

07/19/00

OFFICIAL
FILE COPY
DO NOT SEND OUT
(Xerox necessary,
copies from this
copy, and PLACE
IN FILE)

ST. THOMAS HEALTH SERVICES, INC.

Under provisions of state law, this report is a public document. It is a public document, has been submitted to the estate of the decedent, and is available to the public. The report is available for public inspection at the Baton Rouge office of the Louisiana State Auditor, where appropriate, or the office of the parish clerk of court.

Release Date 7/19/00

**FINANCIAL AND COMPLIANCE AUDITS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENTS OF FINANCIAL POSITION AT DECEMBER 31, 1999 AND 1998	3
STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998	4
STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998	5
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998	6
NOTES TO THE FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards For the Year Ended December 31, 1999	16
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	19
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	22
STATUS OF PRIOR YEAR AUDIT FINDINGS	24
EXIT CONFERENCE	25

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
St. Thomas Health Services, Inc.

We have audited the accompanying statements of financial position of **St. Thomas Health Services, Inc.** (a non-profit corporation) as of December 31, 1999 and 1998 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of **St. Thomas Health Services, Inc.** Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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, the financial statements referred to above present fairly, in all material respects, the financial position of **St. Thomas Health Services, Inc.** as of December 31, 1999 and 1998, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
St. Thomas Health Services, Inc.
Page 2

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2000 on our consideration of **St. Thomas Health Services, Inc.**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants as of and for the year ended December 31, 1999.

Our audit was made for the purpose of forming an opinion on the basic financial statements of **St. Thomas Health Services, Inc.** taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 26, 2000

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>ASSETS</u>		
Cash (NOTE 13)	\$115,104	\$ 64,503
Grants receivable	241,350	166,841
Other assets	10,208	17,174
Furniture, equipment and building improvements, net of accumulated depreciation of \$476,182 and \$411,576 in 1999 and 1998 (NOTE 2)	<u>263,292</u>	<u>325,965</u>
Total assets	<u>\$629,954</u>	<u>\$574,483</u>
<u>LIABILITIES</u>		
Accounts payable	\$151,206	\$ 41,230
Due to funding sources (NOTE 2)	10,802	49,706
Loan payable (NOTE 10)	<u>10,000</u>	<u>10,000</u>
Total liabilities	<u>172,008</u>	<u>100,936</u>
CONTINGENCY (NOTE 11)		
<u>NET ASSETS (NOTE 2)</u>		
Unrestricted	169,654	122,582
Unrestricted - fixed assets	263,292	325,965
Permanently restricted	<u>25,000</u>	<u>25,000</u>
Total net assets	<u>457,946</u>	<u>473,547</u>
Total liabilities and net assets	<u>\$629,954</u>	<u>\$574,483</u>

The accompanying notes are an integral part of these financial statements.

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999		1998	
	Unrestricted	Permanently Restricted	Unrestricted	Permanently Restricted
				<u>Total</u>
<u>OPERATING REVENUES</u>				
Contributions (NOTE 4)	\$ 301,996	\$ -0-	\$ 301,996	\$ 301,996
Grant revenues	924,566	-0-	924,566	594,596
Patient revenues (NOTE 6)	203,206	-0-	203,206	168,186
Other revenues	<u>1,547</u>	<u>-0-</u>	<u>1,547</u>	<u>2,639</u>
Total operating revenues	<u>1,431,315</u>	<u>-0-</u>	<u>1,431,315</u>	<u>1,100,984</u>
<u>OPERATING EXPENSES</u>				
Health care	866,825	-0-	866,825	850,056
Management and general	<u>580,091</u>	<u>-0-</u>	<u>580,091</u>	<u>324,274</u>
Total operating expenses	<u>1,446,916</u>	<u>-0-</u>	<u>1,446,916</u>	<u>1,174,330</u>
Changes in net assets	(15,601)	-0-	(15,601)	(73,346)
Net assets at beginning of year	<u>448,547</u>	<u>25,000</u>	<u>473,547</u>	<u>546,893</u>
Net assets at end of year	<u>\$ 432,946</u>	<u>\$25,000</u>	<u>\$ 457,946</u>	<u>\$ 473,547</u>

The accompanying notes are an integral part of these financial statements.

