ST. TAMMANY PARISH HOSPITAL

Consolidated Financial Statements and Supplemental Schedules for the Years Ended December 31, 1999 and 1998 and Independent Auditors' Report

ST. TAMMANY PARISH HOSPITAL

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

We have audited the accompanying consolidated financial statements of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) as of December 31, 1999 and 1998 and for the years then ended, listed in the foregoing table of contents. These financial statements are the responsibility of St. Tammany Parish Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of St. Tammany Parish Hospital as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements for the years ended December 31, 1999 and 1998 taken as a whole. The supplemental schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements of St. Tammany Parish Hospital. These schedules are the responsibility of St. Tammany Parish Hospital's management. The supplemental schedules on pages 13 through 17 have been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole. The supplemental schedule on page 18 has not been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2000 on our consideration of St. Tammany Parish Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. 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.

Deloitte + Touche LLP

April 17, 2000

Deloitte Touche
Tohmatsu

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

ASSETS	1999	1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 517	$ 1,481
Investments	15,578	20,540
Assets whose use is limited and required for current liabilities	525	718
Patient accounts receivable	28,919	20,323
Less allowance for doubtful accounts	(7,322)	(5,313)
Net patient accounts receivable	21,597	15,010
Inventories	1,598	1,445
Prepaid expenses and other receivables	1,358	1,565
Total current assets	41,173	40,759
ASSETS WHOSE USE IS LIMITED:		
Under Bond indenture held by trustee for construction	42,766	45,689
Under bond ordinances - held by trustee	4,165	4,189
By board for capital improvements:		
Facility enhancements	5,895	2,911
Routine replacements	3,000	2,000
By board for professional and other liability claims	575	575
Total assets whose use is limited	56,401	55,364
Less assets whose use is limited and required for current liabilities	(525)	(718)
Total noncurrent assets whose use is limited	55,876	54,646
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	3,088	2,703
Buildings	30,995	30,455
Equipment	32,750	30,477
Construction in progress	9,615	1,470
Less accumulated depreciation and amortization	(32,637)	(29,275)
Net property, plant and equipment	43,811	35,830
OTHER ASSETS	1,285	1,345
TOTAL	$ 142,145	$ 132,580

See notes to consolidated financial statements.

LIABILITIES AND FUND BALANCE	1999	1998
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 5,750	$ 3,815
Accrued employee compensation	3,258	2,079
Accrued vacation	1,260	994
Settlements due to Medicare and Medicaid intermediaries	3,183	4,291
Amounts due within one year on long term debt	1,082	1,789
Amounts due within one year on capital lease obligations	374	356
Total current liabilities	14,907	13,324
ACCRUED PROFESSIONAL LIABILITY CLAIMS	834	598
LONG-TERM DEBT, less unamortized issuance discount (1999 - $357; 1998 - $374) and unamortized loss on advance refunding (1999 - $1,814; 1998 - $1,925), and amounts due within one year	60,013	60,967
CAPITAL LEASE OBLIGATIONS, less amounts due within one year	204	579
FUND BALANCE	66,187	57,112
TOTAL	$ 142,145	$ 132,580

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

	1999	1998
REVENUE:		
Net patient service revenue	$ 92,746	$ 76,900
Other revenue	2,550	3,542
Total revenue	95,296	80,442
EXPENSES:		
Salaries, wages and benefits	44,914	36,442
Supplies and other	23,585	19,044
Provision for bad debts	6,245	4,972
Professional and contractual services	6,495	6,588
Depreciation and amortization	4,044	4,040
Interest	938	912
Total expenses	86,221	71,998
REVENUE IN EXCESS OF EXPENSES	9,075	8,444
FUND BALANCE AT BEGINNING OF YEAR	57,112	48,668
FUND BALANCE AT END OF YEAR	$ 66,187	$ 57,112

See notes to consolidated financial statements.

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

	1999	1998
OPERATING ACTIVITIES:		
Revenue in excess of expenses	$ 9,075	$ 8,444
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:		
Provision for bad debts	6,245	4,972
Depreciation and amortization	4,044	4,040
Loss on disposal of equipment	16	-
Interest expense	938	912
Interest earned on investments	(1,411)	(1,512)
Changes in operating assets and liabilities:		
Patient accounts receivable	(12,832)	(8,150)
Inventories, prepaid expenses and other receivables	54	(822)
Accounts payable and accrued expenses	1,935	1,010
Accrued employee compensation and vacation	1,445	953
Net settlements due to Medicare and Medicaid intermediaries	(1,108)	(64)
Accrued professional liability claims	236	62
Net cash provided by operating activities	8,637	9,845
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property, plant and equipment	(12,041)	(5,505)
Net proceeds from issuance of long-term debt	-	63,277
Early extinguishment of bonds payable	-	(13,613)
Payment of bond issuance cost	-	(1,366)
Principal payments on long-term debt and capital lease obligations	(2,145)	(750)
Interest payments	(751)	(912)
Net cash (used in) provided by capital and related financing activities	(14,937)	41,131
INVESTING ACTIVITIES:		
Net change in assets whose use is limited	(1,037)	(45,458)
Net change in investments	4,962	(9,175)
Interest earned on investments	1,411	1,512
Net cash provided by (used in) investing activities	5,336	(53,121)
DECREASE IN CASH	(964)	(2,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,481	3,626
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 517	$ 1,481

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

St. Tammany Parish Hospital (the Hospital) is owned and operated by St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (a nonprofit corporation organized by the St. Tammany Parish Police Jury under provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950). The Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. The governing authority of St. Tammany Parish Hospital Service District No. 1 (the District) is the St. Tammany Parish Hospital Board of Commissioners. The Police Jury appoints members of the Hospital Board of Commissioners.

