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ST. THOMAS HEALTH SERVICES, INC.

FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 1996

Under provisions of state law, this report is a public document. A copy of this report has been submitted to the auditor, for recording, custody and other responsibilities of public officials. It is open to applicants for public records at the State House, Senate of the Legislative Auditor and, where appropriate, at the office of the public clerk of court.

Printing Date: 4/10 2 1 1997

**Bruno
& Tervalon**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of St. Thomas Health Services, Inc. (a non-profit corporation) as of December 31, 1996 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of St. Thomas Health Services, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Governmental Auditing Standards, and the provisions of OMB Circular A-133. Those 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 referred to above present fairly, in all material respects, the financial position of St. Thomas Health Services, Inc. as of December 31, 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in NOTE 2 to the financial statements, during the year ended December 31, 1996, St. Thomas Health Services, Inc. changed its method of accounting for contributions received and applied newly established financial reporting standards for not-for-profit organizations.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

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

Our audit was made for the purpose of forming an opinion on the financial statements of St. Thomas Health Services, Inc. taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated June 23, 1997 on our consideration of St. Thomas Health Services, Inc.'s internal control structure and a report dated June 23, 1997 on its compliance with laws and regulations.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 1997

ST. THOMAS HEALTH SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1956

ASSETS

Cash (NOTE 2)	\$ 15,879
Accounts receivable	2,880
Grants receivable	110,467
Restricted cash (NOTE 14)	25,000
Deposits	2,379
Furniture, equipment and building improvements, net of accumulated depreciation of \$271,842 (NOTE 3)	245,513
Total assets	\$302,118

LIABILITIES

Accounts payable	\$123,259
Payroll taxes payable	70,000
Due to funding sources (NOTE 3)	1,000
Loans payable (NOTE 11)	140,529
Total liabilities	\$334,788

COMMITMENTS AND CONTINGENCIES (NOTE 12)

NET ASSETS (NOTE 8)

Unrestricted	141,000
Permanently restricted	-25,000
Total net assets	116,000
Total liabilities and net assets	\$450,788

The accompanying notes are integral part of these
financial statements.

ST. THOMAS HEALTH SERVICES, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 1994

	UNRESTRICTED	PERMANENTLY RESTRICTED
OPERATING REVENUES		
Contributions	\$387,503	\$ -0-
Grant revenues	379,000	25,000
Patient revenues	141,005	-0-
Other revenues	62	-0-
Total operating revenues	913,082	25,000
OPERATING EXPENSES		
Program expenses	382,383	-0-
Management and general	512,032	-0-
Total operating expenses	894,415	-0-
Changes in net assets	(81,333)	25,000
Net assets at beginning of year	188,079	-0-
Net assets at end of year	\$106,746	\$25,000

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

ST. THOMAS HEALTH SERVICES, INC.

STATEMENT OF CASH FLOW

DECEMBER 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ (20,273)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	62,259
Changes in operating assets and liabilities:	
Increase in restricted cash	(28,600)
Decrease in accounts and grants receivable	20,481
Increase in deposits	(460)
Decrease in accounts and payroll taxes payable	(27,889)
Increase in due to funding sources	<u>1,888</u>
Net cash provided by operating activities	<u>10,485</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(18,310)
Net cash used in investing activities	<u>(18,310)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Loans from sponsor organization	202,800
Repayment of loans to sponsor organization	(207,800)
Net cash provided by financing activities	<u>15,000</u>
Net increase in cash	11,995
Cash at the beginning of the year	<u>4,284</u>
Cash at the end of year	\$ <u>16,279</u>

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

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

NOTE 1 - Organization:

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

The Clinic was founded in 1967 to improve the health status in the service area with major emphasis being placed on disease prevention.

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

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

In order to assist St. Thomas in meeting its goals and mission of providing services as a primary health care clinic, St. Thomas has applied for and been awarded several government grants. During the year ended December 31, 1976, St. Thomas received and administered the following governmental grants and programs:

• **MATERNAL AND CHILD HEALTH CARE PROGRAM**

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

- Comprehensive pediatric care to a defined number of children.

