(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, 1996 were as follows (in thousands):

Securities Type	Credit Risk Category 1	Credit Risk Category 2	Credit Risk Category 3	Carrying Amount
U. S. government	$ -	$1,125	$ -	$ 1,125
Federal agency	15,993	-	-	15,993
Total investments	$15,993	$1,125	$ -	$17,118

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, 1996 and 1995, approximately 55.9% and 55.7%, respectively, of the Hospital's net patient service charges (excluding newborn 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 (medicare and medicaid) for years ended through June 30, 1993 have been reviewed by program representatives. Net patient service revenue for the years ended December 31, 1996 and 1995 have been increased by $438,000 and $1,171,000, respectively, to reflect the favorable appeal of the skilled nursing facility's routine service cost limits for the 1991-1994 medicare cost reports. With respect to the settlements for years subsequent to June 30, 1993, management does not anticipate any adjustments by program representatives that would have a material impact on the recorded medicare and medicaid settlements.

LIABILITIES AND FUND BALANCE	1996	1995
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 2,627	$ 3,072
Accrued employee compensation	1,539	1,106
Accrued vacation	759	723
Settlements due to Medicare and Medicaid intermediaries	4,350	3,259
Amounts due within one year on long-term debt	591	819
Amounts due within one year on capital lease obligations	529	399
Total current liabilities	10,395	9,378
ACCRUED PROFESSIONAL LIABILITY CLAIMS	561	512
LONG-TERM DEBT, less unamortized issuance discount (1996 - $356; 1995 - $378) and amounts due within one year	13,696	14,097
CAPITAL LEASE OBLIGATIONS, less amounts due within one year	1,269	206
FUND BALANCE	42,848	39,486
TOTAL	$ 68,769	$ 63,679

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ST. TAMMANY PARISH HOSPITAL

Consolidated Financial Statements for the Years Ended December 31, 1996 and 1995 and Independent Auditors' Report

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date JUN 25 1997

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, 1996 and 1995 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 generally accepted auditing standards and *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, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 1997 on our consideration of St. Tammany Parish Hospital's internal control structure and a report dated April 11, 1997 on its compliance with laws and regulations.

Deloitte & Touche LLP

April 11, 1997

Deloitte Touche
Tohmatsu
International

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1996 AND 1995 (IN THOUSANDS)

ASSETS	1996	1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,069	$ 3,891
Investments	7,374	8,380
Assets whose use is limited - required for current liabilities	454	457
Patient accounts receivable	14,741	13,512
Less allowance for doubtful accounts	(4,317)	(4,697)
Net patient accounts receivable	10,424	8,815
Inventories	1,047	1,082
Prepaid expenses and other receivables	1,291	966
Total current assets	22,659	23,591
ASSETS WHOSE USE IS LIMITED:		
By board for capital improvements:		
Facility enhancements	6,718	5,879
Routine replacements	1,901	1,251
By board for professional and other liability claims	575	575
Under bond ordinances - held by trustee	1,579	1,583
Total assets whose use is limited	10,773	9,288
Less assets whose use is limited and required for current liabilities	(454)	(457)
Total noncurrent assets whose use is limited	10,319	8,831
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	2,788	2,783
Buildings	29,170	17,127
Equipment	24,794	22,286
Construction in progress	35	8,516
Less accumulated depreciation and amortization	(21,342)	(19,830)
Net property, plant and equipment	35,445	30,882
OTHER ASSETS	346	375
TOTAL	$ 68,769	$ 63,679

See notes to consolidated financial statements.

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April 11, 1997

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, 1996 (on which we have issued our report dated April 11, 1997), we developed the following recommendations concerning certain matters related to its internal control structure 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 an internal control structure, and the objectives of and inherent limitations in such a structure, 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 for the information of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

Deloitte & Touche LLP

Deloitte Touche Tohmatsu International

APPENDIX

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

The following comments concerning management's responsibility for the internal control structure and the objectives of and the inherent limitations in the internal control structure 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 the 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 policies and procedures.

Objectives

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, 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 structure, errors or irregularities may 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.

