

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
IN ACCORDANCE WITH DOD CIRCULAR A-113
(CONTINUED)

This report is intended for the information of the Board of Directors, management, and regulatory agencies. This restriction is not intended to limit the distribution of this report.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 20, 1996

& Tervalon

MICHAEL S. BRUNO, CPA
ALAN J. TERVALON, JR., CPA
RUSSELL ROBERT, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO NONMAJOR
FEDERAL AWARD PROGRAM TRANSACTIONS

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements of New Orleans Health Corporation (the Corporation) as of and for the year ended June 30, 1990, and have issued our report thereon dated December 20, 1990.

As discussed in NOTE 2 to the financial statements, the Corporation in 1990 changed its method of accounting for contributions and its financial reporting and financial statement presentation in accordance with Statement of Financial Accounting Standards Numbers 116 and 117, respectively. Also as discussed in NOTE 9 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

In connection with our audit of the financial statements of the Corporation, and our consideration of the Corporation's internal control structure used to administer federal financial assistance programs, as required by the Office of Management and Budget Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions", we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1990.

As required by OMB Circular A-133, we performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Corporation's compliance with these requirements. Accordingly, we do not express such an opinion.

FOR CHARGES RELATES COMPENSATION
 PERSONNEL BY FUNDING SOURCE
 FOR THE YEAR ENDING JUNE 30, 2006

CHARGE	COMBID SOURCE	FY06 AMOUNT	APPROPRIATION AMOUNT	FY06 AMOUNT	COMB AMOUNT		
CITY OF SACRAMENTO Department of Health and Services (City Personnel) Department of Health and Services (Post, Salary and Overtime)	400000	13,800	14,417,986-01,017,000	1	14,411	1	14,411
STATE OF CALIFORNIA General Fund State Personnel Administration State Personnel Administration State Personnel Administration State Personnel Administration State Personnel Administration	000000 000000 000000 000000 000000 000000 000000 000000 000000 000000 000000 000000	13,800	14,417,986-01,017,000		13,800		13,800
Department of Health and Human Services (State through primary hospital)	00000000	13,800	14,417,986-01,017,000		13,800		13,800
Department of Social Services Social Services (State) State of California passed through City of San Francisco	0000000000 0000000000 0000000000	0	14,417,986-01,017,000		0		0
CITY OF SAN FRANCISCO Open Beds	00-0000-00 00-0000-00	0	14,417,986-01,017,000		0		0
TOTAL					13,800		13,800

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See Supplemental Information Report to Schedule of Federal Funds.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements of New Orleans Health Corporation (the Corporation) as of and for the year ended June 30, 1998, and have issued our report thereon dated December 20, 1998.

As discussed in NOTE 3 to the financial statements, the Corporation in 1998 changed its method of accounting for contributions and its financial reporting and financial statement presentation in accordance with Statement of Financial Accounting Standards Numbers 114 and 117, respectively. Also as discussed in NOTE 9 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". These standards and provisions of OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
BASED ON AN ASPECT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors, or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Corporation for the year ended June 30, 1986, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statements (See Schedule of Reportable Conditions).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material as defined above. However, we believe none of the reportable conditions described in the Schedule of Reportable Conditions is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have communicated to the management of New Orleans Health Corporation in a separate letter dated December 28, 1996.

This report is intended for the information of the Board of Directors, management, and regulatory agencies. This restriction is not intended to limit the distribution of this report.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 20, 1996

& Tervalon

INCORPORATED IN MISSISSIPPI
ALSO A LIMITED LIABILITY PARTNERSHIP
REGISTERED WITH THE STATE OF MISSISSIPPI

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
IN ACCORDANCE WITH DHS CIRCULAR A-133

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements of New Orleans Health Corporation (the Corporation) as of and for the year ended June 30, 1994, and have issued our report thereon dated December 30, 1994.