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

NOTE 1 - Organization, continued:

o **MATERNAL AND CHILD HEALTH CARE PROGRAM, CONTINUED**

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

o **RYAN WHITE**

St. Thomas received a grant from the City of New Orleans, the Mayor's office of Health Policy to provide health care for individuals afflicted with AIDS.

o **GRANT EXPECTATIONS**

St. Thomas received a grant from the City of New Orleans to provide low-risk prenatal, family planning and general obstetrical services.

o **PHYSICIAN SALARY SUBSIDY GRANT**

St. Thomas received a grant from the Office of Public Health for the State of Louisiana for costs associated with a certain physician and administrator. Cost for 1995 totaling \$37,777 were reimbursed by the grant.

o **SEXUAL TRANSMITTED DISEASES (STD) GRANT**

St. Thomas received a grant from the State of Louisiana, Department of Health and Hospitals to provide STD and HIV prevention services to clients in the service area.

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

NOTE 1 - Summary of Significant Accounting Policies:

Principles of Accounting

St. Thomas Health Services, Inc. is a non-profit, community based health clinic whose financial statements are prepared on the accrual basis and in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Reporting

During 1998, St. Thomas adopted the provisions of 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," and applied these standards on a retrospective basis. SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. The implementation of this FASB did not have an effect on net assets. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories which are unrestricted, temporarily restricted and permanently restricted net assets according to externally (donor) imposed restrictions. In addition, St. Thomas is required to present a statement of cash flows.

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

NOTE 3 - Summary of Significant Accounting Policies, Continued:

Basis of Accounting, continued

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

Unrestricted net assets include the following:

- a Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of St. Thomas are included in this category. St. Thomas has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of St. Thomas, and therefore, St. Thomas' policy is to record these net assets as unrestricted.

Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor imposed restrictions have not been met.

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor imposed restrictions. At December 31, 1996 St. Thomas did not have any temporarily restricted net assets.

Inter-Fund Activity

All inter-fund activities have been recorded as due to or due from other programs and represent any loans to or expenses paid by one program on behalf of another. Such amounts have been reflected in the supplemental balance sheet.

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

NOTE 2 - Summary of Significant Accounting Policies, continued:

Due to Funding Sources

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

NOTE 3 - Cash and Cash Equivalents:

Cash consist of the interest bearing and non-interest bearing checking accounts.

For purpose of the statement of cash flows, cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase.

NOTE 4 - Unrestricted Contributions:

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

NOTE 5 - Government Grants:

St. Thomas is the recipient of several federal awards as disclosed in the Schedule of Federal Awards. Included in government grant revenues are funds disbursed from several funding sources to provide funds for the implementation of various community programs as well as to support the operations of the clinic. The method of payment on the grants is cost reimbursement except for the STD Grant which is on a fee for service basis.

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

NOTE 6 - Clinic Revenues:

St. Thomas provides medical assistance to eligible Medicaid recipients and receives reimbursements from the Department of Health and Human Services for claims submitted in conjunction with those services provided. Reimbursements for Medicaid and Medicare claims submitted as of December 31, 1998 totaled \$211,438, which is included in patient revenues at December 31, 1998.

NOTE 7 - Building Lease:

On January 30, 1991, St. Thomas executed a fifteen (15) year lease agreement with the Society of Redemptorists Order for the use of a building located at 1028 St. Andrew Street. The terms of the lease require St. Thomas to be responsible for the complete renovation of the building, upkeep and maintenance of the property, utilities and insurance coverage for the building and its contents.

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

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

NOTE 8 - Program Income:

Program income totaling \$20,822 for the Great Expectations grant was calculated based upon the percentage relationship of the direct cost of the Great Expectations' program expenditures to the total expenditures (excluding depreciation). The resulting percentage was then applied to patient revenues.

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

NOTE 9 - Pension Plan:

Certain employees of St. Thomas participate in a 401k Pension Plan which was established during January 1986. The plan is funded by employee deductions which are not required to be matched by St. Thomas.

