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Release Date DEC 11 1996

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Independent Auditors' Report

Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana

We have audited the accompanying financial statements of the unrestricted fund of St. Landry Parish Hospital Service District No. 1, Eunice, Louisiana, (the "District") for the year ended May 31, 1996, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, 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 general purpose 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to satisfy ourselves as to the accuracy of the beginning balance of the allowance for doubtful accounts and allowances for contractual adjustments. These amounts would significantly affect beginning net accounts receivable and net income in the year. Therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying statements of operations, statement of changes in fund balances, and cash flows for the year ended May 31, 1996. In our opinion, the balance sheet referred to in the first paragraph presents fairly, in all material respects, the financial position of the St. Landry Parish Hospital Service District No. 1, Eunice, Louisiana, as of May 31, 1996, in conformity with generally accepted accounting principles.

Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana
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In accordance with Government Auditing Standards, we have also issued a report dated September 3, 1996, on our consideration of St. Landry Parish Hospital Service District's internal control structure and a report dated September 3, 1996, on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1. As previously stated, the scope of our work was not sufficient to enable us to express an opinion, and we do not express, an opinion on the supplemental information.

As discussed more fully in Note 18 to the financial statements, the Hospital has experienced significant losses and related cash flow difficulties. The general purpose financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if the St. Landry Parish Hospital Service District No. 1, Eunice, Louisiana, is unable to continue operation of the facility.

Easley, Lester & Wells
Certified Public Accountants

September 3, 1996

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
BALANCE SHEET - UNRESTRICTED FUND
MAY 31, 1996

ASSETS	1996
Current assets:	
Cash and cash equivalents	$ 348,662
Assets limited as to use (Note 5)	468
Patient accounts receivable, net of estimated uncollectibles of $1,404,000	2,147,746
Inventory	347,361
Prepaid expenses	102,020
Physician loan	3,900
Total current assets	2,950,157
Other:	
Property, plant and equipment, net (Note 6)	3,847,635
Unamortized bond issue cost	10,942
Deposits	1,700
Total assets	$ 6,810,434

LIABILITIES AND FUND BALANCE	
Current liabilities:	
Accounts payable	$ 2,361,310
Payroll taxes and other withholdings	176,464
Estimated third-party payor settlements	133,689
Accrued expenses (Note 7)	663,163
Current portion of long-term debt (Note 8)	497,657
Total current liabilities	3,832,283
Long-term debt, net of current maturities (Note 8)	879,444
Total liabilities	4,711,727
Fund balance - unrestricted	2,098,707
Total liabilities and fund balance	$ 6,810,434

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

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENT OF OPERATIONS - UNRESTRICTED FUND
YEAR ENDED MAY 31, 1996

	1996
Revenue:	
Net patient service revenue	$ 12,984,441
Other	156,528
Total revenue	13,140,969
Expenses:	
Salaries and benefits	6,679,459
Medical supplies and drugs	1,943,735
Professional fees	2,199,985
Advertising	61,064
Maintenance and repairs	194,888
Rentals and leases	21,591
Utilities	344,248
Travel	94,604
Other expenses	1,440,612
Insurance	339,122
Depreciation and amortization	523,562
Interest	168,270
Provision for bad debt	1,161,709
Total expenses	15,172,849
Operating income (loss)	(2,031,880)
Nonoperating income:	
Interest income	11,820
Excess of expenses over revenues	$ (2,020,060)

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

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENT OF CHANGES IN FUND BALANCE - UNRESTRICTED FUND
YEAR ENDED MAY 31, 1996

	1996
Fund balance, June 1, 1995	$ 4,705,309
Prior period adjustment (Note 16)	(586,542)
Adjusted fund balance, June 1, 1995	4,118,767
Excess of expenses over revenues	(2,020,060)
Fund balance, May 31, 1996	$ 2,098,707

COMPOSITION OF FUND BALANCE

Contributed capital	
Hill-Burton	$ 1,137,016
Individuals	171,376
Total contributed capital	1,308,392
Accumulated excess of revenues over expenses	790,315
Fund balance, May 31, 1996	$ 2,098,707