As discussed in NOTE 3 to the financial statements, the Corporation in 1994 changed its method of accounting for contributions and its financial reporting and financial statement presentation in accordance with Statement of Financial Accounting Standards Numbers 114 and 117, respectively. Also as discussed in NOTE 2 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

We have also audited the Corporation's compliance with requirements applicable to major federal financial assistance programs and have issued our Report Thereon dated December 30, 1994.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and DHS Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". These standards and the provisions of DHS Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the Corporation complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
IN ACCORDANCE WITH ONE CIRCULAR A-133
(CONTINUED)

In planning and performing our audit for the year ended June 30, 1996, we considered the Corporation's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the Corporation's financial statements and on its compliance with requirements applicable to major Federal financial assistance programs and to report on the internal control structure in accordance with one circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to Federal award programs. We have addressed policies and procedures relevant to our audit of the financial statements in a separate report dated December 29, 1996.

The management of the Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, 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 and that Federal programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF FEDERAL AWARDS

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements of New Orleans Health Corporation (a nonprofit corporation) as of and for the year ended June 30, 1996, and have issued our report thereon dated December 28, 1996. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

As discussed in NOTE 2 to the financial statements, the Corporation in 1994 changed its method of accounting for contributions and its financial reporting and financial statement presentation in accordance with Statement of Financial Accounting Standards Numbers 116 and 117, respectively. Also as discussed in NOTE 2 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 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.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL STRUCTURE
IN ACCORDANCE WITH GSA CIRCULAR A-133

(CONTINUED)

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Corporation's ability to administer Federal award programs in accordance with applicable laws and regulations. (See Schedule of Reportable Conditions).

A material weakness is a reportable condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a Federal award program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering Federal awards would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Reportable Conditions is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of New Orleans Health Corporation in a separate letter dated December 23, 1998.

NEW ORLEANS HEALTH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 8 - Commitments and Contingencies:

The Corporation leases administrative office space under an operating lease expiring August 31, 1996. Rental expense for the year ended June 30, 1996 under this lease was \$60,000.

Additionally, the Corporation has annual operating leases with the City of New Orleans expiring on December 31, 1996 for each of three (3) clinics it operates. The terms of these leases provide for monthly payments of \$3 plus the Corporation's pro rata share of the facility's operating expenses which amounts to \$22,140 for all three (3) clinics combined per month. Total annual rental expense pertaining to these leases amount to \$145,716.

NOTE 9 - Rents Payable:

Included in rents payable at June 30, 1996 is \$145,716 which represents rent due the City of New Orleans for the year ended June 30, 1996 for facilities owned by the city and leased by the Corporation via annual operating leases. Management has decided to pay the City based on its financial capabilities. During the year ended June 30, 1996 no payments were made to the City. The City has not demanded payment of the balance and the Corporation is not financially capable of paying the rent currently, and is in negotiation with the City to seek relief of amounts due the City.

NOTE 10 - Fair Value of Financial Instruments:

The carrying amount approximates the fair value of cash and short-term financial instruments based on quoted market prices at June 30, 1996. These financial instruments consist of cash, temporary cash investments and note payable at June 30, 1996.

NEW ORLEANS HEALTH CORPORATION
SCHEDULE OF REPORTABLE CONDITIONS

o ACCOUNTS RECEIVABLE

Medicare & Medicaid

No detail accounts receivable subsidiary ledger is maintained that identifies the outstanding Medicare/Medicaid receivable balance to a specific claim and/or billing that has either been denied or for which payment has not yet been received.

Recommendation

We recommend that the Corporation institute the necessary procedures to track and identify the outstanding Medicaid and Medicare receivable to a specific claim and/or billing. Additionally, the collectibility of all outstanding Medicare and Medicaid receivable balances should be evaluated on a quarterly basis and any amounts deemed uncollectible should be written-off on a timely basis.

Patient Balances

No aged patient accounts receivable trial balance is being maintained on a current basis that reconciles to the general ledger.

Recommendation

We recommend that an aged accounts receivable trial balance be maintained on a current basis and that the aged trial balance be reconciled to the general ledger control account on a monthly basis. Furthermore, based on the accounts receivable aging an evaluation of the collectibility of outstanding patient balances should be made and all amounts deemed uncollectible appropriately written off on a timely basis.

& Tervalon

INCORPORATED IN MISSISSIPPI
ADDRESS: 1115 PULASKI AVENUE, SUITE 203
NEW ORLEANS, LOUISIANA 70119

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

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements of New Orleans Health Corporation (the Corporation) as of and for the year ended June 30, 1996, and have issued our Report thereon dated December 20, 1996.