NOTE 10 - Income Taxes:

St. Thomas is exempt from federal income taxes through Section 501(c)(13) of the Internal Revenue Code.

NOTE 11 - Loans Payable:

Non-interest bearing demand loan	\$ 75,000
Non-interest bearing demand loan provided by a sponsor corporation	25,500
Non-interest bearing term loan provided by a sponsor corporation	40,000
Total	\$140,500

During 1986, St. Thomas received a non-interest bearing term loan totaling \$300,000 from a sponsor corporation which is forgiven in five equal installments of \$60,000, commencing December 31, 1994. The balance of the term loan is \$40,000 at December 31, 1986.

During 1986, St. Thomas repaid \$30,000 of the \$55,500 demand loan and received an additional \$75,000 from the Sponsor Corporation.

NOTE 12 - Contingency:

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

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

NOTE 12 - Contingency, Continued:

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

NOTE 13 - Fair Value of Financial Instruments:

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

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

NOTE 14 - Restricted Cash:

On June 30, 1996, St. Thomas received a \$25,000 grant from the Fannie Mae Foundation to establish a revolving loan fund for expectant mothers who are uninsured and not eligible for federal or local government assistance with their health care. Such funds are recorded as permanently restricted net assets.

SUPPLEMENTAL INFORMATION

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF FEDERAL AWARDS
For the Year Ended December 31, 1984

FEDERAL/GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DISBURSEMENTS/ EXPENDITURES
MAJOR PROGRAM		
<u>Department of Health and Human Services</u>		
Pass-through program:		
SESH-State of LA - Maternal and Child Health	93.994	\$183,193
Pass-through Programs:		
City of New Orleans: Great Expectations	N/A	134,678
Total Department of Health and Human Services		317,871
NON-MAJOR PROGRAMS		
State of Louisiana:		
Physician salary subsidy sexually transmitted diseases	N/A	12,200
City of New Orleans:		
Ryan White	N/A	8,222
Total Non-Major		20,422
Total Federal Awards		\$338,293

See the Independent Auditors' Report Supplementary Information.

PT. WOODS HEALTH SERVICES, INC.
 STATEMENT OF BALANCE SHEET
 DECEMBER 31, 1968

ASSETS	CURRENT ASSETS	FIXED ASSETS	DEFERRED ASSETS	LIABILITIES	EQUITY	TOTAL ASSETS	TOTAL LIABILITIES AND EQUITY
CASH (NOTE 2)	\$ 15,479	\$ -	\$ -	\$ -	\$ -	\$ 15,479	\$ 15,479
RECEIVABLES	2,459	-	-	-	-	2,459	2,459
PROPERTY, PLANT AND EQUIPMENT (NOTE 3)	21,289	24,484	4,284	-	-	50,057	50,057
RESTRICTED CASH (NOTE 4)	-	-	-	-	24,808	24,808	24,808
NET OTHER ASSETS	-	-	-	-	-	-	-
LIABILITIES	159,479	-	-	-	-	159,479	159,479
EQUITY	2,079	-	-	-	-	2,079	2,079
	\$ 181,558	\$ 24,484	\$ 4,284	\$ -	\$ 24,808	\$ 235,134	\$ 235,134

See the Independent Auditor's Report on supplementary information.