The consolidated financial statements include the Hospital, St. Tammany Medical Services (STMS) and St. Tammany Physician Network (STPN). STMS and STPN are corporations which are wholly owned by the Hospital. STMS and STPN are not, however, exempt from federal taxation. No income taxes were paid or owed for the years ended December 31, 1999 and 1998 by STMS or STPN. All material intercompany accounts and transactions have been eliminated upon consolidation.

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.

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

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), excluding those issued after November 30, 1989.

Effective January 1, 1998, the Hospital adopted the provisions of the Governmental Accounting Standards Board Statement (GASBS) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASBS No. 31 requires that all investments be reported at fair value with gains and losses included in the statements of revenues and expenses. The effect of adopting this statement for the year ended December 31, 1998 was not material to the financial statements.

Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Hospital provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances.

Inpatient acute care services and defined capital costs related to Medicare program 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 non-acute services and certain outpatient services rendered to Medicare beneficiaries are reimbursed on a cost basis subject to certain limits. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per diem; reimbursement for outpatient services rendered to Medicaid program beneficiaries are reimbursed on a cost basis subject to certain limits. Retroactive cost settlements based upon annual cost reports are estimated and included in net patient service revenue. Final determination of amounts to be received under cost reimbursement regulations is subject to review by program representatives. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or determinable.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides to all of its qualifying patients. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The Hospital provided charity care of $1,996,000 and $992,000 for the years ended December 31, 1999 and 1998, respectively, based upon charges foregone using established rates.

Cash and cash equivalents include investments in highly liquid debt instruments and money market accounts with an original maturity of three months or less when purchased and exclude amounts whose use is limited by board designation or under bond ordinances.

Investments include investments in U.S. Government and federal agency securities with an original maturity of greater than three months and are stated at fair market value which approximates cost or amortized cost.

Inventories are valued at the most recent invoice price. This method approximates the lower of cost (first-in, first-out method) or market.

The Hospital records all property, plant and equipment acquisitions at cost and provides for depreciation using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives. Assets held under capital lease obligations are recorded at the present value of the minimum lease payments and are included in equipment. Amortization of leased assets is included in depreciation and amortization expense.

Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Hospital capitalized net interest costs of $785,000 and $356,000 for the years ended December 31, 1999 and 1998.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits - Louisiana Statutes require that all of the Hospital's deposits be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. As of December 31, 1999 all of the Hospital's bank balances of deposit (including cash, money market accounts and certificates of deposit), were entirely insured or collateralized by investments held by the Hospital's third-party agent in the Hospital's name.

Investments - The Hospital may invest idle funds as authorized by Louisiana Statutes, as follows:

(a) Direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States.

(b) United States government agency obligations, the principal and interest of which are fully guaranteed by the government of the United States, or United States government obligations, the principal and interest of which are guaranteed by any United States government agency.

(c) Direct security repurchase agreements of any federal book entry only securities enumerated in paragraphs (a) and (b).

(d) Time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the state of Louisiana.

(e) Mutual or trust funds, which are registered with the Securities and Exchange Commission under the Security Act of 1933 and the Investment Act of 1940 and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

The Hospital's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Hospital's name.

Balances at December 31, 1999 were as follows (in thousands):

Securities Type	Credit Risk Category 1	Credit Risk Category 2	Credit Risk Category 3	Carrying Amount
U. S. government	$ -	$44,571	$ -	$44,571
Federal agency	24,032	-	-	24,032
Certificates of deposit	1,016	-	-	1,016
Cash and cash equivalents		2,360	-	2,360
Total investments	$25,048	$46,931	$ -	$71,979

3. HEALTH INSURANCE PROGRAM REIMBURSEMENT

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 1999 and 1998, approximately 29.1% and 36.5%, respectively, of the Hospital's net patient service charges were furnished to Medicare and Medicaid program beneficiaries. Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the Department of Health and Hospitals of the State of Louisiana before settlement amounts become final. Estimated settlements for Medicare through December 31, 1997 have been reviewed by program representatives. Medicaid program representatives have reviewed estimated Medicaid settlements through June 30, 1992 and for the years ended June 30, 1994, June 30, 1995 and December 31, 1996. Net patient service revenue for the year ended December 31, 1998 has been increased by $646,000, to reflect the favorable appeal of the skilled nursing facility's routine service cost limits for the 1994-1997 Medicare cost reports. Additionally, as a result of information related to other Medicare and Medicaid contractual arrangements, the Hospital recorded changes in estimates and increased net patient service revenue for the years ended December 31, 1999 and 1998 by $1,539,000 and $898,000, respectively. With respect to the settlements for years subsequent to those reviewed by program representatives, management does not anticipate any adjustments by program representatives that would have a material impact on the recorded Medicare and Medicaid settlements.