EXHIBIT III

STATUS OF OUR PRIOR YEAR RECOMMENDATIONS

	Implemented	Partially Implemented	Not Implemented
INTERNAL CONTROL STRUCTURE:			
Accounting for Investments			X
Fixed Asset Records		X	
Professional Liability Claims			X
Security Violation Logs and Review		X	
ADMINISTRATIVE AND OPERATING MATTERS:			
Investments	X		
Contingency Planning		X	

Recommendation

We recommend management take a proactive approach in addressing this reporting requirement during 1997.

Management's Response

Management agrees with the audit recommendation. Financial reporting will be changed to reflect changes in the fair value of investments and any gains or losses will be reflected in the statement of revenue and expense for fiscal 1998.

ACCOUNTING FOR INVESTMENTS

Observation

The Hospital has recently begun investing in U.S. Treasury Notes with maturities greater than one year as allowed by state law. The Hospital's accounting for accrued interest purchased between payment dates and amortization/accretion of premiums/discounts could be improved.

Recommendation

Accrued interest which is purchased between interest payment dates should be recorded as accrued interest receivable. Interest earned from the date of purchase through the next interest payment date should be added to accrued interest receivable. When the interest payment is received, accrued interest receivable should be decreased by the amount received.

Additionally, premiums and discounts should be segregated from the investments to which they relate and amortized from or accreted into, respectively, investment income on a monthly basis.

Management's Response

Accrued interest will be recorded at the time of purchase of investments. Premiums and discounts will be segregated and amortized from or accreted into, as appropriate, investment income.

Recommendation

Management should consider its employees having formal training and cross-training in the UNIX and Windows NT areas to support day-to-day data processing functions.

Management's Response

Management recognizes the need for adequate training and cross-training on our information operations systems. The department head responsible for information systems will devise an appropriate educational program to adequately train information systems personnel. Windows NT and UNIX support will be outsourced until the appropriate level of training is achieved.

PATIENT CHARGES

Observation

During our audit of accounts receivables, we noted instances where not all patient charges were being processed in a timely manner. Delays in processing patient charges create inefficiencies and additional burdens to the billing and collection process. Such delays increase the number of days revenue in receivables and decreases cash flow.

The Hospital's policy is to bill patient accounts approximately five to seven days after discharge. After discussion with business office personnel, it appears that there is often a longer delay in that time frame which is frequently due to the doctors not completing either the diagnosis or completing the notes to the medical record within the five to seven day time frame. These are only two of the many criteria which the medical records department must meet before a patient account can be billed.

Recommendation

We recommend that business office personnel flag any charges greater than $5,000 which have not been billed within seven business days. Additional resources could be devoted to these patient accounts or, alternatively, financial management could initiate specific requests for additional information needed to bill these patient accounts. Such a system would reduce the number of days revenue in accounts receivable and increase cash flow.

Management's Response

Management agrees with the audit recommendation. Patient accounting and medical records personnel will devise processes and procedures to reduce the discharged not billed accounts receivable days.

RECENT ACCOUNTING PRONOUNCEMENT

Observation

The Governmental Accounting Standards Board ("GASB") has issued GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools." Once effective, the Hospital will be required to report its investments at fair value. All investment income, including changes in the fair value of investments, will be recognized as revenue in the statement of revenue and expense. GASB Statement No. 31 will be effective for the year ending December 31, 1998.

YEAR 2000

Observation

Year 2000 is a problem which will negatively effect all systems that are not Year 2000 compliant. Any system that is not compliant will face the risk of disruption in business due to errors caused by programs that are date reliant.

Currently, the Hospital's HBOC and Cerner applications appear to have four digit years. However, the Hospital has not performed a formal review of all utilities, screen-inputs, other programs (such as interfaces), communications, etc. to ensure Year 2000 compliance.

Recommendation

The Hospital should create a Year 2000 Project team with the responsibility for the assessment and implementation of Year 2000 requirements. The Project team should create a plan of action that addresses the following issues:

- Identify all parts of system with respect to hardware, software, operating system, and utility vendors, especially those that are date reliant, that may have a Year 2000 problem.
- Make sure that existing or all new contracts for software extend past the year 2000. Verify with vendors if they even plan on becoming Year 2000 compliant. Additionally, all new software purchased should be Year 2000 compliant.
- Allocate the necessary resources to make the changes towards becoming Year 2000 compliant. This would include such things as whether the changes can be made in-house or contracted and appropriating the necessary funds.
- Any plan should consider alternative solutions, reprogramming, software acquisition, etc., and provide for appropriate evaluation criteria of each alternative for each specific issue identified. The plan should also ensure that the resources are available so that they are not in conflict with normal processing requirements.