ST. THOMAS BROSERS SERVICES, INC.
 SUPPLEMENTAL BALANCE SHEET, CONTINUED
 PERIODS TO, 1974

	ASSETS	LIABILITIES	NET ASSETS	DEFERRED	DEFERRED	DEFERRED	TOTAL
	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES
	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES
	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES	LIABILITIES
LIABILITIES							
Accounts payable	147,049	\$ 0-	\$ 0-	\$ 0-	\$ 0-	\$ 0-	\$ 147,049
Payroll taxes	78,828	0-	0-	0-	0-	0-	78,828
Due to owner	0-	80,879	80,879	8,288	0-	0-	208,273
Income tax	148,289	0-	0-	0-	0-	0-	148,289
Other liabilities	0-	1,000	0-	0-	0-	0-	1,000
Total	374,166	81,879	81,879	8,288	0-	0-	614,434
LIABILITIES							
Accounts payable	147,049	0-	0-	0-	0-	0-	147,049
Payroll taxes	78,828	0-	0-	0-	0-	0-	78,828
Due to owner	0-	80,879	80,879	8,288	0-	0-	208,273
Income tax	148,289	0-	0-	0-	0-	0-	148,289
Other liabilities	0-	1,000	0-	0-	0-	0-	1,000
Total	374,166	81,879	81,879	8,288	0-	0-	614,434
LIABILITIES							
Accounts payable	147,049	0-	0-	0-	0-	0-	147,049
Payroll taxes	78,828	0-	0-	0-	0-	0-	78,828
Due to owner	0-	80,879	80,879	8,288	0-	0-	208,273
Income tax	148,289	0-	0-	0-	0-	0-	148,289
Other liabilities	0-	1,000	0-	0-	0-	0-	1,000
Total	374,166	81,879	81,879	8,288	0-	0-	614,434

See the Independent Auditor's report on supplementary information.

BY THESE HEALTH SERVICES, INC.
 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 1989

	GENERAL ASSETS	NATIONAL CHILD HEALTH	DEATH SUBSCRIPTIONS	FINIS REVENUE	PERIODIC SALARIES EXPENSE	PARENT BAL FOUNDER'S	TOTAL INFORMATION SERVICES, INC.
ASSETS							
Contributions	\$187,800	\$	\$	\$	\$	\$	\$187,800
Grant revenues	7,800		1,145,874	4,390	50,450	15,000	679,864
PLANT PURCHASES	141,800						141,800
Other revenues	52		32	620	620	620	1,292
Total revenues	337,452	143,252	1,146,212	4,320	51,120	15,620	2,013,316
LIABILITIES							
Accounts and receivable	482,570	1,79,000	184,082	4,877	8,112		698,641
Accounts payable	21,547		2,301	210	2,828		27,886
Other	1,483		148				1,631
Prepaid expenses, deposits and retentions	2,282		323				2,605
Deferred services	28,488		21,000				49,488
Liabilities to subscribers	15,380						15,380
Payroll and laboratory supplies	18,720		4,180				22,900
Office supplies, marketing and reproduction	4,497		1,220				5,717
Telephone	2,185						2,185
Total liabilities	681,565	1,83,480	219,833	4,320	11,940	15,620	1,116,318

See the Independent Auditors' Report on Supplementary Information.

ET. TRUCKS SALES SERVICE, INC.
MEMORANDUM STATEMENT OF REVENUES, EXPENSES AND CHANGES TO NET ASSETS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 1974

	CAPITAL EQUITY	INTERNAL CREDIT BALANCE	DEBT DEFERRED CREDITS	NET ASSETS	NET EQUITY	NET LIABILITY	TOTAL LIABILITIES (DEFERRED)
REVENUES, CONTINUED							
Services	\$ 5,110	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,110
Articles	9,441	3,028	1,410	-	-	-	13,879
Subscriptions	921	-	182	-	-	-	1,103
Reproduction	45,000	-	-	-	-	-	45,000
Publicity and Interviews	21,150	-	-	-	-	-	21,150
Travel, Lodging and permits	977	-	-	-	-	-	977
Equipment rental	1,342	-	-	-	-	-	1,342
Total expenses	\$11,623	\$3,212	\$15,068	\$4,282	\$11,623	\$4,282	\$15,905
Change in net assets	\$28,288	-	\$11,623	\$-	\$11,623	\$11,623	\$28,288
NET ASSETS							
At 12/31/73	\$28,288	\$-	\$-	\$28,288	\$-	\$-	\$28,288
At 12/31/74	\$56,576	\$-	\$-	\$56,576	\$-	\$-	\$56,576

See the Independent Auditors' Report or Supplementary Information.