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

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENT OF CASH FLOWS - UNRESTRICTED FUND
YEAR ENDED MAY 31, 1996

	1996
Cash flow from operating activities:	
Operating income (loss)	$ (2,031,880)
Interest expense considered capital financing activities	145,009
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	523,562
Provision for bad debts	1,161,709
Changes in:	
Patient accounts receivable	67,964
Inventories	503
Prepaid expenses	(9,388)
Accounts payable	997,283
Payroll and other withholdings	20,463
Accrued expense	11,243
Due from/to intermediaries	51,562
Unearned revenue	(9,199)
Assets whose use is limited-current	4,273
Net cash provided by operating activities	933,104
Cash flow from investing activities:	
Collections on physician loans	16,100
Loans to physicians	(20,000)
Interest on checking accounts	11,820
Net cash provided by investing activities	$ 7,920

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

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
STATEMENT OF CASH FLOWS - UNRESTRICTED FUND
YEAR ENDED MAY 31, 1996

	1996
Cash flow from capital and related financing activities:	
Principal paid on long-term debt	$ (571,361)
Interest paid on long-term debt	(145,009)
Purchase property and equipment	(115,302)
Net cash used by capital and related financing activities	(831,672)
Net increase (decrease) in cash and cash equivalents	109,352
Cash and cash equivalents, beginning of year	239,310
Cash and cash equivalents, end of year	$ 348,662

Supplemental disclosures of cash flow information:

The District entered into capital lease obligations of $389,713 for new equipment in 1996.

The District paid $167,712 for interest during the year.

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

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MAY 31, 1996

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legal Organizations

The St. Landry Parish Hospital Service District No. 1, dba Moosa Memorial Hospital, (referred to as the "District" or the "Hospital") was created by an ordinance of the St. Landry Parish Police Jury. The governing board of the District consists of seven members appointed by the Jury. Because the police jury appoints all commissioners of the St. Landry Parish Hospital Service District No. 1, the police jury is considered to have the ability to impose its will on the District and therefore the District is a component unit of the St. Landry Parish Police Jury, which is the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the police jury, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Nature of Business

The Hospital provides a variety of healthcare services including: 1) inpatient services such as acute, psychiatric and skilled nursing, through "swing beds"; 2) outpatient services such as diagnostic and therapeutic ancillaries, emergency room and physician specialty clinics; 3) other services such as home health.

Proprietary Fund Accounting

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual method. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and the Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards established by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Property, Plant and Equipment

Purchased fixed assets are recorded at cost and donated fixed assets, if received, at fair market value on the date of any donation. Depreciation is calculated over estimated useful lives, using the straight-line method. Equipment under capital lease obligations is amortized using the straight-line method over the life of the asset if there is a bargain purchase option or transfer of title. If there is no bargain purchase option or transfer of title, the leased asset is amortized over the lease term. Such amortization is included in depreciation and amortization in the financial statements.

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash represents coin, currency, bank demand deposits and other negotiable instruments that are readily acceptable in lieu of currency. Cash equivalents are time deposits, certificates of deposit, Treasury Bills and mortgage backed securities purchased with a maturity of three months or less.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis.

Income Taxes

The District is a political subdivision of the State of Louisiana and exempt from taxation.

Use of Estimates

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.

Accounting Standards

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), including those issued after November 30, 1989.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims did not exceeded this commercial coverage. The Authority is self-insured for medical malpractice claims and judgments, as discussed in Note 14.

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

The Hospital provides medical care primarily to St. Landry Parish residents and grants credit to patients, substantially all of whom are local residents. The Hospital's estimate of collectibility is based on an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Third-Party Cost-Based Revenues

Contractual agreements with governmental agencies (Medicare, Medicaid, etc) provide for reimbursement based on combinations of the lesser of reasonable cost (subject to certain limits) or charges and prospective rates initially set based upon costs of services to patients. These reimbursements are subject to audit and retroactive adjustments by each payor.

NOTE 2 - DEPOSITS

All amounts that are included in cash and cash equivalents and assets whose use is limited are deposits in checking accounts with financial institutions that are insured by the FDIC. Banks are holding $1,626,584 market value in pledged securities for the District, in the District's name to cover all deposits in excess of the $100,000 FDIC limit. Bank reported demand deposit account balances at May 31, 1996, equaled $411,927.

NOTE 3 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Management has recorded estimates of charge reductions based upon historical collections with adjustment to current payment arrangements. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare 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 nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Cost Reports have been audited for the year ends through May 31, 1995.

NOTE 3 - NET PATIENT SERVICE REVENUE (Continued)

Medicaid - Inpatient and outpatient services rendered to Medicaid recipients are reimbursed under prospective per diems and a cost reimbursement methodology, respectively. Cost reimbursements is at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. Cost reports have been audited for year ends through May 31, 1994.