Management's Response

We have formed an Information Systems Security Task Force to address the Year 2000 Project as well as other Information Systems Security issues. Systems within the Hospital have been identified that may be date reliant. Vendors will be contacted for documentation as to their plan for compliance. System testing and documentation will follow as each vendor releases its Year 2000 software fixes.

TRAINING AND CROSS-TRAINING

Observation

The lack of training and cross-training could effect the ability of the Hospital's information system to perform the day-to-day functions.

The Hospital relied solely on the expertise of the former Data Processing Manager for UNIX and Windows NT support. With his resignation, the Hospital lacks the necessary expertise to perform the day-to-day functions on these platforms.

EXHIBIT II

ADMINISTRATIVE AND OTHER MATTERS

CONTINGENCY PLANNING

Observation

Management is aware of the importance of a well planned and tested contingency plan; however, to date, a contingency plan has not been developed for critical business and support functions for the Hospital and related business units. A plan should be formalized to ensure the continuance of computing capability and user responsibilities in the event of an on-site interruption.

Background

A data processing technology recovery plan is only one component of a complete contingency plan. An effective plan should:

- Identify and evaluate business risk.
- Identify critical business functions (those which, if inoperable for a specified period of time, would have a detrimental impact on the Hospital's ability to function).
- Identify specific support requirements which must be available to address the recovery requirements of each of the critical business functions.
- Document the detailed plan and associated responsibilities and procedures to be followed in the event of an outage which impacts any or all of the critical business functions.
- Establish responsibilities and procedures for the implementation, maintenance and periodic testing of the established plan(s).
- Establish responsibilities and procedures for the periodic review of the contingency plan to ensure that testing and maintenance expectations are being followed and that the overall plan continues to address the Hospital's business continuity needs.

Recommendation

Hospital departments which support business functions critical to continued operations should develop and test their own contingency plans. Each business unit recovery plan, along with a technology recovery plan, should then be integrated to form an enterprise-wide contingency plan, which would then be implemented, maintained and periodically tested.

Management's Response

We have a detailed plan for disaster recovery for Information Systems, as well as computer replacement with Data General. This plan also addresses downtime for one to several days. However, we recognize the need to address the loss of a significant number of personal computers and/or network components in parts of the campus. Business recovery plans along with technology recovery plans are issues that will be addressed by management. Management then plans to develop an enterprise-wide plan.

Management's Response

The Risk Management department discusses all claims with external legal counsel. Accounting discusses all claims with the Risk Management department and records liability accruals based on these in depth discussions. At present, most claims only have the Hospital listed as secondarily liable, and the majority of the claims appear to be nuisance claims; therefore, the Hospital does not feel that an actuarial valuation is currently needed. The Hospital will continue to monitor this situation in the future.

SECURITY VIOLATION LOGS AND REVIEW

Observation

There is no logging and management review of unsuccessful attempts made to the system. This situation increases the risk that unauthorized users will ultimately gain access and remain undetected.

Background

UNIX maintains several log files which can be used to monitor user activity on the system. The ability of the system to log security and access control violations allows management to monitor potential unauthorized user activity.

Recommendation

Management should consider periodically reviewing UNIX system logs and monitor system activity to determine if activity is appropriate.

Management's Response

Our current UNIX operating system does not provide these logging and management features. Management has investigated the use of alternative software that provides account and access control protection to the HBOC UNIX system. Efforts will be renewed to develop the functionality of the software or alternative software will be evaluated.

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 (District) is the St. Tammany Parish Hospital Board of Commissioners. The Policy Jury appoints members of the Hospital Board of Commissioners. The Hospital changed its fiscal year end to December 31, effective December 31, 1995, and has presented its operations and its cash flows for the year then ended for comparative purposes.

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, 1996 and 1995 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.