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

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

We have audited the financial statements of St. Thomas Health Services, Inc. (a nonprofit corporation-St. Thomas), as of and for the year ended December 31, 1996 and have issued our report thereon dated June 23, 1997. As discussed in NOTE 2 to the financial statements, during the year ended December 31, 1996, St. Thomas changed its method of accounting for contributions received and applied newly established financial reporting standards for not-for-profit organizations.

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 financial statements are free of material misstatement.

The management of St. Thomas 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 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. 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.

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

In planning and performing our audit of the financial statements of St. Thomas for the year ended December 31, 1998, we obtained an understanding of 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.

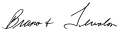
We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization'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 the Schedule of Reportable Conditions.

A material weakness is a reportable 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 financial irregularities in accounts 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.

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 weaknesses as defined above. However, we believe the reportable condition is not a material weakness.

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

This report is intended for the information of the Board of Directors, management, the City of New Orleans and the U.S. Department of Health and Human Services. However, this report is a matter of public record and its distribution is not limited.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 1987

& Tervalon

MICHAEL S. BRUNO, CPA
APRIL L. TERVALON, JR., CPA
SINCE JANUARY 1, 1978

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS**

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

We have audited the financial statements of St. Thomas Health Services, Inc. (a nonprofit corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated June 23, 1997. We have also audited St. Thomas Health Services, Inc.'s (St. Thomas) compliance with requirements applicable to the major Department of Health and Human Services programs and have issued our report thereon dated June 23, 1997. As discussed in NOTE 3 to the financial statements, during the year ended December 31, 1996, St. Thomas changed its method of accounting for contributions received and applied newly established financial reporting standards for not-for-profit organizations.

We conducted our audits in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133. Those 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, and about whether St. Thomas complied with laws and regulations, noncompliance with which would be material to a major federal program.

In planning and performing our audits of the financial statements of St. Thomas for the year ended December 31, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the organization's financial statements and on its compliance with requirements applicable to the major Department of Health and Human Services assisted programs and to report on the internal control structure in accordance with OMB Circular A-133.

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS
(CONTINUED)

This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal programs. We have addressed policies and procedures relevant to our audit of the financial statements in a separate report dated June 31, 1987.

The management of St. Thomas 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 recorded 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 awards 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.

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

- | | |
|-----------------------------------|-----------------------------|
| • Revenue and Receivables | • Political Activities |
| • Payroll and Related Liabilities | • Civil Rights |
| • Property and Equipment | • Cash Management |
| • Debt and Other Liabilities | • Federal Financial Reports |
| • Cash Receipts | • Drug-Free Workplace |
| • Administrative Requirements | • Budgeting |
| • Allowable Costs/Cost Principle | • Cost Allocation |
| • Eligibility | • Accounts Payable |
| | • Cash Disbursements |
| | • Types of Services Allowed |

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS
(CONTINUED)

For all of the internal control categories listed above, 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 December 31, 1996, St. Thomas expended 931 of its total federal financial assistance under major Department of Health and Human Services programs.

We performed tests of controls as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we consider relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and accounts claimed or used for matching that are applicable to St. Thomas' major federal financial assistance 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 policies and procedures. Accordingly, we do not express such an opinion.

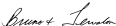
We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to administer federal award programs in accordance with applicable laws and regulations. See the 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 noncompliance with laws and regulations that would be material to a federal awards program 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 THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS
(CONTINUED)

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 that the reportable condition is not a material weakness.

This report is intended for the information of the Board of Directors, management, the City of New Orleans and the U.S. Departments of Health and Human Services. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 1987

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF REPORTABLE CONDITIONS

1. **BUDGETING AND FINANCIAL MANAGEMENT**

Through our observation and analysis of data during the audit and discussions with management, we are aware of the impact that reduced, delayed or terminated funding has on St. Thomas' financial operations. Furthermore, we noted the necessity to temporarily transfer funds from the general fund to programs in order to fund primary expenses for operations (i.e. payroll, payroll taxes and fringe benefits, utilities, etc.).