Commercial - The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The District receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. During the periods ended May 31, 1996, the following revenues were obtained from these programs:

	1996
Medicare and Medicaid gross patient charges	$ 15,765,499
Contractual adjustments	7,077,980
Patient Service Revenue	$ 8,687,519
Percent of Total Net Patient Revenue	67%

NOTE 4 - CHARITY CARE

The Hospital provides charity care to patients who meet certain criteria under Hill-Burton Grant without charge or amounts at less than established rates. Because the Hospital does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue. In 1996, Hill-Burton write-off was $393,524.

NOTE 5 - ASSETS LIMITED AS TO USE

Assets in the amounts of $468 are limited by bond indenture in 1996. Debt funding requirements and compliance are more fully discussed in Note 8.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended May 31, 1996.

ASSET COST

	May 31, 1995	Additions	Deductions	May 31, 1996
Land	$ 165,468	$ -0-	$ -0-	$ 165,468
Buildings	5,929,687	26,117	-0-	5,955,804
Equipment	4,714,854	89,185	-0-	4,804,039
Equipment under capital lease obligation	340,575	389,713	-0-	730,288
Total	$ 11,150,584	$ 505,015	$ -0-	$ 11,655,599

ACCUMULATED DEPRECIATION

	May 31, 1995	Additions	Deductions	May 31, 1996
Buildings	$ 3,267,206	$ 176,619	$ -0-	$ 3,443,825
Equipment	3,848,501	214,656	-0-	4,063,157
Leased equipment	172,343	128,639	-0-	300,982
Total	$ 7,288,050	$ 519,914	$ -0-	$ 7,807,964

Depreciation was calculated using the straight-line method. Useful lives for the purpose of calculating depreciation by class are:

Buildings	10 - 40 years
Furniture, fixtures and equipment	3 - 15 years

These assets were obtained in part with funds from a Hill-Burton program grant of $1,137,016. Donated assets were recorded at fair value at the time of donation in the amount of $171,376.

NOTE 7 - ACCRUED EXPENSES

A summary of accrued expenses is presented below:

	1996
Salaries payable	$ 103,662
Vacation and sick leave payable	546,549
Interest payable	12,952
Total	$ 663,163

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at May 31, 1996, follows:

	1996
11.0 percent 1983A Revenue Bonds, due May 1, 1998, collateralized by a pledge and dedication of Hospital income and revenue	$ 60,000
11.5 percent 1989 Revenue Refunding Bonds, due April 1, 1999, collateralized by a pledge and dedication of the excess of annual revenues of the Hospital	170,000
8.5 percent 1987 Certificates of Indebtness, due March 1, 1997, collateralized by a pledge of Hospital revenue	145,000
6.0 percent 1974 Revenue Bonds, due May 1, 1999, collateralized by a pledge of Hospital income and revenue	255,000
7.5 percent note payable, due January 1, 2004, secured by mortgage of property	52,987
11.0 percent note payable, due June 1, 2002, secured by mortgage of property	250,719
Capital lease obligations, at varying rates of imputed interest from 4.99 percent to 20.93 percent collateralized by leased equipment with costs of $854,024 at May 31, 1996	443,395
Total long-term debt	1,377,101
Less current maturities of long-term debt	497,657
Long-term debt net of current maturities	$ 879,444

NOTE 8 - LONG-TERM DEBT (Continued)

Under the terms of the Revenue Bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the financial statements. The Revenue Bonds also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Monthly deposits equal to the next principal and interest amounts due for payment were not in accordance with bond provisions. Management obtained a waiver from the holders of 100% of the Hospital Revenue Bonds outstanding. However, the waiver is only through the date that the planned joint venture is signed (more fully discussed in Note 18) or until December 31, 1996, whichever is earlier. No waiver could be obtained for the $145,000 in certificates of indebtness as all are bearer bonds, due March 1997.

Scheduled principal repayments on long-term debt and payments on capital lease obligations over the next five years are as follows:

Year Ending May 31,	Revenue Bonds	Mortgage Notes	Capital Lease Obligations
1997	$ 305,000	$ 33,495	$ 193,769
1998	170,000	40,387	143,002
1999	155,000	44,838	89,570
2000	-0-	49,786	60,219
2001	-0-	55,288	28,122
Thereafter	-0-	79,912	-0-
	$ 630,000	$ 303,706	514,682
Less amounts representing interest on capital lease obligations			71,287
Total			$ 443,395

NOTE 9 - COMPENSATED ABSENCES

Employees of the District are entitled to paid vacation and sick days accrued based upon the employee's length of service and on the time worked during the year. Accordingly, sick and vacation benefits have been recorded as a liability in the financial statements at employee earning rates in effect at the balance sheet date.