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

ST. TAMMANY PARISH HOSPITAL

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ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1996 AND 1995 (IN THOUSANDS)

	1996	1995
REVENUE:		
Net patient service revenue	$54,390	$55,432
Other revenue	1,908	1,869
Total revenue	56,298	57,301
EXPENSES:		
Salaries, wages and benefits	28,754	29,472
Supplies and other	13,281	12,391
Provision for bad debts	2,340	3,288
Professional and contractual services	4,401	4,388
Depreciation and amortization	3,309	3,288
Interest	851	862
Total expenses	52,936	53,689
REVENUE IN EXCESS OF EXPENSES	3,362	3,612
FUND BALANCE AT BEGINNING OF YEAR	39,486	35,874
FUND BALANCE AT END OF YEAR	$42,848	$39,486

See notes to consolidated financial statements.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific 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 consolidated 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we have communicated other observations involving the internal control structure and its operation to the management of the St. Tammany Parish Hospital in a separate letter dated April 11, 1997.

This report is intended for the information of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

April 11, 1997

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INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS

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, 1996, and have issued our report thereon dated April 11, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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 consolidated financial statements are free of material misstatement.

The management of the St. Tammany Parish Hospital is responsible for establishing and maintaining the 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, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated 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 consolidated financial statements of the St. Tammany Parish Hospital for the year ended December 31, 1996, 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 consolidated financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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 settlements are adjusted in future periods as final settlements are determined.

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 $629,000 and $1,026,000 for the years ended December 31, 1996 and 1995, 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 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 $210,000 and $257,700 for the years ended December 31, 1996 and 1995, respectively.

Certain reclassifications were made to the 1995 financial statement presentation to conform to the 1996 presentation.

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, 1996, 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.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Hospital's 1996 consolidated financial statements include an allowance for doubtful accounts receivable and estimates of amounts to be received under government healthcare programs. The basis for our conclusions as to the reasonableness of these estimates, as expressed in our auditors' report, is our review and tests of the process used by management to develop the estimates.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Hospital's 1996 consolidated financial statements.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no serious difficulties in dealing with management related to performance of our audit.

This report is intended solely for the use of the Board of Commissioners, management, and others within the organization and should not be used for any other purpose.

We will be pleased to discuss this report with you further at your convenience.

Yours truly,

Deloitte & Touche LLP

Deloitte & Touche LLP

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April 11, 1997

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

We have audited 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, 1996, and have issued our report thereon dated April 11, 1997.

Our professional standards require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of St. Tammany Parish Hospital is responsible. We have prepared the following comments to assist you in fulfilling that obligation.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

We conducted our audit of the 1996 consolidated financial statements of St. Tammany Parish Hospital in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. When performing an audit in accordance with those standards, we are required only to obtain an understanding of the Hospital's internal control structure sufficient to enable us to properly plan our audit and not to provide assurance on the internal control structure.

Based, in part, on our understanding of the control environment, we designed our audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. However, because of the characteristics of irregularities, particularly those involving forgery and collusion, a properly designed and executed audit may not detect such items.

We have issued a separate report to you, also dated April 11, 1997, containing our comments on the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The Hospital's significant accounting policies are set forth in Note 1 to the Hospital's 1996 consolidated financial statements. During the year ended December 31, 1996, there were no significant changes in previously adopted accounting policies or their application.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON THE AUDIT OF FINANCIAL STATEMENTS

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, 1996, and have issued our report thereon dated April 11, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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 consolidated financial statements are free of material misstatement.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

April 11, 1997

Deloitte Touche
Tohmatsu
International

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, 1996. 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, 1996 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. REGIONAL HOSPITAL ALLIANCE

The Hospital and five other community-based hospitals in the Greater New Orleans area have agreed to move forward on creation of a proposal which would unite their institutions in a team to compete in the Southeastern Louisiana marketplace. In moving forward, the group will work to complete the intricate details of the plan and satisfy any necessary antitrust or regulatory requirements. The plan calls for the group to have a definitive agreement and to come together as a team in the second quarter of 1997. One immediate goal of the group is to collectively enter the managed care marketplace with a "Super Physician Hospital Organization," or Super PHO, as soon as possible.