In addition, we realize that because of the constant efforts to maintain minimum cashflow for operations, management's efforts are restricted in their attempts to control operations via budgetary guidelines, monthly analysis and review of financial statements and the preparation of revised budgets and/or projections based upon changes in funding. However, we must stress that St. Thomas cannot continue to rely on loans and operating subsidies from the sponsor Corporation.

It is because of the fluctuation in funding experienced by St. Thomas that more importance must be placed on a strong adherence to proper budgetary controls, analysis and review of monthly financial statements and the prompt and adequate response to changes in funding. We recommend that St. Thomas' management continue to implement the necessary procedures and practices to ensure that proper control is maintained over spending as outlined and discussed above.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND
REGULATIONS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of St. Thomas Health Services, Inc. (a non profit corporation-St. Thomas) as of and for the year ended December 31, 1996, and have issued our report thereon dated June 23, 1997. As discussed in NOTE 3 to the financial statements, during the year ended December 31, 1996, St. Thomas changed its method of accounting for contributions received and applied newly established financial reporting standards for not-for-profit organizations.

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 financial statements are free of material misstatement.

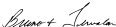
Compliance with laws, regulations, contracts, and grants applicable to St. Thomas is the responsibility of St. Thomas' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of St. Thomas' compliance with certain 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.

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

(CONTINUED)

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements which is described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of the Board of Directors, management, the City of New Orleans and the U.S. Department of Health and Human Services. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 1997

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

1. AUDITED FINANCIAL STATEMENTS

Condition

We noted during our audit that St. Thomas did not complete a financial and compliance audit within six (6) months of the close of the organization's fiscal year.

CAUSE

St. Thomas' accounting records were not maintained on a current basis.

Effect

The organization has not complied with a Louisiana Revised Statute.

Criteria

Louisiana Revised Statute 34:523(A)(5)(a) requires that a financial and compliance audit of an organization must be completed within six (6) months of the close of the entity's fiscal year.

Recommendation

We recommend that St. Thomas take immediate steps to ensure that its accounting records are maintained on a current basis.

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

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

We have audited the financial statements of St. Thomas Health Services, Inc. (a non-profit corporation-St. Thomas) as of and for the year ended December 31, 1996 and have issued our report thereon dated June 23, 1997. As discussed in NOTE 2 to the financial statements, during the year ended December 31, 1996, St. Thomas changed its method of accounting for contributions received and applied newly established financial reporting standards for not-for-profit organizations.

We have also audited St. Thomas' compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort; or earmarking; reporting; claims for advances and reimbursements; special tests and provider; financial reports; and amounts claimed or used for matching that are applicable to its major federal awards program which is identified in the accompanying schedule of federal awards for the year ended December 31, 1996. The management of St. Thomas is responsible for St. Thomas' compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

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 the provisions of OMB Circular A-133. 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 St. Thomas' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

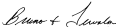
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR
FEDERAL AGENCY PROGRAMS

(CONTINUED)

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

In our opinion, St. Thomas complied, in all material respects, with the requirements governing types of services allowed or disallowed; eligibility; matching; level of effort, or earmarking; reporting; claims for advances and reimbursements; special tests and provisions; financial reports; and accounts claimed or used for matching that are applicable to its major Federal programs for the year ended December 31, 1984.

This report is intended for the information of the Board of Directors, management, the City of New Orleans and the U.S. Department of Health and Human Services. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 1987

& Tervalon

MEMPHIS BRUNO CO.
SUITE 100 - MEMPHIS, TN 38103
PHONE 486-1111, 486-1111

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

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

We have audited the financial statements of St. Thomas Health Services, Inc. (a non-profit corporation-St. Thomas) as of and for the year ended December 31, 1986, and have issued our report thereon dated June 23, 1987. As discussed in NOTE 3 to the financial statements during the year ended December 31, 1986, St. Thomas changed its method of accounting for contributions received and applied newly established financial reporting standards for not-for-profit organizations.