NOTE 10 - RETIREMENT PROGRAM

The Parochial Employee Retirement System (the "System") of Louisiana is the administrator of the cost sharing multiple-employer plan, a Public Employee Retirement System (PERS), in which the Hospital is a member. The Retirement System is governed by the Louisiana Revised Statutes, Title 11, Sections 1901 through 2015, specifically, and other general laws of the State of Louisiana.

Because the Hospital is a member of the Retirement System, participating in Plan A, membership for all employees is mandatory. Any permanent Hospital employee working at least 28 hours per week is covered. Employee contributions are established by Statute at 9.5% of total compensation. Employer contributions are actuarially determined every fiscal year according to statutory process so that existing unfunded liability may be completely amortized by January 1, 2029.

Retirement System members vest after 10 years of creditable service. Under Plan A members are eligible for normal retirement with 30 years of creditable service regardless of age, 25 years of creditable service and at least age 55, 10 years of creditable service and at least age 60. The retirement allowance is equal to three percent of the member's final average compensations (average of the highest consecutive 36 months) multiplied by the years of creditable service. Any employee who was a member prior to January 1, 1980, has benefit earned for service credited prior to that date on the basis of one percent of final compensation plus two dollars per month for each year credited prior to the revision date and three percent of final compensation for each year of service credited after January 1, 1980. The retirement allowance may not exceed the greater of one hundred percent of a member's final salary (last 12 months) or the final average compensation. The system also provides death and disability benefits which require five years of creditable service for eligibility.

Hospital payroll and contributions are summarized below:

Hospital covered payroll	$ 5,187,091
Hospital total payroll	5,694,444
Hospital employee contribution (9.5%)	492,402
Hospital employer contribution (8% in 1995, 7.25% in 1996)	398,119
System employer contributions at December 31, 1995 (8%)	21,196,094
System employee contributions at December 31, 1995 (9.5%)	$ 25,007,892

NOTE 10 - RETIREMENT PROGRAM (Continued)

The actuarial funding method utilized to determine contributions for Plan A is the Frozen Attained Age Normal Cost Method. The System actuarial determined employer contribution for 1996 is $23,463,733 or 7.78% of Plan A payroll. The Hospital employer contribution was 1.88% of the total system contribution in 1995. Using that percentage, the Hospital employer contribution for 1996 is $441,000. The changes in plan assumptions and methods used in arriving at this amount, including a change in mortality assumptions, a change in the methods for valuing the liabilities related to the Deferred Retirement Option Plan, and a change in the asset valuation method, caused the contribution rate to increase by 2.78%. However, a change in overall plan liability experience and favorable investment returns reduced this overall increase to .50% for 1997.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of present value of pension benefits, adjusted for the estimated to be payable in the future as a result of employees service to date. The System does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation for Plan A at December 31, 1995, for the System as a whole, determined through actuarial valuation performed as of that date, was $762,893,530. The System's net assets available for benefits on that date were $647,645,108, leaving an unfunded accrued liability of $115,248,422.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 1995, financial report. The District does not guarantee benefits granted by the System.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for $400,000 in coverage per occurrence above the first $100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to $500,000 per occurrence. Legal action in an attempt to overturn this legislation on constitutional grounds is in process.

NOTE 12 - WORKMEN'S COMPENSATION RISK

The District participates in the Louisiana Hospital Association Self Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has only included these allocations or equity amounts assigned to the District by the Trust Fund in its financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Operating leases - The Hospital leases various equipment under operating leases expiring at various dates through February 2000. Total operating lease expense in 1996 for all operating leases was $18,973.

The following is a schedule by year of future minimum lease payments under operating leases as of May 31, 1996, that have initial or remaining lease terms in excess of one year.