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The details of investments and assets whose use is limited at December 31, 1999 and 1998 are as follows:

	1999	1998
	(In thousands)	
Investments:		
Federal agency securities	$ 15,137	$ 20,540
Certificates of deposit	441	-
	15,578	20,540
Assets whose use is limited:		
For capital improvements:		
Federal agency securities	8,895	4,911
For professional and other liability claims:		
Certificates of deposit	575	575
Debt service and construction funds:		
U.S. government securities	44,571	49,878
Cash	2,360	-
	46,931	49,878
Total investments and assets whose use is limited	$ 71,979	$ 75,904

In connection with the issuance of the Series 1998 Hospital Revenue and Refunding Bonds, the Hospital established a Debt Service Fund for the purpose of making payments of principal and interest on the bonds if funds available for payment of principal and interest were insufficient. The funds held by the Trustee in this account are subject to a prior lien in favor of the owners of the bonds. A Construction Fund was also established in connection with the issuance in which funds are held by the Trustee for the financing of capital improvements.

The Hospital is required to maintain a $100,000 certificate of deposit held by the Workers Compensation Fund as collateral against its self-insured portion of workers compensation claims. This investment is recorded in assets whose use is limited for professional and other liability claims.

Also included in assets whose use is limited for professional and other liability claims is a $125,000 certificate of deposit held by the State Treasurer's Office on behalf of the Louisiana Patients' Compensation Fund. The Hospital is required to maintain this investment as collateral against its self-insured portion of professional liability claims.

5. LONG-TERM DEBT

The details and balances of long-term debt at December 31, 1999 and 1998 are presented below:

	1999	1998
	(In thousands)	
Hospital Revenue and Refunding Bonds, Series 1998, net of unamortized original issue discount of $357,000 and $374,000 at December 31, 1999 and 1998, respectively	$ 62,828	$ 64,571
Certificate of Indebtedness, Series 1992, 8.0%, 120 monthly installments of $3,094 including interest ($31,000 due in fiscal year 2000)	81	110
	62,909	64,681
Less amounts due within one year	(1,082)	(1,789)
Unamortized loss on advance refunding	(1,814)	(1,925)
	$ 60,013	$ 60,967

The combined aggregate amount of maturities for all long-term debt for each of the next five years ending December 31 are as follows (in thousands): 2000 - $1,082; 2001 - $1,134; 2002 - $1,165; 2003 - $1,195; 2004 - $1,245 and thereafter - $57,445.

Hospital Revenue and Refunding Bonds, Series 1998 - On October 1, 1998, the Hospital issued $64,945,000 of tax-exempt Hospital Revenue and Refunding Bonds, Series 1998 (the bonds) comprised of $25,840,000 of serial bonds and $39,105,000 of term bonds with a final maturity of July 1, 2028. These bonds have stated interest rates ranging from 4.25% to 5.00% and are secured by a pledge of the Hospital's revenues. The bonds were issued at a discount of $379,000 and the discount is being amortized over the life of the bonds using the interest method. In connection with the issuance of the bonds, the Hospital is required to maintain a debt service coverage ratio (as defined by the Trust Indenture) of 110%. The bonds maturing on or after July 1, 2009 are subject to optional redemption prior to maturity at the option of the District on or after July 1, 2008, as a whole or in part at anytime. The 1998 bonds were issued to advance refund the outstanding 1992 series bonds and to finance the acquisition and construction of improvements, renovations and extensions to the Hospital. The bond proceeds were utilized as follows:

Escrow fund - 1992 series bonds	$14,721,698
Construction fund	45,288,072
Debt service reserve fund	3,189,864
Cost of issuance	1,366,291
Original issue discount	379,075
	$64,945,000

The escrow funds for the 1992 bonds were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds mature or until the optional redemption date of July 1, 2002. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the Hospital's balance sheet. At December 31, 1999, 1992 refunded bonds outstanding were $13,612,500.

Certificate of Indebtedness, Series 1992 - During 1992, the Hospital issued a Certificate of Indebtedness in the amount of $255,000 to acquire land for the purpose of future Hospital expansion. The certificate is secured by and payable solely from a pledge of excess annual revenue of the Hospital.

Hospital Revenue Bonds, Series 1992 - In December 1992, the Hospital issued $14,755,000 of tax exempt Hospital Revenue Bonds. In October 1998, these bonds were advance refunded in conjunction with the issuance of the 1998 bonds as described above. As a result of this advance refunding of debt, the Hospital recorded a deferred loss on advance refunding of debt of $1,925,000 during 1998. This deferral is being amortized over 24 years (the remaining life of the 1992 bonds) using the effective-interest method.