As discussed in NOTE 3 to the financial statements, the Corporation in 1996 changed its method of accounting for contributions and its financial reporting and financial statement presentation in accordance with Statement of Financial Accounting Standards Numbers 116 and 117, respectively. Also as discussed in NOTE 9 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States and provisions of OMB Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions". These standards and provisions of OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Corporation is the responsibility of the Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Directors, Management, and regulatory agencies. This restriction is not intended to limit the distribution of this report.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 20, 1994

& Tervalon

MEMPHIS, TENNESSEE OFFICE
SUITE 203, PIERCE ST., DVA
MEMPHIS, TENNESSEE 38103

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE
TO FEDERAL AWARD PROGRAMS

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements of New Orleans Health Corporation (the Corporation) as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996.

As discussed in NOTE 1 to the financial statements, the Corporation in 1990 changed its method of accounting for contributions and its financial reporting and financial statement presentation is accordance with Statement of Financial Accounting Standards Numbers 116 and 117, respectively. Also as discussed in NOTE 2 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

We have applied procedures to test the Corporation's compliance with the following requirements applicable to its federal award programs, which are identified in the Schedule of Federal Financial Assistance Awards for the year ended June 30, 1996:

General Requirements

- | | |
|-----------------------------|------------------------------------|
| o Political Activity | o Allowance Costs/Coast Principles |
| o Cash Management | o Drug-Free Workplace Act |
| o Civil Rights | o Administrative Requirements |
| o Federal Financial Reports | |

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE
TO FEDERAL AIDED PROGRAMS
(CONTINUED)

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for "Public Institutions of Higher Education and Other Nonprofit Institutions". Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Corporation's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Corporation had not complied, in all material respects, with those requirements.

This report is intended for the information of the Board of Directors, management, and regulatory agencies. This restriction is not intended to limit the distribution of this report.

Bruno & Tervalon

BRUNO & TERVALÓN
CERTIFIED PUBLIC ACCOUNTANTS

December 20, 1966

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO
MAJOR FEDERAL AWARD PROGRAMS

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements of New Orleans Health Corporation (the Corporation) as of and for the year ended June 30, 1996, and have issued our report thereon dated December 30, 1996.

As discussed in NOTE 2 to the financial statements, the Corporation in 1996 changed its method of accounting for contributions and its financial reporting and financial statement presentation in accordance with Statement of Financial Accounting Standards Numbers 216 and 217, respectively. Also as discussed in NOTE 9 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

We have also audited the Corporation's compliance with the requirements governing types of services allowed or excluded; eligibility; matching level of effort; co-sponsorship; reporting; claims for advances and reimbursements and other program criteria as deemed appropriate that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Awards, for the year ended June 30, 1996. The management of the Corporation is responsible for the Corporation's compliance with these requirements. Our responsibility is to express an opinion on compliance with these requirements based on our audit.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO
MAJOR FEDERAL AID PROGRAMS
(CONTINUED)

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards: Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133 "Audits of Institutions of Higher Education and Other Nonprofit Institutions." Those standards and the provisions of OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures did not disclose any immaterial instances of noncompliance with the requirements referred to previously.

In our opinion, New Orleans Health Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1995.

This report is intended for the information of the Board of Directors, management, and regulatory agencies. This restriction is not intended to limit the distribution of this report.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 20, 1995

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
IN ACCORDANCE WITH OMB CIRCULAR A-113
(CONTINUED)

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Internal Control Structure Categories

- | | |
|-----------------------------------|---------------------------------------|
| o Revenue | o Payroll |
| o Cash Receipts | o Property and Equipment |
| o Eligibility | o Civil Rights |
| o Accounts Payable | o Political Activities |
| o Cash Management | o Cost Allocation |
| o Cash Disbursements | o Special Requirements, as applicable |
| o Drug-Free Workplace Act | o Federal Financial Reporting |
| o Allowable Costs/Cost Principles | o Administrative Requirements |

For all of the internal control structure categories previously listed, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 1986, the Corporation expended part of its total federal awards under major programs. (See Schedule of Federal Awards).