* * * * * *

6. CAPITAL AND OPERATING LEASES

Future minimum lease payments by year at December 31, 1996 under all capital lease obligations are as follows for the years ending December 31 (in thousands):

1997	$ 604
1998	396
1999	396
2000	377
2001	226
	1,999
Less imputed interest (interest rates range from 6.5% to 7.5%)	(201)
Present value of future lease obligations	1,798
Less amounts due within one year	(529)
Long-term portion of capital lease obligations	$1,269

Leased assets included in equipment totaled $3,753,000 at December 31, 1996. Accumulated amortization was $1,152,000 at December 31, 1996. The leased equipment collateralizes the capital lease obligations.

Total rental expense incurred for all operating leases was $417,000 and $340,000 for the years ended December 31, 1996 and 1995, 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, 1996 totaled $23,620,000 and $19,423,000, respectively. Contributions during 1996 required by the Plan document were $1,165,000, which represents 6% of covered payroll. Required contributions paid by the Hospital were $634,000 during the year ended December 31, 1996.

Pension expense included in salaries, wages and benefits related to the Plan described above approximates $907,000 and $1,125,000 for the years ended December 31, 1996 and 1995, 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.

5. LONG-TERM DEBT

The details and balances of long-term debt at December 31, 1996 and 1995 are presented below:

	1996	1995
	(in thousands)	
Hospital Revenue Bonds Series 1992, net of unamortized original issue discount of $356,000 and $378,000 at December 31, 1996 and 1995, respectively, ($225,000 due in fiscal year 1997)	$ 13,783	$ 13,977
Note payable, 6.5%, 60 monthly installments of $29,192 including interest ($172,000 due in fiscal year 1997)	172	499
Certificate of Indebtedness, Series 1992, 8.0%, 120 monthly installments of $3,094 including interest ($25,000 due in fiscal year 1997)	163	186
Demand note payable, 9.75%, 84 monthly installments of $8,272 including interest ($169,000 subject to demand in fiscal year 1997)	169	254
	14,287	14,916
Less amounts due within one year	(591)	(819)
	$ 13,696	$ 14,097

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): 1997 - $591; 1998 - $267; 1999 - $279; 2000 - $297; 2001 - $319 and thereafter - $12,890.

Hospital Revenue Bonds, Series 1992 - In December 1992, the Hospital issued $14,755,000 of tax-exempt Hospital Revenue Bonds, Series 1992 (the Bonds) comprised of $2,180,000 of serial bonds and $12,575,000 of term bonds with a final maturity of July 1, 2022 at stated interest rates ranging from 4.0% to 6.5% to expand, improve and renovate Hospital facilities. The Bonds were issued at a discount of $446,000 and yield 4.0% to 6.875%. The original issue 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 Bond Resolution) of 1.20. The Bonds are payable from a pledge of all future operating revenue of the Hospital.

The Bonds maturing after June 30, 2003 are callable by the Hospital prior to maturity beginning July 1, 2002. The redemption of the Bonds prior to maturity is subject to a premium of up to 2% until July 1, 2004.

Note Payable - During 1993, the Hospital entered into a 6.5% note payable maturing in June 1997. Equipment with a net book value of $404,000 at December 31, 1996 collateralizes the indebtedness.

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.

Demand Note - The demand note assumed by STMS during 1992 is collateralized by land and a building with a carrying value of $518,000 at December 31, 1996.

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The details of investments and assets whose use is limited at December 31, 1996 and 1995 are as follows:

	1996		1995	
	(In thousands)		(In thousands)	
	Cost	Market	Cost	Market
Investments:				
U.S. government securities	$ -	$ -	$ 5,020	$ 5,016
Federal agency securities	7,374	7,389	3,360	3,388
	7,374	7,389	8,380	8,404
Assets whose use is limited:				
For capital improvements:				
Cash and certificates of deposit	-	-	500	500
Federal agency securities	8,619	8,639	6,630	6,696
	8,619	8,639	7,130	7,196
For professional and other liability claims:				
Certificates of deposit	575	575	575	575
Debt service fund:				
U.S. government securities	1,125	1,125	1,125	1,125
Cash	454	454	458	458
	1,579	1,579	1,583	1,583
Total investments and assets whose use is limited	$ 18,147	$ 18,182	$ 17,668	$ 17,758

In connection with the issuance of the Series 1992 Revenue 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 is subject to a prior lien in favor of the owners of the Bonds.