6. CAPITAL AND OPERATING LEASES

Future minimum lease payments by year at December 31, 1999 under all capital lease obligations are as follows for the years ending December 31 (in thousands):

2000	$ 377
2001	227
	604
Less imputed interest (interest rates range from 5.1% to 5.7%)	(26)
Present value of future lease obligations	578
Less amounts due within one year	(374)
Long-term portion of capital lease obligations	$ 204

Leased assets included in equipment totaled $1,979,000 at December 31, 1999. Accumulated amortization was $1,421,000 at December 31, 1999. The leased equipment collateralizes the capital lease obligations.

Total rental expense incurred for all operating leases was $772,000 and $427,000 for the years ended December 31, 1999 and 1998, respectively.

7. EMPLOYEE BENEFIT PLANS

The Hospital has a noncontributory defined contribution plan (Plan) that covers substantially all of its employees. The Plan allows for employees age 21 or older with one year of service (defined as 1,000 hours of service in any one year) to participate. The Plan Agreement requires contributions to the Plan equal to 6% of the aggregate compensation of all participants. Participating employees with five or more years of service become 100% vested in their account balance. Employees terminating their employment prior to five years forfeit their account balance.

Total payroll and covered payroll for all Hospital employees during the year ended December 31, 1999 totaled $36,247,000 and $24,639,000, respectively. Contributions during 1999 required by the Plan document were $1,584,000, which represents approximately 6% of covered payroll. Required contributions paid by the Hospital were $1,520,000 during the year ended December 31, 1999.

Pension expense included in salaries, wages and benefits related to the Plan described above approximates $1,574,000 and $1,116,000 for the years ended December 31, 1999 and 1998, respectively.

8. *PROFESSIONAL LIABILITY INSURANCE*

The Hospital participates in the Louisiana Patients' Compensation Fund for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of $500,000, plus interest and costs. The Fund provides coverage on an occurrence basis for claims over $100,000 and up to $500,000. The Hospital is self-insured for costs up to $100,000 per claim.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. It is the opinion of management that estimated malpractice costs resulting from pending or threatened litigation are adequately accrued at December 31, 1999. Losses from asserted claims and from unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience as well as other considerations including the nature of each claim or incident and relevant trend factors. Additional claims may be asserted against the Hospital arising from service provided to patients through December 31, 1999 that have not been identified under the incident reporting system. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims; however, management believes it has adequately provided for them.

9. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 1999 and 1998 was as follows:

	1999	1998
Medicare	24 %	24 %
Medicaid	5	8
Insurance/managed care	57	53
Patients	5	6
Other	9	9
	100 %	100 %

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ST. TAMMANY PARISH HOSPITAL

SUPPLEMENTAL SCHEDULE - CONSOLIDATED DEPARTMENTAL CHARGES AND EXPENSES
YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

	1999				1998			
	Charges	Direct Expenses	Charges Over (Under) Direct Expenses	Gross Margin	Charges	Direct Expenses	Charges Over (Under) Direct Expenses	Gross Margin
ROUTINE SERVICES:								
Medical and surgical	$ 12,123	$ 5,488	$ 6,635	54.73 %	$ 10,027	$ 4,619	$ 5,408	53.93 %
Intensive and coronary care	3,713	1,740	1,973	53.14 %	3,246	1,523	1,723	53.08 %
Neonatal intensive care	1,664	736	928	55.77 %	1,591	822	769	48.33 %
Nursery	566	125	441	77.92 %	520	102	418	80.38 %
Nursing administration	-	757	(757)	- %	-	705	(705)	- %
Skilled nursing facility	1,323	1,121	202	15.27 %	1,202	1,040	162	13.48 %
	19,389	9,967	9,422	48.59 %	16,586	8,811	7,775	46.88 %
ANCILLARY SERVICES:								
Ambulatory surgery	6,152	2,102	4,050	65.83 %	4,574	1,562	3,012	65.85 %
Anesthesiology	6,531	1,708	4,823	73.85 %	5,419	1,495	3,924	72.41 %
Cardiac catheter lab	16,250	3,408	12,842	79.03 %	12,818	2,816	10,002	78.03 %
Cardiology	5,331	1,389	3,942	73.94 %	4,471	1,232	3,239	72.44 %
Central supply services	11,185	980	10,205	91.24 %	11,028	823	10,205	92.54 %
Delivery room	2,650	1,658	992	37.43 %	2,516	1,525	991	39.39 %
Emergency room	5,777	2,990	2,787	48.24 %	4,789	2,475	2,314	48.32 %
Endoscopy	6,782	1,111	5,671	83.62 %	5,252	894	4,358	82.98 %
Home support	946	757	189	19.98 %	825	617	208	25.21 %
Hospice	1,930	685	1,245	64.51 %	1,763	615	1,148	65.12 %
Laboratory	17,518	3,343	14,175	80.92 %	14,512	2,700	11,812	81.39 %
Lithotripsy	237	194	43	18.14 %	109	85	24	22.02 %
Magnetic Resonance Imaging	3,570	305	3,265	91.46 %	2,709	1,156	1,553	57.33 %
Nuclear medicine	1,606	404	1,202	74.84 %	1,318	346	972	73.75 %
Occupational health	463	492	(29)	(6.26)%	439	429	10	2.28 %
Occupational therapy	544	208	336	61.76 %	448	173	275	61.38 %
Oncology	-	89	(89)	- %	-	88	(88)	- %
Operating and post anesthesia care	24,524	6,668	17,856	72.81 %	20,506	5,201	15,305	74.64 %
Pharmacy	31,772	4,421	27,351	86.09 %	23,551	3,245	20,306	86.22 %
Physical therapy	2,823	1,014	1,809	64.08 %	2,435	832	1,603	65.83 %
Pulmonary rehab	226	92	134	59.29 %	104	65	39	37.50 %
STPN	4,597	3,744	853	18.56 %	3,254	2,691	563	17.30 %
Radiology	15,790	2,944	12,846	81.36 %	12,861	2,541	10,320	80.24 %
Renal dialysis	343	350	(7)	(2.04)%	300	303	(3)	(1.00)%
Respiratory therapy	8,506	1,112	7,394	86.93 %	7,555	1,011	6,544	86.62 %
Speech therapy	353	141	212	60.06 %	284	97	187	65.85 %
Redi Med	682	503	179	26.25 %	546	489	57	10.44 %
	177,088	42,812	134,276		144,386	35,506	108,880	
	196,477	$ 52,779	143,698		160,972	$ 44,317	116,655	
Charity care	(1,996)		(1,996)		(992)		(992)	
Contractual and other allowances	(101,735)		(101,735)		(83,080)		(83,080)	
Net patient service revenue	$ 92,746				$ 76,900			
Other revenue			2,550				3,542	
			42,517				36,125	
INDIRECT EXPENSES:								
General services			4,558				4,061	
Administrative services			17,657				13,696	
Depreciation and amortization			4,044				4,040	
Interest			938				912	
Provision for bad debts			6,245				4,972	
Revenue in excess of expenses			$ 9,075				$ 8,444	