We performed tests of controls as required by OMB Circular A-113, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Corporation's major federal award programs, which are identified in the accompanying schedule of Federal Awards. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

NEW ORLEANS HEALTH CORPORATION
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 1996

	UNRESTRICTED
SUPPORT AND REVENUE	
Support:	
Grants	\$1,443,439
Title XIX (Medicaid)	833,888
Title XVII (Medicare)	204,078
Other funds	100,583
In-kind support (NOTE 2)	<u>411,888</u>
Total support	3,234,586
Revenue:	
Patient fees	414,263
Other	<u>38,408</u>
Total revenue	452,671
Total support and revenue	3,737,257
Expenses:	
Program services	3,043,891
Support services	<u>806,568</u>
Total expenses	3,850,459
Increase in net assets	8,800
Net assets, beginning of year	600,386
Prior period adjustment (NOTE 3)	<u>389,447</u>
Net assets, end of year	\$1,000,633

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

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

Ms. Regina B. Robinson, Executive Director
New Orleans Health Corporation
1400 Jeanfon Avenue -- 2nd Floor
New Orleans, LA 70117

In planning and performing our audit of the financial statements of New Orleans Health Corporation (the Corporation) for the year ended June 30, 1996 we considered the Corporation's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following comments summarize our suggestions regarding these matters. We previously reported on the Corporation's internal control structure in our report dated December 28, 1994, together with our schedule of reportable conditions in the Corporation's internal control structure. This letter does not affect our report dated December 28, 1994 on the financial statements of New Orleans Health Corporation.

NEW ORLEANS HEALTH CORPORATION

o VERIFICATION OF INCOME

Eligibility for participation in various restricted programs administered by the Corporation are primarily dependent on participant income. As such, it is important that the appropriate documentation to support each participants' income status utilized to determine participant eligibility be retained in that participant's file. During the course of our audit we noted in some instances documentation in support of participants' income was not retained in the file.

Recommendation

We recommend that the Corporation periodically audit participant files to ensure that adequate documentation is maintained in each participant's file to support the eligibility determination and that the eligibility determination is properly documented.

o SUMMARY LEDGERS AND JOURNALS

Various subsidiary ledgers and journals prepared to support the balances in various general ledger accounts are prepared manually.

Recommendation

We recommend that the corporation consider the utilization of personal computers together with the appropriate software to prepare and maintain these subsidiary ledgers and journals. Computerization of this process would serve to increase the efficiency of personnel as well as minimize the potential for clerical error in the preparation of these subsidiary ledgers and journals.

NEW ORLEANS HEALTH CORPORATION

a. MINUTES

Our review of the minutes of the Board of Directors revealed a lack of sufficient detail to adequately ascertain the proceedings and actions taken by the Board in addition to there being no evidence of ratification of Board action.

Recommendation

We recommend that the minutes of the meetings of the Board of Directors adequately reflect the proceedings and actions taken by the Board of Directors and its ratification.

a. MEDICARE/MEDICAID COST REPORTING

We noted that the year-end cost reports for the Medicare and Medicaid programs were filed based on a preliminary general ledger. While we noted no significant differences between the preliminary general ledger utilized for cost report preparation purposes and the general ledger which was the basis of the audit, it should be standard procedure that the cost reports be prepared from the final general ledger or an amended cost report be subsequently filed.

Recommendation

We recommend that the year-end cost reports be prepared from the final general ledger to accurately reflect the operations of the Corporation. Additionally, we also recommend that, if necessary, a revised cost report be submitted to encompass any material audit adjustments to the final general ledger so that the Medicare and Medicaid cost reports are a reflection of the audited financial statements of the Corporation.

NEW ORLEANS HEALTH CORPORATION

• COST ALLOCATION

We noted during the audit, significant variances were noted in various general ledger expense accounts primarily attributable to inconsistent allocation of indirect expenses to the various grants, programs and departments operated by the Corporation.

