Equipment rent and maintenance	<u>-0-</u>	<u>1,788</u>	<u>1,788</u>
Total expenses before depreciation	65,099	132,277	197,376
Depreciation	<u>530,927</u>	<u>3,794</u>	<u>534,721</u>
Total expenses	<u>\$596,026</u>	<u>\$136,071</u>	<u>\$732,097</u>

See Accompanying Notes to the Financial Statements.

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

Cash Flows from Operating Activities:	
Change in net assets	\$ 96,054
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	534,721
Prior period adjustment	40,000
(Increase) decrease in operating assets:	
Accounts receivable	(21,360)
Prepaid expenses	1,238
Restricted cash and cash equivalents	(58)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(63,095)
Deferred revenues	<u>(554,369)</u>
Net cash provided by operating activities	<u>33,131</u>
 Cash Flows from Investing Activities:	
Purchase of equipment	<u>(1,038)</u>
Net cash used in investing activities	<u>(1,038)</u>
 Net increase in cash	32,093
 Cash, beginning of year	<u>26,581</u>
 Cash, end of year	\$ <u><u>58,674</u></u>

See Accompanying Notes to the Financial Statements.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Organization

The **New Orleans Medical Complex, Inc. (the Complex)** was organized in Louisiana in 1991 as a nonprofit corporation for the purpose of the *enhancement of the image of, and the development of a regional medical center* located for the most part in downtown New Orleans, Louisiana. The objectives of **the Complex** will be achieved through internal means, resources raised from the community at large and attending periodic public hearings, City Council meetings, State Legislative Committee Meetings, and other meetings to gain approval of requested funding.

Basis of Accounting

The financial statements of **the Complex** have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

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, **the Complex** is required to report information regarding its financial position and activities according to three classes of net assets: *unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets*. As of December 31, 2003, **the Complex** had no temporarily or permanently restricted net assets.

Property and Equipment

Property and equipment are stated at cost. Additions, renewals, and betterments that add materially to productive capacity or extend the life of an asset are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Property and Equipment, Continued

Upon retirement or disposal of an asset, the asset and accumulated depreciation accounts are adjusted accordingly. Any resulting gain or loss is included in the statement of activities.

Depreciation of the property and equipment is provided over the estimated useful lives of the assets (three to thirty years) on a straight-line basis.

Income Taxes

No provision is made for income taxes, as **the Complex** is exempt from income tax as a not-for-profit organization operated under Code Section 501(c)(3) of the Internal Revenue Code of 1986.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Statement of Cash Flows

For the purpose of the statement of cash flows, **the Complex** considers all highly liquid instruments purchased with maturities of three months or less to be cash equivalents.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Summary of Significant Accounting Policies, Continued:

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 disclosures 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.

Contributions and Grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants from private and governmental agencies are recorded when **the Complex** is entitled to the funds.

Deferred Revenues

The Complex reports as deferred revenue grants and membership dues received earlier than the time for revenue recognition.

Also, deferred revenue is recognized for the prepayment of base rent obligations of Entergy Thermal relating to leases with **the Complex**. (See NOTE 7).

Donated Services

The value of donated services is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Operating Leases - Lessor:

The Complex leases a portion of its land for parking spaces under a memorandum of understanding. The terms of the lease are for a period of twelve months effective September 1, 2001 with a monthly rental of \$1,680. The agreement has been renewed annually through the end of 2003 fiscal year. At December 31, 2003, for this lease rental income was \$20,160.

The Complex subleases office space to a tenant for a five (5) year term ending September 30, 2005 for an annual rental amount of \$12,000. During the December 31, 2003 fiscal year, **the Complex** received, for this sublease, \$15,000 in rents for the period October 1, 2001 through December 31, 2002. The \$15,000 in rents have been recognized in rental income - other at December 31, 2003.

Minimum future rentals to be received on the non-cancelable office space sublease as of December 31, 2003 for each of the next two (2) years and in the aggregate are:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2004	\$12,000
2005	<u>9,000</u>
Total minimum future rentals	<u>\$21,000</u>

NOTE 3 - Affiliate Expense:

In November 2002, Clinical Research Organization of New Orleans (CRONO), a related organization, discontinued operations and immediately was placed in liquidation. **The Complex** agreed to cover remaining liabilities of CRONO that were not satisfied by CRONO after liquidation.

During the December 31, 2003 fiscal year, **the Complex** incurred \$6,100 in expense for the payment of CRONO liabilities.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - Fair Values of Financial Instruments:

The fair values of financial instruments have been determined utilizing available market information and appropriate valuation methodologies. **The Complex** considers the carrying amounts of cash and cash equivalents to approximate fair value.

NOTE 5 - Property and Equipment:

Property and equipment are stated at cost as follows:

Land	\$ 920,261
Furniture and equipment	57,855
Parking garage	16,036,441
Less: accumulated depreciation	<u>(1,650,917)</u>
Net property and equipment	<u>\$15,363,640</u>

In 1995, land was purchased through a cooperative endeavor agreement whereby the State of Louisiana provided the funding through the sale of general obligations bonds. **The Complex** may not transfer, convey, sell or assign its ownership rights in the land while any of the bonds are outstanding. In the event the property is no longer used for the purpose for which the project was authorized, full ownership of the property shall revert to the State.