ST. TAMMANY PARISH HOSPITAL

SUPPLEMENTAL SCHEDULE - CONSOLIDATED PATIENT SERVICE CHARGES
YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

	1999			1998		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
ROUTINE SERVICES:						
Medical and surgical	$ 10,614	$ 1,509	$ 12,123	$ 8,717	$ 1,310	$ 10,027
Intensive and coronary care	3,704	9	3,713	3,237	9	3,246
Neonatal intensive care	1,664	-	1,664	1,591	-	1,591
Nursery	565	1	566	520	-	520
Skilled nursing facility	1,323	-	1,323	1,202	-	1,202
	$ 17,870	$ 1,519	$ 19,389	$ 15,267	$ 1,319	$ 16,586
ANCILLARY SERVICES:						
Ambulatory surgery	$ 22	$ 6,130	6,152	$ 6	$ 4,568	$ 4,574
Anesthesiology	3,329	3,202	6,531	2,702	2,717	5,419
Cardiac catheter lab	10,538	5,712	16,250	9,070	3,748	12,818
Cardiology	2,185	3,146	5,331	1,845	2,626	4,471
Central supply services	8,981	2,204	11,185	9,044	1,984	11,028
Delivery room	2,388	262	2,650	2,223	293	2,516
Emergency room	1,217	4,560	5,777	1,135	3,654	4,789
Endoscopy	1,140	5,642	6,782	974	4,278	5,252
Home support	-	946	946	-	825	825
Hospice	-	1,930	1,930	-	1,763	1,763
Laboratory	8,501	9,017	17,518	7,422	7,090	14,512
Lithotripsy	8	229	237	4	105	109
Magnetic Resonance Imaging	457	3,113	3,570	334	2,375	2,709
Nuclear medicine	554	1,052	1,606	384	934	1,318
Occupational health	-	463	463	-	439	439
Occupational therapy	190	354	544	154	294	448
Operating and post anesthesia care	14,056	10,468	24,524	12,519	7,987	20,506
Pharmacy	25,365	6,407	31,772	18,836	4,715	23,551
Physical therapy	1,559	1,264	2,823	1,414	1,021	2,435
Pulmonary Rehab	58	168	226	19	85	104
STPN	-	4,597	4,597	-	3,254	3,254
Radiology	3,755	12,035	15,790	3,223	9,638	12,861
Renal dialysis	336	7	343	295	5	300
Respiratory therapy	7,626	880	8,506	6,927	628	7,555
Speech therapy	111	242	353	97	187	284
Redi Med	-	682	682	-	546	546
	$ 92,376	$ 84,712	$ 177,088	$ 78,627	$ 65,759	$ 144,386

ST. TAMMANY PARISH HOSPITAL

SUPPLEMENTAL SCHEDULE - CONSOLIDATED OTHER REVENUE AND CONTRACTUAL AND OTHER ALLOWANCES
YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

	1999	1998
OTHER REVENUE:		
Interest earned on investments	$ 1,411	$ 1,512
Cafeteria	293	234
Vending machines	90	81
Special meals	54	64
Nutritional counseling	98	104
Rental income	190	130
Miscellaneous	170	119
Capitated premium revenue	9	1,047
Donations	29	31
Loss on sale	(16)	-
Rebates	180	135
Community education	42	85
	$ 2,550	$ 3,542
CONTRACTUAL AND OTHER ALLOWANCES:		
Medicare contractual allowances	$ 36,460	$ 31,033
Medicaid contractual allowances	9,356	11,797
Other allowances	55,919	40,250
	$ 101,735	$ 83,080