Recommendation

We recommend that the Corporation consistently allocate indirect expenses to the benefiting grants, programs and all documentation supporting the basis for the allocated indirect expenses be retained by the Corporation.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various corporation personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Very truly yours,

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 20, 1998

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Orleans Health Corporation

We have audited the financial statements listed in the Table of Contents of New Orleans Health Corporation (the Corporation) as of and for the year ended June 30, 1996. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". These standards and the provisions of OMB Circular A-133 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 listed in the Table of Contents present fairly, in all material respects, the financial position of New Orleans Health Corporation as of June 30, 1996, and the changes in net assets, and cash flows for the year then ended in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF FEDERAL AWARDS
(CONTINUED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of New Orleans Health Corporation taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 20, 1996

NEW ORLEANS HEALTH CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1994

ASSETS

Cash and temporary cash investments	\$	36,698
Temporary cash investments, restricted to secure note payable (NOTE 3)		26,028
		<u>113,698</u>
Accounts receivable, net of allowance for doubtful accounts of \$252,522 (NOTE 3)		418,338
Other assets		1,400
Property and equipment, net of accumulated depreciation of \$190,324 (NOTE 4)		3,042,207
Total assets		\$4,841,671

LIABILITIES AND NET ASSETS

Accounts payable	\$	52,864
Notes payable (NOTE 5)		290,716
Note payable (NOTE 5)		72,278
Accrued liabilities		153,332
Deferred revenue (NOTE 6)		419,880
		<u>1,088,070</u>
Total liabilities		\$1,088,070

CONTINGENCIES AND COMMITMENTS (NOTE 6)

Net Assets:		
Unrestricted		388,601
		<u>388,601</u>
Total net assets		\$388,601
Total liabilities and net assets		\$1,476,671

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

NEW ORLEANS HEALTH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, continued:

Allowances for Losses

Allowances for estimated losses on receivables are provided when the opinion of management, such losses are expected to be incurred. Allowances for losses primarily relate to patient receivables.

Property and Equipment

The Corporation follows the practice of capitalizing all property and equipment expenditures over \$250. Property and equipment are stated at cost and depreciation is computed under the straight-line method for all depreciable assets over their respective useful lives estimated to be five (5) years.

Compensated Absences

Employees of the Corporation are entitled to paid vacation and sick leave accrued at a rate of 5.4 hours per month. Employees compensation for future compensated absences are approximately \$58,628 as June 30, 1980.

Functional Allocation of Expenses

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

Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all investments with original maturities of three months or less to be cash equivalents.

Credit Risk

The Corporation maintains several cash balances at a financial institution. Deposits at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

SUN CRUISES HEALTH CORPORATION
STATEMENT OF PROGRAMMAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 1984

	<u>UNRECORRECTED</u>		
	Program Expenses	Support Expenses	TOTAL (Reconciling Entry)
Salaries and wages	\$ 401,849		\$ 401,849
Payroll taxes and employee benefits	167,173	43,709	210,882
Professional services	108,739	84,807	193,546
Occupancy	179,716	35,880	215,596
Telephone	18,716	20,883	39,599
Residence	97,786	11,883	109,669
Supplies	122,880	10,784	133,664
Equipment repairs and maintenance	16,882	7,198	24,080
Travel (NOTE 2)	11,880	96,037	107,917
Provision for bad debts	412,888	-0-	412,888
	<u>114</u>	<u>385,322</u>	<u>499,436</u>
	2,792,768	892,178	3,684,946
Depreciation	<u>51,122</u>	<u>14,282</u>	<u>65,404</u>
TOTAL	<u>\$ 3,294,658</u>	<u>\$ 896,680</u>	<u>\$ 4,191,338</u>

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

NEW ORLEANS HEALTH CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 1994

Cash Flow from Operating Activities:	
Increase in net assets	\$ 8,000
Adjustments to reconcile change	
in net assets to cash used	
in operating activities:	
Depreciation	85,515
Write-off of property and equipment	30,427
Prior period adjustment	289,547
Provision for bad debts	160,488
Changes in Assets and Liability	
decrease (increase) in:	
Accounts receivable	(185,246)
Increase (decrease) in:	
Accounts payable	130,503
Note payable	72,378
Accrued liabilities	(27,475)
Deferred revenue	(81,555)
Net cash used in operating activities	_123,283
Cash Flow from Investing Activities:	
Acquisition of property and equipment	(150,881)
Net cash used in investing activities	(150,881)
Decrease in cash and cash equivalents	(273,966)
Cash and cash equivalents, beginning of year	_486,600
Cash and cash equivalents, end of year	\$ 212,634
Cash paid for interest is as follows:	
interest paid	\$ 3,626

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

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NEW ORLEANS HEALTH CORPORATION

Under provisions of state law, this report is a public document. A copy of the report has been transmitted to the Council, or Commission, and other governmental public entity and other governmental public officials. This report is available for public inspection at the State Budget and Finance Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-2-97

**FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 1996**

NEW ORLEANS HEALTH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies:

Principles of Accounting

The financial statements of the Corporation are prepared in accordance with generally accepted accounting principles, and are prepared on the accrual basis.