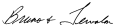
In connection with our audit of the financial statements of St. Thomas as of and for the year ended December 31, 1986, and with our consideration of St. Thomas' internal control structure used to administer federal programs, as required by OMB Circular A-133, "Admins. of Institutions of Higher Education and Other Nonprofit Institutions", we selected certain transactions applicable to certain nonmajor federal programs for the year ended December 31, 1986. As required by OMB Circular A-133, we performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed and eligibility 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 St. Thomas' compliance with these requirements. 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 preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that St. Thomas had not complied, in all material respects with these requirements.

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

(CONTINUED)

This report is intended for the information of the Board of Directors, management, the City New Orleans and U.S. Department of Health and Human Services. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 1997

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

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

We have audited the financial statements of St. Thomas Health Services, Inc. (a non-profit organization-St. Thomas) as of and for the year ended December 31, 1996 and have issued our report thereon dated June 23, 1997. As discussed in NOTE 3 to the financial statements, during the year ended December 31, 1996, St. Thomas changed its method of accounting for contributions received and applied newly established financial reporting standards for not-for-profit organizations.

We have applied procedures to test St. Thomas' compliance with the following requirements applicable to its federal programs, which are identified in the accompanying schedule of federal awards for the year ended December 31, 1996:

General Requirements

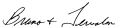
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|-------------------------------|-----------------------------------|
| o Political Activity | o Allowable Costs/Cost Principles |
| o Civil Rights | o Drug-Free Workplace Act |
| o Federal Financial Reports | o Cash Management |
| o Administrative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

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

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

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 St. Thomas had not complied, in all material respects, with these requirements.

This report is intended for the information of the Board of Directors, management, the City of New Orleans and the U.S. Departments of Health and Human Services. This restriction is not intended to limit the distribution of this report which, upon acceptance by St. Thomas, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 1967

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS

The prior audit report for the year ended December 31, 1995 contained the following findings. The status of the action taken by St. Thomas to resolve the prior audit findings are as follows:

	RESOLVED	UNRESOLVED
1. <u>PAYROLL COSTS--GREAT EXPECTATIONS PROGRAM</u>		X
We noted during the audit that payroll and related tax expense for the part-time pediatricians were less than the cost report amount.		
<u>CURRENT STATUS</u>		
St. Thomas is still presently negotiating a final determination for this condition. As such, this condition remains unresolved.		
2. <u>PROGRAM INCOME</u>		X
We noted during the audit that St. Thomas had not established adequate procedures to ensure that program income was calculated and recorded properly.		
<u>CURRENT STATUS</u>		
St. Thomas has not adhered to established procedures to ensure that program income was calculated and recorded properly. As such, this condition remains unresolved.		

ST. THOMAS HEALTH SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS, CONTINUED

RESOLVED UNRESOLVED

3. COST REIMBURSEMENT CONTRACT

X

We noted during the year ended December 31, 1996, that St. Thomas requested and received grant funds totaling \$40,394 for the acquisition of equipment under the terms of a cost reimbursement contract. Although, the budgeted equipment was delivered to St. Thomas, actual disbursements relative to the reimbursement request were not made and are reflected in the general fund's accounts payable at December 31, 1996. As such, we have questioned costs in the amount of \$40,394.

CURRENT STATUS

St. Thomas has not liquidated the entire balance of funds due to the vendor. As such, this condition remains unresolved.

ST. THOMAS HEALTH SERVICES, INC.

EXIT CONFERENCE

An exit conference was held on August 10, 1997 and those in attendance were as follows:

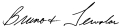
ST. THOMAS HEALTH SERVICES, INC.

Dr. Mary Abell	--	Medical Director
Mr. Bobby Branson	--	Board Member
Ms. Janice Speed	--	Office Administrator
Ms. Sheri Jackson	--	Accountant

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Alcide J. Tervalon, Jr., CPA	--	Partner
Mr. Edward Phillips	--	Senior Manager

The audit report was discussed. This report is intended solely for the use of the Board of Directors, management, the City of New Orleans and the U.S. Department of Health and Human Services and should not be used for any other purpose.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 21, 1997