ST. TAMMANY PARISH HOSPITAL

SUPPLEMENTAL SCHEDULE - CONSOLIDATED DEPARTMENTAL EXPENSES
YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

	1999				1998				Departmental Expenses to Total Expenses	
	Salaries, Wages and Benefits	Professional and Contractual Services	Supplies and Other Expenses	Total	Salaries, Wages and Benefits	Professional and Contractual Services	Supplies and Other Expenses	Total	1999	1998
ROUTINE SERVICES:										
Medical and surgical	$ 5,003	$ 285	$ 200	$ 5,488	$ 4,030	$ 451	$ 138	$ 4,619	6.37 %	6.42 %
Intensive and coronary care	1,522	131	87	1,740	1,205	231	87	1,523	2.02 %	2.12 %
Neonatal intensive care	636	36	64	736	649	89	84	822	0.85 %	1.14 %
Nursery	97	2	26	125	75	4	23	102	0.14 %	0.14 %
Nursing administration	686	6	65	757	630	4	71	705	0.88 %	0.98 %
Skilled nursing facility	989	86	46	1,121	860	146	34	1,040	1.30 %	1.44 %
	$ 8,933	$ 546	$ 488	$ 9,967	$ 7,449	$ 925	$ 437	$ 8,811	11.56 %	12.24 %
ANCILLARY SERVICES:										
Ambulatory surgery	$ 1,441	$ 77	$ 584	$ 2,102	$ 1,076	$ 45	$ 441	$ 1,562	2.44 %	2.17 %
Anesthesiology	1,230	127	351	1,708	1,146	107	242	1,495	1.98 %	2.08 %
Cardiac catheter lab	458	25	2,925	3,408	383	25	2,408	2,816	3.95 %	3.91 %
Cardiology	839	409	141	1,389	746	333	153	1,232	1.61 %	1.71 %
Central supply services	-	-	980	980	-	5	818	823	1.14 %	1.14 %
Delivery room	1,405	47	206	1,658	1,280	46	199	1,525	1.92 %	2.12 %
Emergency room	1,338	1,454	198	2,990	1,108	1,211	156	2,475	3.47 %	3.44 %
Endoscopy	737	-	374	1,111	582	-	312	894	1.29 %	1.24 %
Home support	526	109	122	757	432	100	85	617	0.88 %	0.86 %
Hospice	437	11	237	685	426	10	179	615	0.79 %	0.85 %
Laboratory	1,491	447	1,405	3,343	1,250	348	1,102	2,700	3.88 %	3.75 %
Lithotripsy	-	194	-	194	-	85	-	85	0.23 %	0.12 %
Magnetic Resonance Imaging	90	17	198	305	-	1,113	43	1,156	0.35 %	1.61 %
Nuclear medicine	138	-	266	404	114	1	231	346	0.47 %	0.48 %
Occupational health	395	45	52	492	340	44	45	429	0.57 %	0.60 %
Occupational therapy	156	44	8	208	109	53	11	173	0.24 %	0.24 %
Oncology	78	-	11	89	71	9	8	88	0.10 %	0.12 %
Operating and post anesthesia care	2,209	507	3,952	6,668	1,862	435	2,904	5,201	7.73 %	7.22 %
Pharmacy	623	-	3,798	4,421	512	-	2,733	3,245	5.13 %	4.51 %
Physical therapy	750	169	95	1,014	623	125	84	832	1.18 %	1.16 %
Pulmonary rehab	84	-	8	92	56	-	9	65	0.11 %	0.09 %
STPN	2,984	324	436	3,744	2,211	137	343	2,691	4.34 %	3.74 %
Radiology	1,441	273	1,230	2,944	1,226	231	1,084	2,541	3.41 %	3.53 %
Renal dialysis	-	350	-	350	-	303	-	303	0.41 %	0.42 %
Respiratory therapy	777	77	258	1,112	695	80	236	1,011	1.29 %	1.40 %
Speech therapy	87	49	5	141	44	51	2	97	0.16 %	0.13 %
Redi Med	409	61	33	503	409	57	23	489	0.58 %	0.68 %
	$ 20,123	$ 4,816	$ 17,873	$ 42,812	$ 16,701	$ 4,954	$ 13,851	$ 35,506	49.65 %	49.32 %

(Continued)

ST. TAMMANY PARISH HOSPITAL

SUPPLEMENTAL SCHEDULE - CONSOLIDATED DEPARTMENTAL EXPENSES
YEARS ENDED DECEMBER 31, 1999 AND 1998 (IN THOUSANDS)