Contributions

In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Reimburse

The Corporation receives its primarily funding through Medicare and Medicaid cost reimbursements and grants from the State of Louisiana and the City of New Orleans, and other private donations.

In-kind Support

During the year ended June 30, 1984, the value of in-kind support meeting the requirements for recognition in the Corporation's financial statements was \$413,888. These contributed services consisted of the fair value of personnel cost and related fringe of medical and related support personnel amounting to \$361,829 and contributed supplies amounting to \$52,059.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Accordingly, actual results could differ from these estimates.

NEW ORLEANS HEALTH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of significant accounting policies, continued

Income Taxes

The Corporation is exempt from corporate income taxes under Section 501(c)(13) of the Internal Revenue Service Code.

Financial Statement Presentation

In June 1993, the Financial Accounting Standards Board (FASB) issued two (2) new pronouncements: Statement of Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made and SFAS No. 117, Financial Statements of Not-for-Profit Organizations.

Under SFAS No. 116, the Corporation must recognize contributions received as revenue, including unconditional promises to give, in the period received at their fair value. At the same time, contributions made, including unconditional promises to give, must be recognized as expenses in the period made at their fair value. At June 30, 1998 there were no unconditional promises to give required to be recognized under SFAS No. 116.

Under SFAS No. 117, the Corporation 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. In addition, the corporation is required to present a statement of cash flows.

Total Column on Statements

The total column on the financial statements of this report is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Such data is not comparable to a consolidation.

NEW ORLEANS HEALTH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - Accounts Receivable:

The following represents an analysis for the allowance for doubtful accounts for the year ended June 30, 1996:

Balance at June 30, 1995	\$	-0-
Prior period adjustment (NOTE 7)		92,034
Provision for bad debts		<u>180,688</u>
Balance at June 30, 1996		\$ 180,688

NOTE 4 - Property and Equipment:

At June 30, 1996 property and equipment consisted of the following:

Land	\$	675,000
Construction-in-progress		165,380
Furniture and equipment		172,993
Automobiles		<u>99,370</u>
		1,112,743
Less: Accumulated depreciation		<u>(179,325)</u>
Total		\$ 933,418

NOTE 5 - Note Payable:

At June 30, 1996, note payable consisted of the following:

1% plus Wall Street Journal Prime Rate (8.35 at June 30, 1996) note payable to a bank secured by a \$75,000 temporary cash investment due in monthly installments equal to the greater of (a) \$150 or (b) 1/2% of the outstanding balance of principal and interest on the note which matures on August 15, 1996	\$	<u>32,278</u>
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Subsequent to year-end the note was refinanced with terms similar to above.

NEW ORLEANS HEALTH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Deferred Revenue:

Deferred revenue at June 30, 1996 consist of the following:

grant from state of Louisiana (New Orleans East Clinic) for which revenues will be recognized in subsequent year as the funds are expended	\$ 95,183
Other contracts for which revenues will be recognized in subsequent year as the services are rendered	24,028
	<u>\$119,211</u>

On January 13, 1995, a Cooperative Indefinite Agreement between the State of Louisiana, the City of New Orleans and the Corporation was executed for a project entitled "NEW ORLEANS HEALTH CLINIC FOR THE NEW ORLEANS HEALTH CORPORATION LAND ACQUISITION, PLANNING AND CONSTRUCTION" containing an appropriation of \$2,260,000. Under this agreement, at June 30, 1996 \$779,000 has received by the Corporation of which \$683,000 has been expended toward site acquisition.