Year Ending May 31,		Amount
1997	$	18,973
1998		18,973
1999		14,236
2000		6,676
2001	$	5,007

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Third Party Cost-Based Revenues (Note 1) - Cost reimbursements are subject to examination by agencies administering the Medicare and Medicaid programs. The Medicare program has discontinued its cost-based reimbursement system for inpatient services. Currently, the District receives a fixed fee for each patient as determined by the government using the patient's diagnosis. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

In order to continue receiving reimbursement from the Medicare and Medicaid programs, the District entered into an agreement with an agent of the Healthcare Financing Administration (HCFA) which allowed the government access to its Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid by the fiscal intermediary. The amount of such adjustments cannot reasonably be determined.

Federal and state budget restraints are increasing the time period taken to pay Medicare and Medicaid claims and the Medicaid program is delaying payment of year-end statements.

Professional Liability Risk (Note 11) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

Workmen's Compensation Risk (Note 12) - The District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

Hill-Burton Uncompensated Service and Community Service Obligations - As a result of the District receiving a Federal Hill-Burton program grant, the District is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. Additionally, the District is obligated to provide community service.

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the District. In the opinion of management, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

NOTE 14 - SELF-FUNDED BENEFITS PLAN

The District maintains a self-funded medical benefits plan. The District entered into an agreement effective April 1987, with Gulf South Administrative Services, Inc., for supervision of the Plan. The Hospital purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of $25,000 per year per covered person up to specific individual maximums of $975,000. The insurance provides for payment of 100% of aggregate claims in excess of $471,447 with $1,000,000 limit of liability. The liability for incurred but not reported claims at May 31, 1996, is $32,060.

NOTE 15 - FAIR VALUE OF FINANCIAL STATEMENTS

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial statements.

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Assets limited as to use: These assets consist of cash in the form of demand deposit balances. The carrying amount reported in the balance sheet is fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term debt: Fair values of the Hospital's revenue bonds are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Hospital's financial instruments at May 31, 1996, are as follows:

	1996	
	Carrying Amount	Fair Value
Cash and cash equivalents	$ 348,662	$ 348,662
Accounts payable and accrued expenses	3,200,936	3,200,936
Estimated third-party payor settlements	65,000	65,000
Long-term debt	1,377,101	1,391,952

NOTE 16 - PRIOR PERIOD ADJUSTMENT

An adjustment was made as of May 31, 1995, to record vested sick and vacation accruals in the amount of $586,542.

NOTE 17 - SUBSEQUENT EVENTS

Joint Venture - The Hospital is negotiating a joint venture with a larger health care system in which it will participate on a 50% basis in governance, profits, and losses of the joint venture. All debts and accounts receivable prior to the commencement of the joint venture will be retained by the Hospital. The venture is expected to make annual payments to the District in amounts sufficient to meet bond obligations. The venture will consist of use of its physical plant, name and equipment. Current inventory will be contributed.

Bond Refunding - The Hospital obtained approval from the Louisiana State Bond Commission to refund the outstanding bonds. If the refunding occurs, payments for 1997 will be $135,000 and the remaining principal balance will be paid from 1998 through 2001. Interest will vary from 6% to 10.25%.

NOTE 18 - GOING CONCERN

The Hospital has experienced losses for the past two years and is in default on outstanding revenue bonds and certificates of indebtedness. Management obtained a letter of waiver on the monthly deposit requirement default and the revenue less reasonable expenses requirement that is effective until the joint venture is signed or until December 31, 1996, whichever is earlier. Negotiations are in process to form a joint venture, as discussed in Note 17. Bond refunding/defeasement is a part of the joint venture discussions, as discussed in Note 17. If the joint venture and related refunding/defeasement do not occur and material changes are not made in operations to increase revenues and decrease expenses, there is seriously doubt about the District's ability to continue operations. No adjustments to the balance sheet have been made to account for discontinued operations, should such an event occur.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF NET PATIENT SERVICE REVENUE
YEAR ENDED MAY 31, 1996

	1996
ROUTINE PATIENT SERVICE	
Routine nursing and swing bed	$ 1,116,731
Intensive care	281,765
Nursery	71,170
Total routine patient services	1,469,666
OTHER PROFESSIONAL SERVICES	
Operating and recovery room	
*Inpatient	382,805
*Outpatient	712,826
Total	1,095,631
Labor and delivery	
*Inpatient	25,080
Central Services	
*Inpatient	2,005,342
*Outpatient	1,180,674
Total	3,186,016
Emergency room and physician	
*Inpatient	162,300
*Outpatient	785,465
Total	947,765
Laboratory	
*Inpatient	1,884,707
*Skilled nursing services	1,322,741
Total	3,207,448
Electrocardiology, electroencephalography	
*Inpatient	125,264
*Outpatient	86,100
Total	$ 211,364