	1999				1998				Departmental Expenses to Total Expenses	
	Salaries, Wages and Benefits	Professional and Contractual Services	Supplies and Other Expenses	Total	Salaries, Wages and Benefits	Professional and Contractual Services	Supplies and Other Expenses	Total	1999	1998
GENERAL SERVICES:										
Dietary and cafeteria	$ 922	$ -	$ 626	$ 1,548	$ 847	$ -	$ 522	$ 1,369	1.80 %	1.90 %
Building services	1,044	436	565	2,045	898	316	565	1,779	2.37 %	2.47 %
Security	121	-	1	122	101	-	2	103	0.14 %	0.14 %
Utilities	-	-	843	843	-	-	810	810	0.98 %	1.13 %
	$ 2,087	$ 436	$ 2,035	$ 4,558	$ 1,846	$ 316	$ 1,899	$ 4,061	5.29 %	5.64 %
ADMINISTRATIVE SERVICES:										
Administration	$ 3,438	$ 335	$ 1,938	$ 5,711	$ 3,407	$ 298	$ 1,735	$ 5,440	6.62 %	7.56 %
Employee benefits	8,667	-	-	8,667	6,145	-	-	6,145	10.05 %	8.53 %
Insurance	-	-	854	854	-	-	656	656	0.99 %	0.91 %
Medical records	1,267	140	155	1,562	561	93	71	725	1.81 %	1.01 %
Planning and marketing	224	18	441	683	217	2	393	612	0.79 %	0.85 %
Social service	175	4	1	180	116	-	2	118	0.21 %	0.16 %
	$ 13,771	$ 497	$ 3,389	$ 17,657	$ 10,446	$ 393	$ 2,857	$ 13,696	20.48 %	19.02 %

(Concluded)

ST. TAMMANY PARISH HOSPITAL

SUPPLEMENTAL SCHEDULE - HOSPITAL STATISTICS (UNAUDITED)
LAST FIVE YEARS

	1999	1998	1997	1996	1995
Admissions, excluding newborn and SNF	8,759	7,571	6,124	5,056	5,144
Patient days, excluding newborn and SNF:					
Regular	19,148	13,346	9,046	7,171	7,778
Medicare and Medicaid	16,269	16,240	15,669	13,404	14,933
	35,417	29,586	24,715	20,575	22,711
Skilled nursing patient days	6,606	6,012	4,453	4,217	4,235
Average length of stay, excluding newborns and SNF	4.0	3.9	4.0	4.1	4.4
Births	1,195	1,127	922	767	857
Operations	7,805	6,431	4,702	3,968	4,076
X-ray diagnostic exams	47,112	40,148	34,655	29,153	27,695
Emergency room visits	23,428	19,631	17,900	15,505	15,808
Outpatient visits	92,452	75,835	61,753	49,270	37,731
Transfusions	5,382	4,021	2,642	2,176	1,713
Beds available:					
Adults and pediatrics	126	114	114	102	108
Bassinets	7	7	7	7	7
Skilled nursing	24	24	24	16	16
Full-time equivalent employees	977	821	716	647	692

Deloitte & Touche

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INDEPENDENT AUDITORS' REPORT ON THE COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

We have audited the consolidated financial statements of the St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital), as of and for the year ended December 31, 1999, and have issued our report thereon dated April 17, 2000. 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.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether St. Tammany Parish Hospital'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 would 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*.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered St. Tammany Parish 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of St. Tammany Parish Hospital in a separate letter dated April 17, 2000.

This report is intended solely for the information and use of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

April 17, 2000

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April 17, 2000

Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 1:

In planning and performing our audit of the consolidated financial statements of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) for the year ended December 31, 1999 (on which we have issued our report dated April 17, 2000), we developed the following recommendations concerning certain matters related to its internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Additionally, we have presented a summary of our prior year recommendations and the status of implementation thereof. A description of the responsibility of management for establishing and maintaining internal control, and the objectives and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this letter. Our comments are presented in Exhibits I, II and III and are listed in the table of contents thereto.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you, and, if desired, to assist you in implementing any of the suggestions.

Yours truly,

Deloitte + Touche LLP

Deloitte Touche Tohmatsu

ST. TAMMANY PARISH HOSPITAL

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EXHIBIT I

INTERNAL CONTROL AND ADMINISTRATIVE AND OTHER MATTERS

FIXED ASSET DISPOSALS

Observation

The Hospital's fixed asset disposal policy requires department head approval prior to disposal of fixed assets. The policy states that an asset disposal form should be completed and approved by the appropriate department head and then provided to Administration and Materials Management personnel for final approval. The department head should then contact Accounting to inform them of the disposal as well as the pertinent details related to the recording of the disposal. While performing our fixed asset testing, we selected three disposals. A completed asset disposal form with appropriate approvals could not be located for any of the selections.

Recommendation

Asset disposal forms should be completed including appropriate approvals in accordance with Hospital policy and provided to the Accounting Department on a timely basis to ensure only appropriate items are disposed of in the accounting records.

Management's Response

Management agrees with this recommendation and has implemented tighter controls to ensure proper approvals and documentation of fixed assets is maintained.

INFORMATION SECURITY

Observation

For the HBOC application, we reviewed five users who had left the hospital during the year and noted that three out of five still had active access to HBOC. Terminated employees may have active User IDs in which they can exploit the system. In addition, transferred employees may have access to additional job functions that may compromise the segregation of duties. This situation appears to exist because a terminated and transferred employee report is not being effectively utilized.