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.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND RESOLUTION

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

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) as of December 31, 1996 and the related consolidated statements of revenue, expenses and changes in fund balance, and cash flows for the year then ended, and have issued our report thereon dated April 11, 1997

In connection with our audit, nothing came to our attention that caused us to believe that St. Tammany Parish Hospital failed to comply with the terms, covenants, provisions or conditions of Sections 2.8, 4.2 through 4.4, 5.1, 5.3 through 5.9, 6.1, 6.2 and 7.13, inclusive, of the Bond Resolution as adopted by the Board of Commissioners of St. Tammany Parish Hospital Service District No. 1 on November 5, 1992 in connection with the issuance of $14,755,000 St. Tammany Parish Hospital Service District No. 1 Hospital Revenue Bonds (Series 1992) insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Sections.

This report is intended for the use of the Board of Commissioners, management, the Trustee, and the State of Louisiana Legislative Auditor and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Deloitte + Touche LLP

April 11, 1997

EXHIBIT I

INTERNAL CONTROL STRUCTURE

FIXED ASSET RECORDS

Observation

The Hospital has not conducted an inventory of fixed assets in a number of years. We understand that management has been considering such a project for several years.

Recommendation

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

Management's Response

Management agrees with this recommendation and will initiate a departmental physical fixed asset inventory. The inventory will be conducted in phases during fiscal 1997 and fiscal 1998.

PROFESSIONAL LIABILITY CLAIMS

Observation

Hospital accounting personnel have the responsibility of compiling a data base of professional liability claims paid, as well as those which are open or outstanding. Currently, there is no reconciliation of the information contained in this data base with the detailed information provided by the Hospital's external legal counsel. Additionally, no actuarial valuation has been performed to assess the adequacy of the reserves included within the accrual for professional liability claims.

Background

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund). As such, the Hospital is insured through the Fund for professional liability claims in excess of $100,000 up to $500,000. The Hospital, therefore, is self-insured with respect to the first $100,000 of each such claim. Louisiana law does not currently provide for a professional liability damage award greater than $500,000.

Recommendation

The Hospital should reconcile all data compiled internally with that provided by external legal counsel. Additionally, due to the increasing number of professional liability claims being received as a result of increasing patient volumes, the Hospital should consider having an actuarial valuation performed on the reserves included within the accrual for professional liability claims.

ST. TAMMANY PARISH HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1996 AND 1995 (IN THOUSANDS)

	1996	1995
OPERATING ACTIVITIES:		
Revenue in excess of expenses	$ 3,362	$ 3,612
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:		
Provision for bad debts	2,340	3,288
Depreciation and amortization	3,309	3,288
Loss on disposal of equipment	7	-
Interest expense	851	862
Interest earned on investments	(1,184)	(1,185)
Changes in operating assets and liabilities:		
Patients accounts receivable	(3,949)	809
Inventories, prepaid expenses and other receivables	(290)	-
Accounts payable and accrued expenses	(445)	435
Accrued employee compensation and vacation	469	(364)
Net settlements due to/from medicare and medicaid intermediaries	1,091	539
Accrued professional liability claims	49	49
Net cash provided by operating activities	5,610	11,333
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property, plant and equipment	(6,087)	(8,698)
Principal payments on long-term debt and capital lease obligation	(1,199)	(1,138)
Interest payments	(851)	(862)
Net cash used in capital and related financing activities	(8,137)	(10,698)
INVESTING ACTIVITIES:		
Net change in assets whose use is limited	(1,485)	3,199
Net change in investments	1,006	(4,952)
Interest earned on investments	1,184	1,185
Net cash provided by (used in) investing activities	705	(568)
(DECREASE) INCREASE IN CASH	(1,822)	67
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,891	3,824
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,069	$ 3,891
NON-CASH INVESTING AND FINANCING TRANSACTION - Capital lease additions	$ 1,740	$ -

See notes to consolidated financial statements.