NOTE 7 - Prior Period Adjustment:

Net assets at the beginning of 1996 has been adjusted to correct the following errors made in 1995:

Recorded reserves for allowances for doubtful accounts erroneously reflected as revenues in the financial statements for the year ended June 30, 1995	\$(82,834)
Amounts due to the Corporation resulting from the year-end Medicaid cost report for the year ended June 30, 1995 not accrued in the financial statements for the year ended June 30, 1995	406,720
Amounts capitalized in error and not expensed in the financial statements for the year ended June 30, 1995	(13,248)
	<u>\$209,638</u>

**INDEPENDENT AUDITORS' REPORT
(CONTINUED)**

To the Board of Directors
New Orleans Health Corporation
Page 2

As discussed in NOTE 2 to the financial statements, the Corporation in 1986 changed its method of accounting for contributions and its financial reporting and financial statement presentation in accordance with Statements of Financial Accounting Standards Numbers 116 and 117, respectively. Also as discussed in NOTE 9 to the financial statements, the Corporation has not paid certain rents due to a lessor and is currently in negotiation to seek relief of the amounts due. The possible outcome of this matter is uncertain at this time.

In accordance with Government Auditing Standards we have also issued a report dated December 29, 1986 on our consideration of the corporation's internal control structure and a report dated December 29, 1986 on its compliance with laws and regulations.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 29, 1986

NEW ORLEANS HEALTH CORPORATION
STATE OF PRIOR YEARS'
REPORTABLE CONDITIONS AND FINDINGS

DESCRIPTION	RESOLVED	
	YES	NO
SOCIAL SERVICES PROGRAM		
1. Cost report amounts not reconciled to general ledger amount.	X	
2. Budget overruns and undersruns certain budget categories.	X	
3. Budget accounts were not matched with general ledger accounts.	X	
4. Billed amounts for certain budgeted categories exceeded substantiated amounts.	X	
HIV Program		
1. Cost Report amounts not reconciled to general ledger amounts.	X	
2. Budget overruns and undersruns in certain budget categories.	X	
3. Billed amounts for certain budgeted categories were not properly documented.	X	
4. Budget accounts were not matched with general ledger accounts.	X	

NEW ORLEANS HEALTH CORPORATION
STATUS OF PRIOR YEARS', CONTINUED
REPORTABLE CONDITIONS AND FININGS

DESCRIPTION	RESOLVED	
	YES	NO
OPERATIONS		
1. Depreciation expenses not recorded.	X	
2. Incorrect account balances.	X	
3. Records not available in a timely manner.	X	
4. Proper reconciliation procedures not implemented.		X
5. Audit not completed within six (6) months of the end of the fiscal year as required by the state statute.	X	

NEW ORLEANS HEALTH CORPORATION

EXIT CONFERENCE

The financial statements and all related reports and schedules were discussed at an exit conference and attended by:

NEW ORLEANS HEALTH CORPORATION

Ms. Regina D. Robinson	--	Executive Director
Mr. Barrell Langis	--	Operations Director
Ms. Patricia Gaines	--	Accounting Director

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Michael E. Bruno, CPA	--	Managing Partner
Mr. Edward Tauriac, CPA	--	Manager
Mr. Armand E. Pliskney	--	Audit Supervisor

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 28, 1996

Bruno

CERTIFIED PUBLIC ACCOUNTANTS

& Tervalon

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO NONMAJOR
FEDERAL AIDED PROGRAM TRANSACTIONS
(CONTINUED)

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the corporation had not complied, in all material respects, with these requirements.

This report is intended for the information of the Board of Directors, management, and regulatory agencies. This restriction is not intended to limit the distribution of this report.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

December 10, 1995

NEW ORLEANS HEALTH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Background and General Data:

New Orleans Health Corporation (the Corporation) is a not-for-profit corporation formed in 1978 for the purpose of increasing the general level of health awareness and to provide quality, comprehensive health care services to its patients with dignity and respect, regardless of race, age, religion, nationality or income. The Corporation provides comprehensive, primary healthcare and social services through its three (3) community health centers. These centers are:

- o Central City Community Health Center;
- o Lower Ninth Community Health Centers; and
- o Desire-Florida Community Health Center.

During the year ended June 30, 1986, New Orleans Health Corporation, also administered the following grants and programs.

Social Services Program

This program is funded by the Department of Social Services to improve the quality of life of eligible participants through counseling and transportation services.

HIV Programs

These programs are funded by the Department of Health and Hospitals and the city of New Orleans to improve the quality and availability of healthcare and support services for individuals and families affected with HIV disease.

WIC Program

This program is funded by the department of Health and Hospitals to provide special supplemental foods to qualified women, infants and children residing in the State of Louisiana.

Additionally, the Corporation is an approved Medicare and Medicaid service provider.