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF NET PATIENT SERVICE REVENUE (Continued)
YEAR ENDED MAY 31, 1996

	1996
Radiology	
*Inpatient	$ 276,515
*Outpatient	639,855
Total	916,370
Ultrasound, nuclear medicine, MRI & CT scan	
*Inpatient	436,135
*Outpatient	859,736
Total	1,295,871
Pharmacy	
*Inpatient	1,453,515
*Outpatient	375,697
Total	1,829,212
Blood	
*Inpatient	86,434
*Outpatient	8,538
Total	94,972
IV therapy	
*Inpatient	339,249
*Outpatient	18,207
Total	357,456
Anesthesia	
*Inpatient	188,673
*Outpatient	166,117
Total	354,790
Respiratory therapy	
*Inpatient	612,067
*Outpatient	49,417
Total	$ 661,484

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF NET PATIENT SERVICE REVENUE (Continued)
YEAR ENDED MAY 31, 1996

	1996
Physical therapy	
*Inpatient	$ 99,610
*Outpatient	1,029
Total	100,639
Speech therapy	
*Inpatient	442
*Outpatient	33,720
Total	34,162
Observation	
*Outpatient	4,280
Psychiatric unit	
*Routine and therapies	3,459,565
Home health/Kid Med	
*All specialties	458,727
Doctors' office, net	
*All specialties	1,140,030
Total other professional services	19,380,862
Total patient service charges	20,850,528
Contractual adjustments	7,413,424
Free care	393,524
Other deductions	59,139
Total deductions from charges	7,866,087
Net patient service revenue	$ 12,984,441

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF OTHER REVENUE
YEAR ENDED MAY 31, 1996

	1996
Vending revenue	$ 3,432
Medical records	2,342
Cafeteria	47,920
Rental income	42,876
Other	48,187
Contributions	11,771
Total other revenue	$ 156,528

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF EXPENSES - SALARIES AND BENEFITS
YEAR ENDED MAY 31, 1996

	1996
Routine nursing	$ 1,197,622
Intensive care unit	292,033
Nursery	42,021
Operating room	376,573
Central supply	47,062
Emergency room	219,393
Laboratory	282,922
Electrocardiology	16,465
Radiology	155,695
Ultrasound, nuclear medicine	69,917
Pharmacy	164,664
Anesthesia	139,863
Respiratory therapy	137,780
Social worker	47,911
Home health/Kid Med	237,222
Medical records	157,080
Maintenance	136,539
Housekeeping	118,141
Dietary and cafeteria	190,935
Business office	301,307
Administration	220,472
Security	56,392
Public relations	22,148
Physician offices	1,018,691
Total salaries	5,648,848
FICA and retirement	494,447
Hospitalization insurance	532,039
Unemployment taxes	4,125
Total benefits	1,030,611
Total salaries and benefits	$ 6,679,459

ST. LANDRY PARISH HOSPITAL DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF EXPENSES - MEDICAL SUPPLIES AND DRUGS
YEAR ENDED MAY 31, 1996

	1996
Routine nursing	$ 60,059
Intensive care unit	1,569
Nursery	1,856
Operating and delivery room	466,757
Central supply	196,392
Emergency room	5,589
Laboratory	269,816
Electrocardiology	9,019
Radiology	76,801
Ultrasound, nuclear medicine, CT scan	82,772
Pharmacy	551,813
IV therapy	96,807
Anesthesia	30,662
Respiratory therapy	57,519
Physical therapy	100
Speech therapy	1,440
Psychiatric unit	2,983
Social worker	540
Home health/Kid Med	6,181
Physician offices	25,080
Total medical supplies and drugs	$ 1,943,735

ST. LANDRY PARISH HOSPITAL DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF EXPENSES - PROFESSIONAL FEES
YEAR ENDED MAY 31, 1996

	1996
Emergency room	$ 498,836
Laboratory	97,794
Electrocardiology, electroencephalography	5,880
Radiology	1,900
MRI	86,280
Anesthesia	19,000
Respiratory therapy	7,629
Home health	11,182
Physical therapy	41,250
Speech therapy	9,830
Psychiatric	1,319,530
Dietary	3,121
Administration	93,550
Physician offices	4,203
Total Professional fees	$ 2,199,985