Recommendation

The terminated and transferred employee report should be communicated in a timely manner to all individuals with security administration responsibilities and should be reviewed by both Human Resources and Information Systems for accuracy. The report should be issued daily for terminated employees and weekly for transferred employees. Additionally, a process should be developed to periodically review all system access privileges to ensure their continued appropriateness.

Management's Response

Management agrees with this recommendation. Tighter controls and procedures have been implemented and placed into service. These procedures will ensure employee access to HBOC and other computer systems are terminated or adjusted appropriately when the employee status has changed.

DAYS IN NET PATIENT ACCOUNTS RECEIVABLE

Observation

During the course of our audit, we noted that the Hospital's number of days of net patient revenue in net accounts receivable increased significantly over the prior year. An increase in days in accounts receivable has been seen throughout the healthcare industry due to increased business with slow paying managed care companies as well as additional requests for information from Medicare which have slowed Medicare cash collections. Management has identified this trend and is taking steps to improve collections. Days in net patient accounts receivable indicates the number of days of net patient revenue that a hospital has due from patient billings after all deductions.

The following sets forth the Hospital's days of net patient revenue in net patient accounts receivable for the past four years:

	December 31,			
	1999	1998	1997	1996
Days in Net Patient Accounts Receivable	85	71	66	65

Recommendation

We recommend that the Hospital continue to evaluate its current practices of monitoring accounts receivable collections in order to reduce the number of days in net patient accounts receivable which, in turn, will improve cash flow of the Hospital.

Management's Response

Management is aware of this situation and is currently assessing alternative measures to assist with collections of accounts receivable. The Hospital has increased its attempts to work with the larger managed care companies on a one-to-one basis to develop better relationships and determine ways to improve processing the claims more timely. As of March 31, 2000, the Hospital's net patient accounts receivable days have declined to 76.

EXHIBIT II

STATUS OF OUR PRIOR YEAR RECOMMENDATIONS

	Implemented	Partially Implemented	Not Implemented
INTERNAL CONTROL:			
Corporate Compliance Program		X	
Virus Protection	X		
Fixed Asset Records		X	
Backup Procedures		X	

UPDATE OF OUR PRIOR YEAR RECOMMENDATIONS

CORPORATE COMPLIANCE

Observation

Based on inquiries made during our audit, we understand a formal corporate compliance program has been developed and is currently being implemented throughout the organization to address Federal government and industry initiatives related to addressing risk areas such as billing and reporting, human resources, environmental activities and tax reporting.

Business Impact

In recent years, the Department of Justice has increased its scrutiny of the conduct of healthcare providers to ensure they are complying with applicable laws and regulations. A corporate compliance program is an integral part of an organization's system of internal controls. An effective corporate compliance program can help management obtain reasonable assurance that the risk of noncompliance with applicable laws and regulations is being controlled or mitigated to an acceptable level.

Recommendation

Management has developed and is implementing a corporate compliance program to meet the requirements set forth in the Office of Inspector General (OIG) Guidance with respect to Medicare billing and cost reimbursement laws and regulations. As the Hospital's corporate compliance program is still relatively new, management should continually monitor the program to ensure that its policies and procedures are in accordance with the OIG guidelines including current interpretations and evolving guidance.

Management's Response

Management agrees with this recommendation. The Corporate Compliance Committee meets quarterly to discuss issues and concerns. Currently, the Hospital is in the process of developing several audits and on-site training sessions to continually assess the operations of the Hospital and keep employees aware of potential compliance issues.

FIXED ASSET RECORDS

Observation

The Hospital has not conducted a complete inventory of fixed assets in a number of years. We understand that management has been considering such a project for several years and has initiated plans to perform a physical fixed asset inventory in prior years. Certain department inventories took place in 1999.

Recommendation

Complete and accurate fixed assets records are necessary to support amounts claimed for reimbursement purposes and to assure adequacy of insurance coverage. As is not practicable to perform a complete physical count at a single point in time, such procedures should be performed on a departmental basis as has begun in 1999. The related detailed accounting records should be adjusted for the results of these procedures.

Management's Response

The Hospital started conducting physical inventories of fixed assets during 1999. These inventories consisted of a department by department verification and documentation of all fixed assets. This inventory is being reconciled with the Hospital's fixed asset records. We expect this to be an ongoing project throughout the year 2000.

BACKUP PROCEDURES

Observation/Background

One of the Hospital's key prevention procedures against the loss of system generated information is the daily and monthly backups of the Hospital's information on tapes. These tapes would be used to restore the Hospital's information when needed. However, the DG-UNIX and VAX VMS backups, while in place, have not been tested. The System 36 backups while in place have not been tested for a few years.

Recommendation

The Hospital should consider testing the backups by restoring them in the test region of the respective platforms. The Hospital should get assurance that the backups will restore the Hospital's information when needed. Also, information systems management may want to consider maintaining a listing of the backup tapes detailing the contents, location, etc.

Management's Response

Management agrees with this recommendation. The existing systems have been tested or are scheduled to be tested.

APPENDIX

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives

The objectives of internal control 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.

Limitations

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.