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999			1998		
	<u>Health Care</u>	<u>Management and General</u>	<u>Total Expenses</u>	<u>Health Care</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries, related payroll taxes and benefits	\$515,977	\$335,475	\$ 851,452	\$663,936	\$132,347	\$ 796,283
Insurance	6,672	44,536	51,208	24,491	13,057	37,548
Other	6,365	9,082	15,447	5,140	21,349	26,489
Professional fees and contract services	168,436	62,603	231,039	77,700	19,750	97,450
Repairs and maintenance	2,420	16,049	18,469	-0-	13,837	13,837
Supplies	123,773	17,114	140,887	64,415	20,199	84,614
Lab testing and diagnostics	37,187	-0-	37,187	14,374	-0-	14,374
Depreciation	-0-	64,605	64,605	-0-	70,278	70,278
Utilities	4,318	25,239	29,557	-0-	32,330	32,330
Meetings and conferences	<u>1,677</u>	<u>5,388</u>	<u>7,065</u>	<u>-0-</u>	<u>1,127</u>	<u>1,127</u>
Total expenses	<u>\$866,825</u>	<u>\$580,091</u>	<u>\$1,446,916</u>	<u>\$850,056</u>	<u>\$324,274</u>	<u>\$1,174,330</u>

The accompanying notes are an integral part of these financial statements.

ST. THOMAS HEALTH SERVICES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>Cash Flows from Operating Activities</u>		
Changes in net assets	\$(15,601)	\$(73,346)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	64,605	70,278
Changes in operating assets and liabilities:		
Decrease (increase) in other assets and grants receivable	(67,543)	9,596
Increase (decrease) in accounts payable	109,976	(11,956)
Increase (decrease) in due to funding source	<u>(38,904)</u>	<u>48,611</u>
Net cash provided by operating activities	<u>52,533</u>	<u>43,183</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of equipment	<u>(1,932)</u>	<u>(12,002)</u>
Net cash used in investing activities	<u>(1,932)</u>	<u>(12,002)</u>
<u>Cash Flows from Financing Activities</u>		
Repayment of loans to sponsor organization	<u>-0-</u>	<u>(20,000)</u>
Net cash used in financing activities	<u>-0-</u>	<u>(20,000)</u>
Net increase in cash	50,601	11,181
Cash at the beginning of the year	<u>64,503</u>	<u>53,322</u>
Cash at the end of year	<u>\$115,104</u>	<u>\$ 64,503</u>

The accompanying notes are an integral part of these financial statements.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Organization:

St. Thomas Health Services, Inc. (St. Thomas) is a community-based, nonprofit, primary health care clinic that provides ambulatory health care services, including diagnostic testing and medications, to the medically indigent of the St. Thomas Housing Development and surrounding area.

St. Thomas was founded in 1987 to improve the health status in the service area with major emphasis being placed on disease prevention.

Start-up funds, equipment, as well as on-going financial support for the operation of *St. Thomas* in a neighborhood where 70-80% of residents are uninsured and where 25% of the patients are homeless, have been obtained primarily from private sources and various grants. *St. Thomas* also makes use of support services offered by neighboring social service agencies and hospitals such as Hope House, Kingsley House, Bridge House and the New Orleans medical community. *St. Thomas* also lends its support through the provision of specialized laboratory testing, diagnostic services and hospitalization services at low or no cost.

St. Thomas is governed by a fifteen (15) member Board of Directors all of whom serve until their resignation or removal from the Board.

In order to assist in meeting its goals and mission of providing services as a primary health care clinic, *St. Thomas* has applied for and been awarded several government grants. During the year ended December 31, 1999, *St. Thomas* received and administered the following governmental grants and programs:

- **Maternal and Child Health Care Program**

This program, funded by a grant from the State of Louisiana, Department of Health and Hospitals, provides services as follows:

- Comprehensive pediatric care to a defined number of children;

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Organization, Continued:

- **Maternal and Child Health Care Program, Continued**

- Comprehensive health care to a defined number of adult women and adolescents of child bearing age;
- Social work and nutritionist services;
- Coordination of maternal and child health services offered at St. Thomas with WIC and Medicaid; and
- Development of outreach programs to increase access to primary health care.

- **Community Development Block Grant**

This program funded by the City of New Orleans:

- Provides medical services;
- Identifies adolescents and their families for recruitment/outreach services;
- Provides health education; and
- Provides counseling and referrals.

- **Women's Preventative Health Program**

This program funded by the State of Louisiana, Department of Health and Hospitals provides screening, health guidance, clinical, tracking and referral services.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Organization, Continued:

- **Teen Care Clinic**

This program funded by the State of Louisiana Department of Health and Hospitals provides health services to residents of the St. Thomas Public Housing Project area.

- **Family Planning**

This program funded by the State of Louisiana, Department of Health and Hospitals provides family planning service to persons requesting them. The services also include pregnancy testing and referrals.

NOTE 2 - Summary of Significant Accounting Policies:

Principles of Accounting

St. Thomas is a non-profit, community based health clinic whose financial statements are prepared on the accrual basis and in accordance with generally accepted accounting principles. 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.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Basis of Reporting

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 117 which establishes standards for external financial reporting by not-for-profit organizations, **St. Thomas** classifies resources for accounting and reporting purposes into three net asset categories which are unrestricted, temporarily restricted and permanently restricted net assets according to externally (donor) imposed restrictions.