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
UNRESTRICTED FUND
SCHEDULE OF EXPENSES - OTHER EXPENSES
YEAR ENDED MAY 31, 1996

	1996
Other services	815,752
Education	16,246
Supplies	407,096
Scholarships	56,600
Dues and subscriptions	107,144
Other	37,774
Total operating expenses	$ 1,440,612

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
SCHEDULE OF PER DIEM
OR OTHER AMOUNTS PAID TO OR ON BEHALF OF COMMISSIONERS
YEAR ENDED MAY 31, 1996

Board Member	Per Diem Amounts Paid to Commissioners	Other Amounts Paid to Commissioners
Thomas Myers	$480	$ -0-
Jenny Dischler	440	-0-
R. A. Keller	440	-0-
Lou Johnson	400	-0-
Shelia Derousselle	440	-0-
Newton "Chip" Thibodeaux	440	-0-
Edward E. Graul, M.D.	120	-0-
Charles Bowie, M.D.	280	-0-
John Lassere, M.D.	80	-0-

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS AUDIT CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana

We have audited the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1 (the District) for the year ended May 31, 1996, and have issued our report thereon dated September 3, 1996.

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 the District 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.

In planning and performing our audit of the financial statements of the District for the year ended May 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 general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana
Page Two

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The schedule that accompanies this letter summarizes our comments and suggestions regarding this matter.

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 irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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 noted four matters involving internal control structure and its operation that we consider to be material weaknesses as defined above. The schedule that accompanies this letter summarizes our comments and suggestions regarding these matters. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the District for the year ended May 31, 1996.

This report is intended for the information of management and the office of the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Easley, Lester & Wells
Certified Public Accountants

September 3, 1996

St. Landry Parish Hospital Service District No. 1
Auditors' Comments and Recommendations
Year Ended May 31, 1996

Material Weaknesses

1. Capital vs Operating Lease Analysis

Condition: There were three capital leases which represented liabilities of $255,229 reported as operating leases.

Recommendation: Management should make a lease analysis each time a new lease is signed to insure the lease is properly recorded and if a purchase might be more favorable than a lease. A signed copy of all leases should be provided to accounting for accurate recording of monthly lease payments.

Response: Management will implement this recommendation.

2. Cash Receipts

Several control problems exist in cash receipts.

Condition: There were several cash receipts that could not be found. No one kept a log of receipt numbers to determine whether the receipt number was issued.

Recommendation: Keep a log of all receipt numbers that tie to the day's deposit. Use sequentially number receipts in order to supplement controls.

Response: The cashier will begin to log and control receipt numbers.

Condition: Employee checks were cashed from the cash receipts drawer. Since employee checks were cashed from cash receipts, the cash/check totals on the cash receipt books did not match the cash/check totals on the deposit tickets. Daily deposits should be made in tact.

Recommendation: Do not cash employee checks from cash receipts.

Response: A policy is being imposed to insure that cash received is deposited as such.

Material Weaknesses(continued)

2. Cash Receipts (Continued)

Condition: The cashier opens the mail, records the cash receipt, and makes out the cash deposit.

Recommendation: We recommend that these cash handling duties be segregated.

Response: Management will review the process, but with limited staff and changes planned for the future, fewer staff will be available to carry out each function.

3. General Ledger

Condition: The general ledger remained out-of-balance by $23,000 from October 1995 thru May 1996 closing. No one noticed the condition.

Recommendation: Implement procedures to review for this on a monthly basis.

Response: Management will follow the recommendation.

4. Bad Debt Write-Offs

Condition: The total of bad debts identified for write-off is not reconciled to write-offs entered and posted to the system.

Recommendation: Implement procedures to reconcile approved entries to posted write-offs.

Response: Management will follow the recommendation.

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
AUDITOR'S COMMENTS AND RECOMMENDATIONS
YEAR ENDED MAY 31, 1996

Reportable Conditions

1. Routine Revenues

Condition: Routine revenue is not being reconciled to routine calculated revenue using medical records days. At year end, the routine revenue test reflected a large variance between revenue based on patient days and general ledger revenue because of an error counting medical records days.

Recommendation: On a monthly basis someone should test routine revenue recorded to a test of routine revenue based upon medical records days. This test could identify revenue or statistical data problems that might occur during the year and give rise to misinformed management decisions.

Response: Management will follow the recommended with consideration of a new system.

2. Accounts Payable

Condition: In vouching and reviewing expenses, we noted that a number of expenses were not recorded consistently to expense accounts, and payments were made without invoices and other supporting documentation.