NOTE 6 - Thermal Facility:

Entergy Thermal, a division of Entergy Business Solutions, Inc., is constructing and developing, and will operate and provide a district energy system of thermal services. The district energy system is a system that produces and distributes centralized chilled water, hot water and steam to buildings or other facilities located in **the Complex** area.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Thermal Facility, Continued:

The Complex has constructed a building that is a parking facility and space for the installation of the thermal services facility. The building's land is leased from the Board of Supervisors of Louisiana State University and Agricultural and Medical College (Board of Supervisors). **The Complex** leases a portion of the building facility to Louisiana State University Medical Center (LSUMC) and subleases space to Entergy Thermal for the operation and production of centralized thermal services.

Entergy Thermal will lease, operate and modernize the Charity and LSU central plants through the construction of improvements to make them part of the district energy system.

NOTE 7 - District Energy Project Leases:

Leases relating to the development and improvements of physical plants and the construction of parking facilities within **the Complex** are as follows:

Ground Lease

Effective as of November 1, 1998, **the Complex** entered into an agreement to lease land from the Board of Supervisors for an initial term ending September 30, 2020, with two (2) options for additional periods of five (5) years each. Rent under the ground lease is \$40,000 per year adjusted every five (5) years for inflation. On this land, **the Complex** completed the construction of a building containing a parking garage. During the term of the ground lease, title for the building will vest with **the Complex**. For the two (2) annual lease periods ending September 30, 2004 and 2003, Entergy Thermal will pay the required lease payments as agreed to with the Board of Supervisors.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 7 - District Energy Project Leases, Continued:

Reciprocal Lease

The Complex leases to the Board of Supervisors that portion of the constructed building containing the parking garage for an initial term ending September 30, 2020 with two (2) options for additional periods of five (5) years each. **The Complex** leases from the Board of Supervisors the Central Plants of LSU and Charity for a like term. Rent will not be received by or paid to the portion of the reciprocal lease agreement.

Instead, consideration to be received by the parties will be the right of occupancy in and to the property of the other party and obligations of each party to the other for the maintenance and rehabilitation of the occupied premises. The parking garage lease would commence basically upon full completion of the garage.

Thermal Facility Lease

The Complex leases to Energy Thermal for like terms of the reciprocal lease.

Central Plants Sublease

The Complex leases to Energy Thermal for like terms of the reciprocal lease.

Addendums to the central plant and the thermal facility leases permitted Energy Thermal to prepay certain base rent obligations under the leases. Rental income is reported in the financial statements of **the Complex** on a straight-line basis of the total prepayment amount over the estimated thirty (30) year term of the related lease.

As provided by the above District Energy Project leases, **the Complex** has and will incur expenses relating to the building that will house the parking garage and the thermal facility, such as taxes, insurance, utilities, repairs and maintenance.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 8 - Restricted Cash and Cash Equivalents:

Cash and cash equivalents, held in restricted escrow accounts, can only be withdrawn (disbursed) for the purposes of developing and constructing a centralized thermal facility, paying **the Complex's** costs associated with operating the building containing the parking garage and the thermal facility, and constructing a parking garage in accordance with escrow agreements among **the Complex**, Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, and Entergy Thermal. Interest income earned on the escrow accounts can only be disbursed to pay fees and expenses of the escrow agent.

NOTE 9 - Deferred Revenues:

As of December 31, 2003, deferred revenues consisted of the following:

Prepayment of base rent obligations	\$14,481,933
Grant funding	5,476
Prepayment of membership dues	<u>9,000</u>
	<u>\$14,496,409</u>

NOTE 10 - Prior Period Adjustment:

In the December 31, 2002 fiscal year, **the Complex** was made aware that Entergy Thermal would incur the liability to the Board of Supervisors for ground lease payments due for the lease periods October 1, 2002 to September 30, 2003 and October 1, 2003 to September 30, 2004. As such, Entergy Thermal will make ground lease payments directly to the Board of Supervisors.

Since **the Complex** should not have recorded a liability for the ground lease in the amount of \$40,000 for the December 31, 2002 fiscal year, net assets at the beginning of the 2003 fiscal year have been adjusted for this error. Had the error not been made, change in net assets would have been increased by \$40,000.



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Michael B. Bruno, CPA
Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

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

To the Board of Directors of
New Orleans Medical Complex, Inc.

We have audited the statement of financial position of the **New Orleans Medical Complex, Inc. (the Complex)** as of December 31, 2003, and the related statements of activities, functional expenses and cash flows for the year then ended and have issued our report thereon dated April 16, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether **the Complex's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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.

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

(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **the Complex'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 solely for the information and use of the Board of Directors, management and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

**BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS**

April 16, 2004

NEW ORLEANS MEDICAL COMPLEX, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

I. SUMMARY OF AUDITORS' RESULTS

- A. The type of report issued on the financial statements: **unqualified opinion.**

- B. Reportable conditions in internal control were disclosed by the audits of the financial statements: **none reported** material weaknesses: **no.**

- C. Noncompliance which is material to the financial statements: **no.**

- D. Reportable conditions in internal control over major programs: **not applicable** material weaknesses: **not applicable.**

- E. The type of report issued on compliance for major programs: **not applicable.**

- F. Any audit findings which are required to be reported under section 510(a) of OMB Circular A-133: **not applicable.**

- G. Major programs: **not applicable.**

- H. Dollar threshold used to distinguish between Type A and Type B programs: **not applicable.**

- I. Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: **not applicable.**

- J. A management letter was issued: **no.**

NEW ORLEANS MEDICAL COMPLEX, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

**II FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

No matters reported.

**III. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL
AWARDS**

Not applicable.

NEW ORLEANS MEDICAL COMPLEX, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

I. INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO THE FINANCIAL STATEMENTS

No prior year audit findings reported.

II. INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO FEDERAL AWARDS

Not applicable.

III. MANAGEMENT LETTER

No prior year management letter comments reported.