A description of the three net asset categories is as follows:

- o Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of *St. Thomas* are included in this category. *St. Thomas* has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of *St. Thomas* and, therefore, *St. Thomas'* policy is to record these net assets as unrestricted.
- o Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor imposed restrictions have not been met.
- o Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor imposed restrictions.

At December 31, 1999, *St. Thomas* did not have any temporarily restricted net assets.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Furniture, Equipment and Building Improvements

Furniture, equipment and building improvements of *St. Thomas* are recorded as assets and are stated at historical costs, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	5 years
Building improvements	15 years

Such assets and related accumulated depreciation consist of the following:

	<u>1999</u>	<u>1998</u>
Furniture and fixtures	\$ 164,041	\$ 162,108
Leasehold improvements	425,677	425,677
Machinery and equipment	149,756	149,756
Accumulated depreciation	<u>(476,182)</u>	<u>(411,576)</u>
Net fixed assets	<u>\$ 263,292</u>	<u>\$ 325,965</u>

Support and Revenues

Revenues received under government grant programs are recognized when earned.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Functional Allocation of Expenses

The costs of providing the various programs and 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.

Due to Funding Sources

This amount represents unexpended grant funds that are required to be repaid to the funding source.

Cash Equivalents

For purposes of the Statements of Cash Flows, *St. Thomas* considers all investments purchased with a maturity of three months or less to be cash equivalents. *St. Thomas* had no cash equivalents at December 31, 1999 and 1998.

Reclassifications

Certain prior year amounts have been reclassified in these financial statements to conform to the current year's presentation.

NOTE 3 - Economic Dependency:

The primary source of revenue for *St. Thomas* is federal, state and local grants provided through various funding agencies. The continued success of *St. Thomas* is dependent upon the renewal of contracts from current funding sources as well as obtaining new funding.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - Unrestricted Contributions:

Contributions consist of donations made to *St. Thomas* to provide support to the operation of St. Thomas as well as to fund specific projects as designated by the donor or the Board of Directors.

NOTE 5 - Government Grants:

St. Thomas is the recipient of several federal awards as disclosed in the Schedule of Expenditures of Federal Awards. Included in government grant revenues are funds disbursed from several funding sources to provide funds for the implementation of various community programs as well as to support the operations of *St. Thomas*. The method of payment on the grants is cost reimbursement.

NOTE 6 - Clinic Revenues:

St. Thomas provides medical assistance to eligible medicaid and medicare recipients and receives reimbursements from the State of Louisiana's Department of Health and Human Services for claims submitted in conjunction with those services provided. Reimbursements for medicaid and medicare claims submitted as of December 31, 1999 and 1998 totaled \$143,724 and \$134,115, respectively and are included in patient revenues.

NOTE 7 - Building Lease:

On January 30, 1991, *St. Thomas* executed a fifteen (15) year lease agreement with the Society of Redemptorists Order for the use of a building located at 1020 St. Andrew Street. The terms of the lease require *St. Thomas* to be responsible for the complete renovation of the building, upkeep and maintenance of the property, utilities and insurance coverage for the building and its contents.

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 7 - Building Lease, Continued:

Additionally, *St. Thomas* will not be required to pay any monthly rental expense. The amount of the related value of such arrangement has not been determinable at this time.

The building is to be used solely for the purpose of a neighborhood primary health care facility.

NOTE 8 - Pension Plan:

Certain employees of *St. Thomas* participate in a 403(b) Pension Plan which was established during January 1996. The plan is funded by employee deductions which are not required to be matched by *St. Thomas*.

NOTE 9 - Income Taxes:

St. Thomas is exempt from federal income taxes through Section 501(c)(3) of the Internal Revenue Code.

NOTE 10 - Loan Payable:

	<u>1999</u>	<u>1998</u>
Non-interest bearing demand loan	<u>\$10,000</u>	<u>\$10,000</u>
Total	<u>\$10,000</u>	<u>\$10,000</u>

ST. THOMAS HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 11 - Contingency:

St. Thomas is a recipient of several grants and awards of Federal and State funds. These grants and awards are governed by various Federal and State guidelines, regulations, and contractual agreements.

The administration of the program and activities funded by these grants and awards is under the control and administration of *St. Thomas* and is subject to audit and/or review by the applicable funding sources. Any grant or award funds found to be not properly spent in accordance with the terms, conditions, and regulations of the funding sources may be subject to recapture.

NOTE 12 - Fair Value of Financial Instruments:

The estimated fair value of all significant financial statement amounts have been determined by *St. Thomas* using available market information and appropriate valuation methodologies.