Recommendation: The accounting department should review accounts payable prior to payment to promote consistent general ledger coding and complete supporting documents for payment.

Response: Management will follow the recommendations.

3. Accounts Receivable

Condition: Accounts receivable for patients are not properly segregated from other types of receivables. Not all patient receivables are consistently recorded at gross with separate valuation allowance accounts. This makes analysis of collections difficult.

Recommendation: Record patient receivables at gross with a respective valuation allowance account. Adjust the valuation allowance down accounts are written off or collected. Analyze the receivable collections and adjust the allowance against bad debt on a monthly basis.

Response: Management will follow audit recommendation as much as our computer system will allow.

4. Segregation of Duties

Condition: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording, and custody functions.

Recommendations: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes: 1) separating transaction authorization from custody of related asset; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operational responsibility from record-keeping. Where these segregation are not possible, we recommend close supervision and regular review.

Response: It is not practicable or cost effective to achieve the total segregation of duties with the number of available employees. However, management will segregate wherever possible and supervise and review in the other areas.

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

Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana

We have audited the general purpose financial statements of the St. Landry Parish Hospital Service District No. 1 (the District) as of and for the year ended May 31, 1996, have issued our report thereon dated September 3, 1996.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

While performing our audit, we read the responses to the questions in the attached Systems Survey and Compliance Questionnaire completed by management and adopted by the Board of Commissioners. However, it should be noted that our audit was not directed primarily towards the answers to the questions in the questionnaire.

Compliance with laws, regulations, contracts and grants applicable to the St. Landry Parish Hospital Service District No. 1 is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We noted certain instances of noncompliance that are included in the accompanying schedule and certain other instances that were reported to the District in a separate letter dated September 3, 1996.

Board of Commissioners
St. Landry Parish Hospital Service District No. 1
Eunice, Louisiana
Page Two

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

Easley, Lester & Wells
Certified Public Accountants

September 3, 1996

ST. LANDRY PARISH HOSPITAL SERVICE DISTRICT NO. 1
REPORTABLE NONCOMPLIANCE
YEAR ENDED MAY 31, 1996

1. Public Bid Law

Condition: Bid documentation was requested for a sample of purchases between $5,000 and $10,000 which totalled $19,919. No documentation could be provided. With respect to three other purchases declared to be emergency purchases (totalling $218,193), no documentation could be provided that the declarations were advertised in the District's official journal of record within ten days of declaration.

Recommendation: Management should obtain and review all provisions of state bid laws and operate in accordance with them.

Response: Management will comply with the State purchasing statutes.

2. Capital Leases

Condition: The Hospital has two capital leases which are neither municipal leases nor have been approved by the Louisiana State Bond Commission. The Louisiana Revised Statutes require that any incurrence of debt over 90 days must be approved by the Louisiana State Bond Commission if they do not include certain nonappropriation clauses that qualify them as municipal leases.

Recommendation: Implement review procedure to insure that capital leases are correctly identified and all state statues are followed.

Response: Management will comply with State Statutes.

3. Bond Convenants

Conditions: The Hospital is not in compliance with bond covenants which require equal monthly deposits toward bond payments and revenue less reasonable expense requirements.

Recommendations: Obtain a waiver from bond holder and comply with applicable future covenants.

Response: Management obtained a waiver from the holders of 100% of the Hospital Revenue Bonds outstanding. However, the waiver is only through the date the planned Joint Venture Operating Company is signed or until December 31, 1996, whichever is earlier. No waiver could be obtained on the $145,000 of certificates of indebtedness as all are bearer bonds. However, the certificates of indebtedness are in current payables since all are due in March 1997. Management will comply with future covenants.

4. IRS Filing Requirements

Condition: We found ten (10) instances where a 1099 should have been filed, but was not. This noncompliance could result in penalties. Medical professionals are among the vendors required to receive 1099's.

Recommendations: Determine if the accounts payable system has the capability to record when a vendor will need a 1099. If not, monitor as accounts are paid and report as necessary.

Response: We were previously advised that we did not need to issue 1099's. Management will comply with IRS regulations.

5. Lease Compliance

Condition: There are four leases that require the vendor be specifically named as loss payee, but no evidence was found that this has been done.

Recommendation: Review all leases for insurance compliance clauses and add these vendors to the insurance policy as loss payees.

Response: Management will comply.