St. Thomas considers the carrying amounts of cash and restricted cash, grant receivables, and loan payable to be fair value.

NOTE 13 - Restricted Cash:

On June 28, 1996, *St. Thomas* received a \$25,000 contribution from the Fannie Mae Foundation in which the interest income is to be utilized to establish a revolving loan fund for expectant mothers who are uninsured and not eligible for federal or local government assistance with their health care. Such funds are recorded as permanently restricted net assets. The funds are maintained in the operating payroll account.

SUPPLEMENTARY INFORMATION

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 1999

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity's Number</u>	<u>Activity</u>
U.S. Department of Health and Human Services passed through the State of Louisiana - Office of Public Health			
Maternal Child Health Program	93.994	538411/552031	\$216,961
Women's Preventive Health Program	93.991	N/A	25,192
Family Planning Program	93.217	N/A	17,976
Comprehensive Teen Care Clinic	93.217	N/A	<u>28,806</u>
Total U.S. Department of Health and Human Services			<u>288,935</u>
U.S. Department of Housing and Urban Development passed through the City of New Orleans			
Community Development Block Grant	14.218	CD#50-080	<u>99,793</u>
Total U.S. Department of Housing and Urban Development			<u>99,793</u>
Total Expenditures of Federal Awards			<u>\$388,728</u>

See Independent Auditors' Report on Supplementary Information.

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
St. Thomas Health Services, Inc.

We have audited the financial statements of the **St. Thomas Health Services, Inc. (St. Thomas)** as of and for the year ended December 31, 1999, and have issued our report thereon dated May 26, 2000. 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 **St. Thomas'** 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 **St. Thomas'** 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 federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 26, 2000

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
St. Thomas Health Services, Inc.

Compliance

We have audited the compliance of **St. Thomas Health Services, Inc. (St. Thomas)** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1999. **St. Thomas'** major federal program is identified in the summary of independent auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of **St. Thomas'** management. Our responsibility is to express an opinion on **St. Thomas'** compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUED)

An audit includes examining, on a test basis, evidence about **St. Thomas'** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **St. Thomas'** compliance with those requirements.

In our opinion, **St. Thomas** complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1999.

Internal Control Over Compliance

The management of **St. Thomas** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **St. Thomas'** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclosed all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUED)

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 26, 2000

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1999

Section I - Summary of Auditor's Results

1. Type of report issued on the financial statements: **Unqualified**.
2. Did the audit disclose any reportable conditions in internal control: **No**.
3. Were any of the reportable conditions material weaknesses: **No**.
4. Did the audit disclose any noncompliance which is material to the financial statements of the organization: **No**.
5. Did the audit disclose any reportable conditions in internal control over major programs: **No**.
6. Were any of the reportable conditions in internal control over major programs material weaknesses: **No**.
7. Type of report issued on compliance for major programs: **Unqualified**.
8. Did the audit disclose any audit findings which the independent auditors are required to report under OMB Circular A-133, Section 510(a): **No**.
9. The following is an identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>
93.994	Maternal Child Health

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1999

Section I - Summary of Auditor's Results, Continued

10. The dollar threshold used to distinguish between Type A and Type B Programs, as described in OMB Circular A-133, Section 520(b) is as follows:

<u>Program</u>	<u>Amount</u>
Type A	\$300,000

11. Did the auditee qualify as a low-risk auditee under OMB Circular A-133, Section 530:
No.

Section II - Financial Statement Findings

No matters reported.

Section III - Federal Award Findings and Questioned Costs

No matters reported.

ST. THOMAS HEALTH SERVICES, INC.
STATUS OF PRIOR YEAR AUDIT FINDINGS

	<u>Resolved</u>	<u>Unresolved</u>	<u>In-Progress</u>
Financial Statement Findings			
98-01 Financial Records	X		
98-02 Employee Advances			X
98-03 Earmarking		X(1)	
 Federal Awards Findings and Questioned Costs			
98-04 Earmarking		X(1)	
 Management Letter Comments			
No matters reported.			

- (1) Pursuant to correspondence from the State of Louisiana Department of Health and Hospitals, an approved corrective action plan for repayment of over-reimbursements by **St. Thomas** to resolve this finding has been implemented. Additionally, as a result of the efforts of **St. Thomas** the repayment amount has been reduced from \$48,611 to \$10,802 at December 31, 1999.

ST. THOMAS HEALTH SERVICES, INC.

EXIT CONFERENCE

An exit conference was held on June 28, 2000 with the following in attendance:

ST. THOMAS HEALTH SERVICES, INC.

Mr. Bobby Brannon	--	Board Member
Mr. W. Eric Parks	--	Director of Clinical Services
Ms. Meredith McElroy	--	Grant Manager

The audit report was discussed. This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 26, 2000